Technical Director
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Invitation to Comment – Exposure Draft Proposed Accounting Standards Update-Leases

I am writing this comment letter as an individual CPA and my opinions represent solely my views on this accounting topic. I have been dealing with lease accounting for over thirty years, mostly in regards to high technology equipment and real estate transactions. This proposal on lease accounting, in its current form, needs to be materially modified to properly account in a consistent and fair method, the business transactions that are occurring in today's economy and to meet the goal of improving the aspects of financial reporting in lease accounting.

The proposed lease accounting change should require every lease transaction be accounted in a standard and consistent manner. This could be accomplished by recording each lease under FAS for lessees as a direct financing lease asset with an associated lease obligation liability. This would have ended "off balance sheet" status that operating leases were afforded and moved off balance sheet leases from the footnotes to the balance sheet section of the financial statements. Had the Board stopped at ending operating lease accounting, the accounting and investor community would have understood the financial results, and most likely accepted the change going forward with little dissension. In my opinion that would have been the logical solution at this point in time.

Major Points

Right to Use. The Board's presentation of the concept 'right to use" furthered by a new extension of this concept to include "more likely than not" renewal periods should be avoided completely. This "more likely than not" concept is an almost incalculable, extraordinarily expensive and time consuming prognostication that will be fraught with high compliance costs for a small reporting benefit due principally to internal management requirements and associated auditor verifications.

Built in Loophole. Your suggested wording in the proposal also allows for significant (and predictably almost certain) future avoidance and confusion. It has emphasized three specific words - "significant", "intangible", and "specified". In today's society, once a new rule is written, many loopholes are created just as quickly. The Board has already codified a certain method of avoidance in all future leases by allowing a special dispensation of the rules in Section B (3) by allowing avoidance of lease accounting if any right of substitution exists in any contract. The Board needs to review the use of these words in the proposed change, and investigate just how they can be used to avoid the substance of what you are trying to do.

Double Lessor Booking. Prior to addressing the questions, I do wish to point out that the suggested concept of a lessor having to recording fixed assets and then recording a second asset- the lease receivable and a corresponding obligation- and then determining if there is a significant reasoning to derecognize- effective double counting of assets and liabilities- is so confusing that many long term lease accounting experts are lost on the initial reading and I am concerned that many possible respondents of this proposal have not yet grasped the concept of this proposed change. Double recording of the cost and then the associated lease and obligation is illogical to the base concepts of accounting, the matching principle, is dilutive to the financial concept on calculating return on assets, and adds only confusion to the compendium of accounting. Adding to the confusion created is a concept of subsequent derecognition which is based on an undefined value of the word "significant", a term that has a different meaning to every person and or entity. If the Board eliminates this area- second asset/obligation of performance obligation and possible derecognition, to lessor changes, and just considered making all leases similar to direct financing leases, retain sales type leases for lessors that have dealer mark up, and allow lessors to sell leases and recognize gain as is currently allowed- then these changes will make some possible improvement.

Asset Distinctions. My hope also is to make the Board realize how important it is for lessees to record ROU assets and liabilities in a standard and consistent manner without exceptions. You have discussed giving exceptions to "non-core" assets and I found this idea to be another example of built in avoidance as the distinction of core versus non-core is so variable within industries, a company, a division etc. that no consistent manner will ever occur. Make this rule 100% consistent with no exceptions, including exceptions for short term leases as it will again create an avenue for loophole avoidance.

Service Transactions. The Board also made a previous assumption in EITF 01-08 that the user community would capture "leases" in service deals. However, the Board installed a legal loophole for total avoidance of the lease issue by allowing the wording to include "specified assets" (not specified, no lease- but no discussion on what specified means so I have yet to see any providers or users creating leases). This ruling solidified the position in the outsourcing industry to avoid accounting for the lease portion of its massive contracts of products and services with the use of word "specified". In this lease exposure draft (see Appendix B – B3), the Board has again accepted this concept of "it's not a lease" with the following language that borders on doublespeak. ... "A contract that permits an entity to substitute a similar asset for the specified asset after the date of commencement of the lease does not contain a lease because the underlying asset is not specified, even if the contract explicitly identifies a specified asset." You first define the asset as specified, then deny it is specified as the specified asset can be substituted with another asset- to me, this is totally inconsistent with any concept of capturing the substance of an equipment right-to-use contract as a lease. Why is the Board providing this exception to leasing and asset recordation to users and suppliers that participate in simple crafted contracts that allow for a possible substitution of one asset to evade a whole accounting area that everyone else must adhere to? The concept of "right to use" in these deals is not "right to use except since any one asset is allowed to be substituted we do not have to record a lease". The Board should be consistent with the proper accounting of the substance of transactions and not allow such designed exceptions. None of the comments to date have materially discussed this in detail and maybe it is solely due to the size and ramifications of these transactions which are mainly long term "right to use" assets and associated liabilities and the previous poor design of EITF 01-08 allowed these avoid the balance sheet completely. The Board should look at the future of technology and how companies will either buy, lease or obtain hardware, software, and services from outsourcers. If the goal is consistent accounting and entities that buy and lease (without the right of asset substitution) will show all the activity on the balance sheet but the same assets obtained from outsourcers avoid the balance sheet, then the Board has not been consistent. The Board should also understand that the equipment leasing community will take this specified asset and substitution loophole and could potentially make every future transaction in accordance with this exception, thus continuing "off balance sheet" accounting for their customers.

