

Stephen G. Hamilton President and COO

14 December 2010

Sir David Tweedie International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Ms. Leslie Seidman
Financial Accounting Standards Board
401 Merritt 7
Norwalk CT 06856

Re: Exposure Draft on Lease Accounting

Ladies and Gentlemen:

This comment is provided in my capacity as President and Chief Operating Officer of CSI Leasing, Inc. ("CSI"). CSI is an equipment leasing company focusing primarily on high-tech equipment. We have been in business for 38 years and have grown to be one of the largest independent equipment leasing companies in the world, employing almost 700 people, with a current portfolio approaching \$2 billion in original cost located in over 30 countries. Clearly, we have a keen interest in the implications of the proposed changes to the lease accounting rules. Our Chief Credit Officer has already submitted a comment letter from the viewpoint of a professional credit analyst, a "user" of financial statements. My comments will come from the somewhat different viewpoint of a leasing industry executive, a viewpoint, I have been told, that may cause you to stop reading now because my comments will be viewed as "self-serving". Certainly, I hope that my comments will ultimately serve the interests of my company and employees, but I respectfully submit that the suggestions offered would serve the interests of all concerned, and I hope you continue reading.

## **Lessor Accounting Treatment**

The changes to lessor accounting seem to me to be a solution in search of a problem. While the current rules are complex and involve some estimation with respect to residual values, the proposed rules are just as complex and require even more estimation, and would produce less clarity and comparability regarding the business of the lessor. Even though we have a 30 plus year track record of booking reasonable residual values, many financial institutions and

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investors upon whom we rely for funding (or who have turned us down) still view with some suspicion the concept of using these estimates in booking leases. I sincerely doubt that they will feel any better about lease accounting concepts when we tell them that we the new rules also require the booking of "estimated rentals" that the lessee has no contractual obligation to pay.

The average stated initial term of CSI's leases is about 30 months, with many leases being upgraded or otherwise modified during the initial term to accommodate the lessee's desire for financial and technological flexibility. The proposed changes would require us to re-book thousands of leases that have been booked over the past several years (so that we can satisfy the need for prior comparative periods to have uniform accounting methodology), and then re-book the revisions to the re-booked leases to re-create history. Because of the short term nature of these leases, many of them will have already have been completed, the equipment returned to us and disposed of, yet we will have to expend considerable resources to re-create a new accounting history for these assets. This will be a largely manual accounting task because we have yet to find accounting software that satisfactorily automates our complex business model while accommodating the required flexibility our customers appreciate.

My accounting staff tells me that in many cases applying the proposed new rules would result in relatively minor changes to the monthly accounting entries. I do not understand what problem is prompting the accounting standards boards to require such a complete waste of resources, the expense of which must be passed on, at least in part, to our customers if we are to remain a profitable business. Even if we were not in challenging economic times, the standards setting boards should not ignore the substantial economic waste involved with re-booking lease transactions that in many cases will already be completed. Other comment letters have described in great detail many of the detailed technical concerns about the proposed rules for lessor accounting, and I will not repeat them here. I would suggest that, if indeed a change to lessor accounting is deemed helpful, consideration should be given to exempting transactions with an initial term of 5 years or less because of the relative immateriality of such short term leases for short-lived assets.

## **Lessee Accounting Treatment**

Most of our customers enter into short term leases because of a desire to gain some protection against rapid technological obsolescence as well as the conservation of cash flow and the benefit of a fixed, non-floating rate during the stated term. They want to use the equipment, not own it. The current FASB 13 bright line tests, while not perfect and subject to some structuring, do generally provide objective tests for classification of the lease transactions that make some sense. Certainly there is a difference between paying for the use of someone else's asset for a period of time versus a contract which gives the user substantially all the risks and rewards of ownership. The current rules at least make the attempt to distinguish between the two situations. The proposed lessee accounting rules make no such distinction, and call for substantially more estimation of liabilities and make it more difficult to compare financial results of different companies.

Simply adding an estimated number to the liabilities section of a balance sheet, with a corresponding balancing entry in the assets section, does not in my view paint a usefully clearer



picture of the financial condition of the lessee. For example, when analyzing the financial condition of an entity, it is not sufficient to look at the raw balance sheet numbers for "long term debt"; the analyst needs to understand the terms and conditions of such debt, particularly the future dates when the debt must be repaid. The analyst, of course, must look at the footnotes to the financial statements for such disclosure. Today, the footnotes require a statement of future lease payment obligations, yearly for the next five years and then a lump sum for amounts due beyond five years. Perhaps it has already been considered and rejected, but I would respectfully submit that more useful information would be provided if the boards were simply to require additional footnote disclosure regarding these future minimum obligations, including year-by-year commitments for each of the next twenty years, perhaps sub-categorized by the nature of the leased asset (real estate, production machinery, office equipment, furnishings, etc.) and requiring a basic narrative description of contingent events that would materially increase the contractual obligations. Providing such additional disclosure would not impose anywhere near the burden created by the proposed rules, and would provide objective, comparable data, instead of subjective estimates produced by varying methodologies.

I know that the boards have been working for several years on the complex topic of lease accounting and have felt pressure to come up with something sweeping and dramatic. I would submit, however, that the current proposal does more harm than good, and should be reconsidered.

Respectfully submitted,

CSI Leasing, Inc/

Stephen G. Hamilton

President & Chief Operating Officer