

Director  
Financial Accounting Standards Board  
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Director,

I first want to thank the board for soliciting open opinions from interested parties. This opportunity allows those of us to be subject to the regulations to be involved with the formulation process and gain an understanding of the intent behind the guidelines. I hope, too, that FASB will utilize the plethora of responses to understand the shortcomings of current reporting standards and harness the information supplied to increase the accessibility of financial data.

**Question 8: Lease term**

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

I do not agree that the “more likely that not” evaluation of an option should be the criteria for judging the lease term, despite its current use. This judgment by the reporting professional may be incorrect, or she may have been misled as to the likelihood of exercise of the options included in the lease contract. I feel that the nature of the transaction is best recorded by assigning a term equal to the length of the contract that has been agreed upon. The options within a lease should be valued as separate assets from the assured component, although included in the consideration exchanged for the right of use. At the option exercise date, a new right to use asset should be created after an extension or a gain or loss should be recognized if the option is not exercised. This would ensure that the financial reports for leases reflect only the guaranteed portion, while options are disclosed and valued, but not estimated in the term of the lease.

**Question 12: Statement of financial position**

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

I do not feel that committing to fixed lease payments should be reported significantly differently from committing to fixed debt payments, or any other fixed expense. This leads me to suggest that lease payments should not be reported separately, as the substantive effect of increasing liabilities can be achieved without additional complication. The information and terms regarding all lease agreements

of a firm should be disclosed in the notes since all such information is relevant to the end user of the financial data.

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

I think that reporting a net lease asset or liability is a simple, yet informative way of recording the lease, but it may not be appropriate for all situations. If a firm generates leases as part of the normal course of business, a number of gross lease assets may include identical estimations or valuations that, if altered, could materially change the financial position of the firm. Perhaps the nature of the firm and the materiality of lease assets should determine the classification, but the methods and assumptions should definitely be disclosed in the notes.

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

I do not agree that lease rights and payments should be segregated from other obligations or benefits. Reforming the treatment of leases by adding a right and obligation guarantees that these contracts will appear on the face of the statements, but separating them further only increases complexity for preparers with a minimal gain in understanding. Those wishing to understand the details of the lease should refer to the notes, where the lease terms should be disclosed.

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

To follow in line with the nature of the new treatment of leases, an intermediate lessor should definitely create an additional asset and liability to reflect a sublease. To offer differing treatment to separate classifications of leases recreates one of the shortcomings of the previous recording of leases. To maintain the intent behind new lease reporting procedures, all leases should be held to the same standards in reporting, which includes full disclosure of the terms in the notes.

Cordially,

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