Other General Comments. I have also reviewed your examples in detail in the Appendix and find them to be oddly worded and ask that you review these areas:

- 1. Lease rate factors for lessors and lessees are built on fair values of products, not manufactured costs. All of your examples skirted the results of a high real implicit rate for a lessor based on the lower cost value- a lease case that did not cause a derecognition. When a lessor cannot show a sales type lease profit, it will have a huge implicit interest rate if determined on cost. Does the Board really expect the lessee to understand and book a lessor's implicit rate based on the cost?
- 2. The Board has initiated a new world of determination when does the lessor determine that it can derecognize a lease and earn the associated profit for this decision? Determining if and when derecognition should occur is open to each entity's judgment and when this decision occurs has its own potential revenue and income timing implications.

Specific Comments on Questions

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 and why?

Comment:

I agree a lessee should record an asset and a liability for a usage term of any asset – tangible or intangible. However, the term "right of use" is not appropriate as it is misleading. The term should be "contractually acquired usage value". The liability should be "obligation for associated contractual usage value". The term "right of use" makes no sense to an ordinary reader of a financial statement-especially if you leave in exceptions for service contracts (which are rights of use for products whether specified or not).

The lease term should be only the contracted term and not include optional extensions. I also feel the exception for leases that allow for substitution or non-specified leases should not be given any exception to allow this concept to be consistent and fair.

Another area of accounting concern is when a lessee has calculated a right to use asset value that exceeds the fair marker value of the underlying assets- the discussion document has not provided an example of the outcome of this situation. Please address this issue as the previous guidance I have received stated that the right to use value is separate from the fair market value of the assets and could be recorded at a higher value if the expected term and present value exceeded cost/fair market value. This also seems very inconsistent to basic accounting principles.

(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? Why or why not? If not, what alternative model would you propose and why?

Comment:

I agree that the contractually acquired usage asset should be capitalized and depreciated consistent with a user's normal accounting practice. The concept of interest being recorded on the obligation also is an acceptable practice used today in lessee capital leasing and is appropriate. The concept of interest rates to be used by the lessee must outlined in more detail as the implicit rates of interest in leases are almost impossible for any lessee to determine in many cases. Most lessees have either a line of credit rates for 364 days or less or long term debt rates, all secured by extensive collateral, but no borrowing rates for 24-60 month typical lease terms. The rate determination issue needs additional discussion and examples.

Question 2: Lessors

- (a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
- (b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

Comment:

I feel the Board should reconsider this whole concept of performance obligation and derecognition. The accounting for leases is not a problem today for the leasing community however the current proposal of recording assets, leases and right of usage, in my opinion, is completely confusing change and will add nothing to a reader of financial statements. Accounting for an asset twice with a corresponding liability that is an obligation for someone using your goods seems to go against the basic concepts of accounting principles of conservatism and matching. No user of a lessor's financial statements, to my knowledge, has ever asked a question:

- Does the asset you lease reside in the possession of a lessee and does this leasehold interest create a leasehold obligation? Every reader knows that lease equipment is in the hands of the customer. The concept of recording a fixed asset and then recording a second asset for the lease and an associated asset of a Lease Obligation is unnecessary. The concept of "derecognition" if there is a "significant" retention of ownership makes no sense as the term "significant" is a relative term. If 100 leasing companies were polled and asked - Is one percent significant, three, five, ten? – what percentage or number is equated with this in a consistent manner that can create a rule to either keep double asset booking or derecognize a part of a fixed asset?

As an alternative, show all leases as direct finance leases and associated lease interest income on the income statement. This would make the income statement of a lessor basically a finance company and end the misunderstanding of operating lease rents versus direct financing interest income- if that is even considered an issue. As to sales type leases, the accounting for all deals with an associated dealer mark up should be retained and shown effectively in the same manner as currently done.

Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and

subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor 6 derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65). (See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Comment:

I think the 12 month exception of present value makes no sense in a consistency basis. A 13 month or 24 month lease will be present valued but a 12 month lease will not be due to it being too small. This concept of materiality goes against the concept of consistency- present all leases in one straightforward, consistent manner and stop trying to make exceptions that just create a second group of issues. If the Board's goal is to avoid off balance sheet leases, it should be comprehensive in inclusion- all leases, all service contracts with tangible and intangible assets should be included without exception.

