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Financial Accounting Standards Board  
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Thank you for the opportunity to comment on this exposure draft on proposed changes to lease accounting.

**Question 1: Lessees**

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose?

I agree that lessees who enter into contractual liabilities should show the impact of that obligation on their balance sheet. Lease obligations for many businesses are larger than any other liability on their balance sheet and should be recorded.

A lease obligation is similar to a mortgage or loan tied to a transferable asset. The ability to use this property as the lessee chooses makes it an asset. This right-to-use asset should be shown on the balance sheet, as it is a central element for many businesses. For brick and mortar retailers, location is a distinct differentiator. The value of this space is important for decision makers and readers of the financial statements to understand and therefore should be reflected on the balance sheet.

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments?

Yes, the lessee should amortize the asset as the value of the lease time is depreciated. Similar to depreciation on other types of leveraged assets, interest should be broken out separately to reflect the time value of money.

**Question 10: Reassessment**

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts and circumstances indicate that there is a significant change in the liability to make the lease payment?

The right-to-use asset should be reassessed as circumstances change during the lease, but it should be treated differently from leasehold improvement assets. A leased property has an intrinsic value that is not tied to the profitability of the business that it holds. If a retail store is not profitable, and does not plan to cover the investment costs by the end of the lease, the leasehold improvement assets are and should be impaired. This logic should not transfer to the right-to-use asset, since the market value of that space is not tied to its current use.

A right-to-use asset should not be reassessed unless the retail store ceases to operate or the company which holds the obligation defaults on the note and could be evicted. If a retail store is closed, the property should be placed in an available for sublease status. This asset should be valued at its market rent less time it will take to market the property to a new tenant.

Lessees routinely terminate a lease early and negotiate a settlement agreement with the lessor that is substantially less than the discounted future lease obligation. If a lease is terminated with over two years remaining, lessors know they will be able to release the space within a reasonable time and can earn a premium on the space by charging an early termination penalty that will more than offset the lost rent during the time the space is vacant.

If a lessee ceases operations in the leased space or otherwise defaults on a real estate lease, the asset should be written-off and the liability should be written down by any probable sublease amount. This is consistent with current GAAP principles of closed store lease liabilities and is the most accurate way to reflect the true liability.

Lease liability is already factored in by lending organizations when looking at a company's overall leverage. The inclusion of these financial agreements on the balance sheet is an important next step to provide full disclosure to all stakeholders.

Sincerely,

Frank Holmes