



December 14, 2010

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7, Post Office Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1850-100: Leases (Topic 840)

My name is Jeff Liebenthal, President and CEO of Trilogy Leasing. Trilogy is one of the top independent lessors in the US and specializes in technology and other capital equipment. Our customer base is primarily large, multinational corporations (i.e. Fortune 500). I personally have been in the equipment leasing business since 1987 and have spent every day of my career working with customers and their equipment acquisition transactions. Through this experience and ongoing, daily contact with customers I feel I have a pulse on the industry, the transactions, the funding sources and the accounting treatment of these transactions. My comments are mainly on the lessee impact which I believe was the driving force for the lease accounting project.

From a big picture perspective it is my opinion that the changes being suggested are extraordinarily complex, do not meet the objectives which I believe the project was intended to achieve, create unintended major issues and are analogous to shooting a mouse with an elephant gun. The discussion below will describe why I have formulated this opinion.

My understanding of the basis of the project is the need for a clear and consistent depiction of leases in financial statements. My opinion is that for the most part the proposed changes do just the opposite.

From a basic balance sheet point of view, current operating leases are clearly defined in the footnotes to financial statements. They are unambiguous about what obligations exist and they are definitive in nature. There is no interpretation, estimates, or guessing required of the lessee. The reader is provided the information about future rental obligations. The nature of the project suggests that sophisticated bankers, business people, and others who read financial statements do not read or do not understand the notes section. The nature of this project further suggests that all items in the notes section should be moved to the balance sheet which would certainly have the impact of creating confusion and a lack of clarity in any particular area – clearly not the intended result.

The proposed new accounting treatment requires a projection or guesstimate as to contingent rents or post firm term rents. This suggests that two companies with the exact same lease transaction can portray them on their books entirely differently. Is this the type of transparency that was the objective of the project? To give the lessee so much latitude that entirely different representations could exist for identical lease arrangements? These projections actually cause less transparency on the balance sheet. Should the balance sheet indicate which portion of the future rentals are committed and which are guesstimates? Or to keep the balance sheet uncluttered should the distinctions between these two portions of the rents actually be spelled out in the notes for pure transparency (so now we are back to the notes section)? Additionally, these guesstimates are required to be updated over time. So not only will it be possible for two companies to manage their financials so that the same transaction is shown differently, even the same company could orchestrate its financials so that over time the representation varied.

From an income statement point of view there is also a depiction of the transaction that is both not representative of reality and unfair. Using the interest and amortization approach there is a greater expensing in the earlier years than in the later years, and in the earlier years the expense is greater than a straight line rental expense. So these changes cause



a drag on the P&L of the lessee in the earlier years (was that the objective?) and since the IRS still utilizes straight line rent expense would cause deferred taxes to appear on the balance sheet (only causing more confusion). From an income statement perspective the current operating lease treatment is clearly more representative of reality.

To most major corporations and any company which borrows from a bank or the public markets there are financial covenants which need to be considered. The proposed accounting changes will cause many, many borrowers to be out of compliance with their covenant requirements. Debt to equity ratios have been developed by the banking/lending community over decades. In one fell swoop the accounting standards board, if these proposed changes are enacted, will create a situation where all conventional thinking on covenants will need to be overhauled. As these ratios were developed over a long period of time they will not change on an immediate basis. The result will be turmoil causing loans to be called, lessees to be out of compliance or to stem the acquisitions/projects that were causing the need for financing and to further slow the economy (another unintended detriment of these proposed changes).

One of the main reasons that companies lease is to put the risk of ownership on another party and defer decisions as to the extended use of the equipment until a later date (the end of the lease terms). I can state with certainty that lessees in the vast majority of cases do not know what their plans are for the equipment until the end of term and more times than not do not make any decisions on their plans for continued use of the equipment until sometime after the end of the term. To ask a lessee to guesstimate what will happen at the end of a lease term during the lease is a futile exercise and fraught with the opportunity for manipulation. Moreover, asking a company with scores, hundreds or even thousands of leases to go through this exercise is unrealistic if looking for any type of valid result.

From a cost and burden point of view the proposed changes are devastating. The short term impact for rebooking all leases will be staggering. Additionally, the ongoing cost of trying to estimate the plans for every lease will be extraordinary in terms of dollars and manpower.

My prediction as to the impact of these changes on the operating lease industry is that it will be destroyed. Lessees will simply be pushed hard to stop leasing based on the burdens, unfairness and the issues that leasing will cause for them. The unintended consequences will be the destruction of an industry which supplies \$800B per year of financing in the US, causing severe unemployment in this industry and the loss of important financing to US industry. Additionally, this will cause greater expense in the acquisition/financing of equipment or cause companies to curtail their equipment acquisitions due to the loss of financing or the greater expense which will occur.

Based on the above it is clear to me that the benefits of these changes (which are difficult from my perspective to identify) are overwhelmingly outweighed by the issues and challenges that these changes would cause. I would wholeheartedly suggest that these changes be suspended before being implemented or dramatically changed so that they achieve the desired results.

I am available for discussion at any time. 516-241-6381.

Sincerely,

A handwritten signature in blue ink that reads "Jeffrey A. Liebenthal".

Jeffrey A. Liebenthal
President and Chief Executive Officer

Sent via email: director@fasb.org