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FASB Proposed Accounting Standards Update: Leases (*Topic 840*)

I first would like to thank the Board for the opportunity to comment on the above referenced exposure draft, but would like to clarify that all views presented are my personal comments and do not necessarily represent those thoughts or concerns of any organization with which I am currently and/or previously associated with.

I support the decision of valuing long term contractual “right of use” items as assets under the proposed fair present value model presented but have concerns over certain aspects proposed, most notably the inclusion of option renewals and contingency rental arrangements. In addition, I have some concern over the timing of any implementation due to a significant lack of advanced software for larger entities in managing the process of implementation.

With regards to the option renewals, the ED proposes a more likely than not approach using the option renewals at inception of the lease commitment. I have the pleasure of working with a large retailer that regularly renegotiates these values at significantly different terms than the original contract approximately one year before renewal. The current literature SFAS 13 uses an approach of certainty of renewal which I believe to be a better indicator of the economic feasibility and likelihood of renewal.

The contingency rental model presented in the ED presumes a weighted average model on payment of the contingency. I believe this violates the underlying principle of liability recognition to record these payments as assets and liabilities prior to the event occurring that trigger the payment. While there is the provision for re-evaluating each reporting period I believe the costs for larger entity’s outweighs the benefits. The only assurance I can give is that the original assumptions at the lease inception will be wrong, resulting in a misstated balance sheet. Many of the leases I deal with regularly are for ten or more years with sales basis contingencies that would need to be projected for 10 to 20 years.

Lastly I would like the final standard to provide better clarity on required payments for executory costs. Some lease agreements have executory costs based upon underlying costs and others are a stated value to cover any and all associated costs but the value is fixed. It would seem that a fixed payment would be an imbedded lease arrangement despite the contractual terminology.

Kind regards,

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