

New Jersey Society of Certified Public Accountants

425 Eagle Rock Avenue Suite 100 Roseland, NJ 07068-1723 phone 973-226-4494 fax 973-226-7425 web www.njscpa.org

December 14, 2010

Sent via regular mail and electronically to: director@fasb.org

Technical Director Financial Accounting Standards Board .401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 1850-100

Dear Technical Director:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJSCPA) is pleased to offer its comments on the FASB's and IASB's (the Boards) draft standard on leases, as presented in the FASB's Exposure Draft of a proposed Accounting Standards Update (ASU) Leases (Topic 840). The NJSCPA represents over 15,000 certified public accountants. The comments herein represent those of some of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJSCPA.

We commend the Boards' effort to converge and improve the accounting for leases and appreciate the opportunity to provide the following comments on the Exposure Draft:

Overall Comments

We request that the Boards consider how the proposed standard will affect entities that enter into related party leases, because many times the terms of these related party leases may be based upon desired results. The tone of this comment letter is generally from a FASB only perspective, and we have not commented on Questions 4, 8, 10, 11, 13, 14, and 17.

Question 1: Lessees

We agree with the Boards' conclusions that a lessee should recognize:

- a right-of-use asset and a liability to make lease payments
- amortization of the right-of-use asset and interest on the liability to make lease payments

Question 2: Lessors

We agree with the Boards' conclusion that a lessor be provided with more than one approach when accounting for lease transactions. While the performance obligation and derecognition approaches provide realistic solutions for a lessor, we request that more robust guidance be provided to assist a lessor in the assessment of whether "significant risks or benefits associated with the underlying asset" have been retained by the lessor.



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Question 3: Short-term leases

We agree with the Boards' proposal to simplify the accounting for a lessor, but disagree with the proposed accounting for a lessee. Lessees that have short-term leases should be permitted to elect to **not** recognize a right-of-use asset or a liability to make lease payments. The simplified requirements should consistently be applied for both the lessee and the lessor.

Question 5: Scope exclusions

We accept the Boards' proposed scope and acknowledge that it is similar to that of existing lease accounting standards, but suggest that the Boards consider the impact the scope exception may have on lease transactions involving intangibles. Many intangibles are governed by other accounting standards and industry specific guidance, for example software and franchise fees. We believe that diversity in practice may arise with lease transactions involving intangibles when they are not governed by other accounting standards or industry specific guidance.

Question 6: Contracts that contain service components and lease components

We believe that executory costs, such as insurance, maintenance and taxes should be excluded from lease components when accounting for contracts that contain service and lease components. If the Boards decide to not exclude executory costs from lease components, then we request that implementation guidance be provided. The implementation guidance should illustrate how the distinct service component concept applies to the maintenance, insurance and taxes that are reimbursed in monthly rental payments that may not be separately identified. These provisions are common in real estate leases.

Question 7: Purchase options

We agree that a lessee's purchase options should be accounted for only when they are exercised. In practice there are many leases with bargain purchase options, and although the intention is to generally exercise the option to purchase the underlying leased asset, we still believe these types of leases should be accounted for only when they are exercised. We believe that it would be helpful if the Boards would provide illustrative guidance of when the exercising of a purchase option would occur, such as when the lessee commits to exercising the option but has not finalized the transaction.

Question 9: Lease payments

We agree conceptually with the proposed treatment of contingent rental payments, but believe lessees will encounter serious implementation and significant operational issues when determining the required estimates. We believe lessees will experience great difficulty in estimating contingent rents based upon future sales that relate to the long term leased assets. These lease terms will most likely extend beyond a lessee's normal budgeting and planning periods. In addition to the lessee's struggle with the use of estimates, the lessee's auditors will need to assess how to best audit these estimates in order to provide a level of assurance that material misstatements, whether caused by errors or fraud, are detected. This proposed treatment, to a lesser extent, will impact the lending community and users of the financial statements overall. It is suggested that the education of users be taken into account

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when considering the transition and effective period of this proposed treatment. Therefore we believe the Boards should carefully weigh the costs to lessees to comply with the proposed treatment with the benefits users of the financial statements will receive.

Question 12: Statement of financial position

We do not agree that right-of-use assets should be presented as if they were tangible assets within property plant and equipment, even if they are presented separately from assets that the lessee does not lease. The presentation of right-of-use assets with tangible assets, even if presented separately from non-leased assets, may have unintended consequences on the lessee's debt covenants. Generally lending arrangements typically include debt covenants based upon certain metrics and the inclusion of these right-of-use assets could affect these metrics, thereby causing a breach of covenants. Additionally, lenders cannot attach or collateralize the right-of-use assets as opposed to owned tangible assets. Therefore, we believe this distinction should be more transparent on the financial statements to provide additional benefits to the users and the lending community.

Question 15: Disclosure

We conceptually agree with the Boards' overall objectives that lessees and lessors disclose quantitative and qualitative information that:

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

However, the benefit of such comprehensive disclosures to users of the financial statements should be weighed against the costs to preparers of non-public entities, and thereby suggests that the disclosure requirements for private companies and not-for-profit organizations are reduced considerably.

Question 16: Transition

It is not practical for some entities to adopt the proposed standard on a full retrospective basis, especially smaller public and non public entities and not-for-profit organizations. We believe that all entities should have the option to adopt the proposed standard on either a simplified or full retrospective basis.

We request that the Boards consider a longer transition period and delayed implementation to assist non-public entities and not-for-profit organizations to reduce the cost to preparers and to educate the users of their financial statements. We make this request based upon the following:

- The proposed standard may trigger or require renegotiations of contracts with business
 partners such as; financing arrangements with lenders, contracts with suppliers, and additional
 non-public entities and not-for-profit organizations may need additional time to revise these
 arrangements.
- The proposed standard may cause the need to modify accounting systems to reflect the proposed right of use concept, tracking individual lease agreements, support the development

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and reassessment of estimates regarding renewal options and contingent rents, and disclosure requirements.

- Entities may have to revise their internal controls and processes to meet the more robust requirements in the proposed standard.
- Information regarding existing leases will need to be gathered, due to the retrospective application of the proposed standard, and gathering this information may be difficult and time consuming for leases that were not recently entered into.
- There will be a need for additional time to educate users of the financial statements, such as the lending community.

Question 18 - Other Comments

We suggest that the Boards consider making the proposed standard's effective date later than the effective date of the Proposed Accounting Standard Update to Revenue Recognition (Topic 605) Revenue from Contracts from Customers, in order to reduce the burden on entities. This would provide entities with adequate time in which to prepare and implement the proposed standard, as well as additional time to educate users of the financial statements.

Question 19: Non-public entities

We request that the Boards consider a longer transition period and delayed implementation to assist non-public entities and not-for-profit organizations. Several challenges regarding implementation exist for non-public entities and not-for-profit organizations based upon limitations of resources and human capital. Many of those challenges regarding implementation have been outlined in our response to question 16 and throughout this letter.

In question 15 we requested that the disclosure requirements for non-public entities and not-for-profit organizations be reduced considerably because the costs of such comprehensive disclosure to these preparers greatly outweigh the benefit to users of the financial statements.

Thank you for the opportunity to comment. We are available to discuss our comments with Boards' members or staff at their convenience.

Respectively submitted,

Paula M. Yaung /ms Paula M. Young, CPA, Leader

Accounting and Auditing Standards Interest Group New Jersey Society of Certified Public Accountants

Principal Drafter, Renee Rampulla, CPA

cc: Robert S. Marrone, President Ralph Albert Thomas, Executive Director New Jersey Society of Certified Public Accountants