



December 15, 2010

Financial Accounting Standards Board
401 Merritt 7
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Norwalk CT 06856-5116

Ladies and Gentlemen:

The Construction Industry CPAs/Consultants Association (CICPAC) is a national association of CPA firms recognized in their respective markets for providing high-quality financial and consulting services to over 6,000 construction industry clients.

These clients will be severely impacted by this exposure draft and they have encouraged CICPAC to respond to this document.

The exposure draft (ED) has several provisions that negatively impact our clients as lessee's:

- The ED would require the right to use assets and obligations to pay rentals to be recognized and carried at amortized cost on the balance sheet, based upon the present value of payments over the term of the lease.

Working capital is one of the main financial ratios used by surety companies to calculate a construction industry entity's bonding capacity. Recording the lease obligation and right to use asset on the contractor's financial statements in accordance with the exposure draft will distort its working capital. Similar to long-term debt, the current portion of the lease obligation does not have a corresponding right to use asset included in current assets. We would suggest that FASB allow the current classification for a right to use an asset rather than requiring the asset to be classified in noncurrent property, plant, and equipment.

In addition, financial ratio loan covenants could be distorted by adopting the ED, resulting in debt covenant violations. As a result, entities will incur additional time, effort and money to resolve or redefine the various ratios and covenants with their bankers and surety.

This presentation does not reflect economic reality as, in most cases, the following year's lease payments will be recovered via revenues from the contracts in which the leased equipment will be used. Accordingly, we recommend the final rule provide that a portion of the right to use asset be classified as a current asset to the extent it is expected to be realized in cash via contract billings in the next operating cycle.

- As a result of the inclusion of optional renewal periods and contingent payments, the Board has created a subjective atmosphere which will allow for differences in how companies record and account for these items. Subjective judgment will lead to less comparability among similar lease transactions than we have under current operating and capital lease accounting standards.
- Lease renewal and contingent rents would need to be continually reassessed and estimates would need to be adjusted accordingly. We believe that the contractual required lease term be used as a standard and optional lease extension periods not be considered unless they are at bargain terms.

Many of CICPAC's clients are small businesses with limited resources in their accounting departments. They do not have the appropriate resources to implement the accounting principles outlined in this document, nor do they also do not feel that the cost of implementing this exposure draft results in a better presentation of their financial statements.

- Lease expense would no longer be recognized on a straight line basis but would be replaced by interest and amortization expense.

As a result, certain long term leases, such as building leases, could act similarly to a mortgage in the early years of the lease in that interest expense would represent a higher portion of the payment. As a result financial and debt ratios used by banks and sureties could further be impacted through the exposure draft.

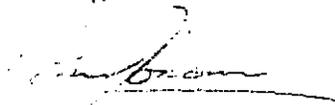
This treatment gives the counterintuitive result that a right to use asset, whose use is consistent throughout the lease term, has a greater impact on earnings in the earlier years (when the related revenues are likely less than in the later years, in a normal inflationary environment, and thus inversely affecting gross margin). We recommend the final rule permit entities to amortize the asset in such a way that the total impact on earnings (amortization plus "interest") matches the pattern of the right to use. We see a conceptual distinction between this situation (right to use over a period of time in exchange for straight line payments over that period of time to the owner of the asset) and an in-substance purchase of an asset, such as a lease with a bargain purchase option.

Many of these construction industry entities have leases with related entities that are not documented by a formal written lease agreement. The lease is a verbal month to month commitment and is usually for either equipment or building/facilities rental. The exposure draft is unclear on how to account for these informal related party leases; hence, we recommend that AC 840-10-25-16 be retained.

Most equipment that is leased by a contractor is for a specific construction contract. The current accounting allows the applicable job cost to be charged as the lease payment is made. Therefore, the job incurs the lease expense as the equipment is used on the job. The proposed exposure draft will complicate the accounting for these leases. We would ask that the board consider an exception for leases that are incurred for a specific construction contract. We recommend that the accounting for these leases continue under the current operating lease method.

Thank you for considering our comments.

Sincerely,



John J. Corcoran
Executive Director
CICPAC