Question 4

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?
- (c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

Comment:

The definition of a lease being a specified asset is a clear exception to the substance over form concept of reality. I think the Board with one word, "specified" has created an automatic exclusion for the current and future entities that wish to avoid compliance with this new rule. A desktop usage service agreement that provides laptops for 36 months at 100 dollar per month in most minds the substance of the deal would be a lease- property for a periodic monetary compensation. However, if the provider does not make the assets "specified", your deal is not considered a lease but a service contract. This exclusion needs to be eliminated. The user knows that the laptops in his possession are tangible, tagged and his responsibility to return- regardless of specificity.

The new rules should also cover all leases of tangible and intangible assets. Any type of property that is effectively leased- intangible or buried in a service contract should be recorded by lessees and lessors as leases. Defining an intangible asset is also not an easy task- many entities feel software is tangible, some do not. Why have an exception for intangibles- isn't your wording "right to use" – not "right to use but only if tangible"?

A purchase contract should include lease to ownerships and dollar out financing and should be recorded as assets and debt but could easily be included in this lease accounting as it was in direct financing capital leases under FAS 13. But the Board is attempting to segregate purchased assets from contractual usage agreements -why? Leases within service contracts are an area that requires more detailed guidance. The future of high tech leasing could be cloud computing, desktop services, etc. all areas of bundled equipment, software and communications with short, medium and long terms. But if the FASB wants consistency, two similar companies with the same computing power/resources can have full assets on one set of books if owned and nothing on the assets if it employs a cloud/outsourcing service contract and effectively we are back to off balance sheet assets. A service contract is a right to use a resource- mostly assets or computing power of an asset- yet service contracts are not required to be recorded- are you really saying a right to use a datacenter asset or desktop device is not a "right to use" when it certainly is a usage right and obligation. But a lease for the same equivalent product is balance sheet worth? Why make a rule on

leasing that does not also capture the substance of equipment obtained in service contracts?

Question 5: Scope exclusions

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

Comment:

No exception need be created for any class of asset- this rule should be appropriate for all assets. Why create an alternative rule for intangible assets especially when your accounting effectively creates an intangible asset entitled "right of use"? A "lease" of an intangible asset should be treated consistent with as tangible asset.

Question 6: Contracts that contain service components and lease components
This exposure draft proposes that lessees and lessors should apply the guidance in
proposed Accounting Standards Update, Revenue Recognition (Topic 605):
Revenue from Contracts with Customers, to a distinct service component of a
contract that contains service components and lease components (paragraphs 6,
B5-B8 and BC47-BC54). If the service component in a contract that contains
service components and lease components is not distinct:

- (a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
- (b) The IASB proposes that:
- (i) A lessee should apply the lease accounting requirements to the combined contract.
- (ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
- (iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component

in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

Comment

I feel that any business transaction should be able parsed into the components of product and services to an acceptable level for accounting. The question, is if a distinction cannot be determined, should the whole amount be considered a lease and my comment is that if it cannot be parsed, the most conservative manner is to show the combined amount as the asset.

Question 7: Purchase options

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64). Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

Comment:

The lessee should record the exercise of the option and record a purchase at the point in time that contractually creates a contract to purchase the leased goods. At that point, the lease payments and purchase option should create a new purchased asset and the right to use/contractual usage asset should be discontinued.

Ouestion 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?

Comment:

The lease term should only be the contracted term. The concept of longest possible term that is more likely than not to occur taking into effect the options available is probably the more contentious aspects of this proposed change for lessees and lessors. This rule has such a high cost of compliance due to the audit requirement of supporting a complex decision chart on each asset/lease and requiring periodic updates, that it is not feasible to lease in many cases. Keep in mind the goal of FAS is not to terminate avenues for companies to fund the capital needs of their businesses by creating "what if" scenarios that will create a process to sink the system. Recording the lease at the original lease term has historically been adequate, having the lease term adjusted for future contractual changes is normal but to have to create a prediction chart of options on every lease is reason not to lease even if it is the most efficient manner to fund your needs as the costs associated with your options is onerous. Or, lessees will enter into leases that have no contractual options- to avoid the accounting and auditing costs, they will leave themselves with no options to renew- and if this is the result of an onerous accounting rule then this Board will have exercised its power to an abusive level. Most leases have a month to month continuation clause- this will require every lease term to be calculated and evaluated each periodic report. Accounting has enough estimation in the balance sheet today, do we really need to postulate the most likely than not scenarios on assets and record them, adjust them, justify them and pay for the consultants and does this process really add to our goal of solid, fair and consistent financial statements?

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why? Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

Comment:

Contingent rentals in theory should be accounted for in the lease booking up front if the amount can be properly determined and estimated at inception. If not, it should not be recorded. If later, the contingent payments become material, the lease should be adjusted.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Comment:

Yes. However, you need to be more specific on how these adjustments are madeto the balance sheet or income statement. This rule creates an atmosphere of concern on the restatement aspect of original estimates, changes in processes etc. If we just book the contractual term in our lease valuation and leave the options out of the formula, then this area is acceptable.

Ouestion 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

No comment.

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? (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, totaling 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?
- (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?
- (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?

Comment:

Users should show the lease assets in PP&E but show in the footnotes a disclosure of owned assets and leased assets for personal property and separately real property.

Lessors and outsourcers/service providers should show leased assets separately from PP&E as these assets are not internal use.

The Board should create the concept that a balance sheet should show assets in the possession of the company for internal use and assets that are in the possession of third parties/customers. Many outsourcers show nothing relative to their investment and book value of assets actually on contract to their customers or partners in their disclosures.

Question 13: Income statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

Comment:

Lease income should be subtracted from direct lease costs on lessor income statements. Lessees should include amortization of lease assets in depreciation and interest expense should be stated as cost of debt and lease obligation separately in the footnotes.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Comment:

Disclosure should be in footnotes only.

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?

(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

Comment:

A standard footnote must be devised to provide readers a consistent manner in what equates to rights of use (or whatever final term is adopted) and related lease obligations.

If the Board does not eliminate the requirement of booking the most likely than not concept then the complete analysis of how this was evaluated, calculated and process should be footnoted as it will be different for each firm and industry.

As to lessor accounting, if the Board maintains the double booking and or derecogition method, each lessor must footnote what is a significant retention of ownership or what is not and how a derecognition position is determined.

The Board should require recording of only the contractual lease period for lessees and lessors and that lessee accounting be modified only to eliminate operating leases.

Question 16

- (a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?
- (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Comment:

The suggestion that this proposal is retrospective is not considering the costs associated with many companies that must or currently do provide five years of summarized balance sheet and income statements in their annual reports. These entities will have an accounting nightmare to historically recreate, in any rolling forward manner, the inclusion of the new rules (as proposed)- especially with the research to equate each lease with its subsequent outcome in each cumulative period reported. This task is going to be extensive and to make this change have any value for comparison to prior years and has to be done consistently. You will put companies in extreme financial peril with this new rule when the leased assets and debt obligations occur and the financial contractual conditions of their debt obligations are then out of compliance due to the retroactive nature of this change. Many line of credit contracts have specific conditions that will be affected by these future changes- and the Board needs to be specific on giving the accounting and banking/financial community ample time to absorb the final conclusions of this possible change and to allow a special dispensation for retroactive non-compliance of many financing vehicles. Effectively, this new rule could jeopardize most debt to equity line of credit conditions, making the line of credit out of compliance and creating a situation of a liquidity crisis – all caused by an accounting for leases change.

Benefits and costs
Question 17

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

Comment:

If you modify the new proposal to contractual terms only and to just eliminate operating leases for lessee's, the cost to comply will be equitable to the costs of the new information provided to users.

Question 18

Do you have any other comments on the proposals?

Comment:

I think a major issue that also needs to be addressed is the consistent application of what is included in the capitalized value of the lessee.

- a. The present value should be based on the borrowing costs estimated by the lessee for the borrowing term of the lease's contractual period. However, most entities do not borrow for typical lease terms and these rates are just estimates based on a financial person's estimate. This should be a requirement to a footnote that interest rates in lease obligations are estimated.
- b. Sales taxes that will be paid on the lease payments should also be capitalized. If a company bought a product, sales taxes are capitalized and shown in fixed assets. With sale taxes a 5-9% cost today, this is a material amount to be capitalized and be consistently presented with owned assets that also include sales taxes and initial direct costs. The Board has never commented on sales taxes- this proposal should address this and be consistent with both purchase accounting and the lease and associated sales tax obligation created. If a company owes 100 dollars for the next 36 months- but also owes 9 dollars of sales taxes required on each payment-

why shouldn't the legal requirement of sales taxes be recorded in the present value presentation as part of the transaction and the basis of the right to use include sales taxes just as a purchase and the associated obligation to pay the future sales taxes? It seems that not recording a sales tax is understating a liability that is known and calculable.

- c. A standard footnote should be required with an outline of required discussion points- separate discussion of real estate and other property, term of leases, total gross payments, respective lease obligations and estimated interest rates determined for lease obligations.
- d. The effects on debt to equity ratios due to lessee inclusion of operating leases will be enormous but should be understood by most sophisticated investors- but many credit agreements that were designed under the old rules will be immediately out of technical compliance and in default with all the associated ramifications of the retrospective changes. Has the Board considered that changing the rules on historical statements should not create defaults when prior to the change, no default existed?

Regards,

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