ILLINOIS CPA SOCIETY

December 15, 2010

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

File Reference No. 1850-100

To Whom It May Concern:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update *Leases* (Proposed Update). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

We commend the Boards' efforts to improve lease accounting. Existing lease guidance has been criticized as being overly complex and comprised of "bright-lines" whereby small changes in judgment or estimates will result in vastly different accounting outcomes. However, rather than alleviate these complexities, the ED appears to introduce new bright-lines (e.g. lease vs. purchase/sale, lease vs. service contract, derecognition approach vs. performance obligation, and whether a renewal option is more likely than not be to be exercised). As noted by the SEC, bright-lines "are inherently contrary to any principled objective, because a slight shift in the form or structure of a transaction can cause it to move across the threshold resulting in profoundly different accounting for transactions that are economically similar."

We are concerned that the proposal does not appropriately address certain conceptual issues:

- Unit of account – Is the unit of account the lease contract as a whole, or the hypothetical components that make up contract?
- Executory contracts – The proposal introduces a new accounting model for executory contracts that appears inconsistent with the revenue recognition proposal
- Nature of a lease contract – For lessors, the proposed model provides that a lease represents either a sale of a portion of an asset (derecognition approach) or an obligation to permit use of an asset (performance obligation approach). What about from a lessee's perspective?
- Measurement and impairment – How should the value of a right-of-use asset be measured?

We also believe certain aspects of the ED will be costly to implement and apply. In particular, we believe the costs involved with determining and reassessing the lease term and contingent rents are not justified by the benefit users will realize from this information.

Ultimately, we believe this is an opportunity missed. The ED as currently drafted does not represent a significant improvement over current practice and we do not support issuance as a final standard. This is unfortunate because the Board will not likely have another opportunity to enhance lease accounting in the foreseeable future. Therefore, we urge the Board to rework the proposal to develop a lease accounting model that provides a clear and consistent basis for accounting for lease transactions and simplifies current practice.

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Our comments on specific questions posed by the Board are as follows:

Question 1: *Lessees*

(a) *Do you agree that 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?*

We generally support a right-of-use approach as we believe that the lessee should recognize an asset for the right to use the asset during the specified lease term, as well as an obligation to make lease payments. However, we are concerned about the proposed subsequent measurement for these "new" items, as discussed further below. While the contractual right to use an asset appears to meet the definition of an asset, the nature of a right-of-use asset is different from owning the actual physical asset. In some respects, we believe the right-of-use asset more closely resembles a deferred charge or the prepaid rent asset that is recognized for leases with lease payments that decline over the lease term.

(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?*

In theory we agree with the proposal for leases that primarily represent a financing. However, we believe that many leases more closely resemble service contracts and include an insignificant financing component.

While individually, the decisions to amortize the right-of-use asset and recognize interest expense appear logical, we believe that the combination of these two elements results in an expense recognition pattern that does not faithfully represent the economics of the transaction. For example, we do not believe many commercial office space leases include significant financing components when the lease period typically represents a small fraction of the leased space's useful life. We note that in certain instances, the accretion of interest expense causes the lease liability to grow during the early years of a lease; an outcome we do not believe represents the economic reality of the transaction.

A consequence of the Board's proposal is that all leases will result in a net liability being reported throughout the term of the lease as the right-of-use asset will amortize more quickly than the lease obligation. What does this net liability purport to represent? Clearly not all leases will necessarily be unfavorable to the lessee during the lease term. For example, when market lease rates increase, the lessee is in a favorable economic position.

We understand the Board's preference for applying an existing subsequent measurement approach to right-of-use assets and lease obligations and see how, from one perspective, such an approach reduces complexity. However, we question whether the existing framework is appropriate for the "new" assets and liabilities that would be recognized under the proposal. For example, how would the impairment framework for intangible assets under Topic 350 apply to right-of-use assets? Considering that the fair value measurement guidance of Topic 820 currently scopes out leases, how would the fair value of these assets be measured?

Similarly, the Board noted in paragraph BC 75 that "although the liability to make lease payments meets the definition of a financial liability, such a liability has features unique to leases because the liability is linked to a right-of-use asset." We do not understand why the Board should be bound by the amortized cost approach currently used for certain financial liabilities.

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We would support an approach similar to the one described in the revenue recognition ED, which also resembles the linkage approach from the Leasing Discussion Paper. Under this approach, the amortization of the right-of-use asset matches the amortization of the obligation to pay rentals and results in a straight-line expense.

The Board previously rejected the linkage approach for the following reasons:

a. The treatment of the obligation to pay rentals is inconsistent with the treatment of other financial liabilities, reducing comparability for users.
    - As discussed above, the Board already notes that the obligation to pay rentals should not be accounted for as a financial liability, so why should the accounting for the lease liability use the model for financial liabilities? Also, we note that the interest component to the lease payments would be included in operating costs, consistent with the treatment for many other operating costs that include an embedded interest component.
b. Linkage approach requires lessees to differentiate between finance leases and operating leases, adding complexity and resulting in similar leases being accounted for differently.
    - We note that the proposed model already requires lessees to determine whether a contract represents an asset purchase, a lease, or a service contract. The lessor model also provides a framework for differentiating between different types of leases that could be extended to the lessee model. We believe this issue could largely be addressed by providing better guidance differentiating between a sale and a lease (as discussed further below).
c. The right-of-use asset and obligation to pay rentals are not necessarily linked after lease inception (e.g. impairment of the right-of-use asset)
    - We note that the proposed model already requires lessees to determine whether a contract represents an asset purchase, a lease, or a service contract. We believe this issue could largely be addressed by providing better guidance differentiating between a sale and a lease (as discussed further below). Additionally, we believe the impairment framework for right-of-use assets needs to be clarified.

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 model 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?*

We do not agree with the Boards' proposed hybrid approach to lessor accounting. While certain committee members support either the derecognition or performance obligation approaches in theory, we believe the overall model is not fully developed and would have benefitted from a full analysis in the discussion paper. The approach lacks conceptual consistency with the framework outlined in the revenue recognition project and does not appropriately answer the threshold question with respect to right-of-use assets, which is whether a right-of-use asset a) is provided continuously over time (as indicated in the revenue recognition ED and in the performance obligation approach of the lease ED) or b) is transferred at the point the underlying asset is delivered (as indicated by the derecognition approach). Overall, we believe the proposed approach is complex and, in our view, would not result in an improvement to existing guidance.

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We recommend the Boards address lessor accounting as part of the revenue recognition project. Under this approach, leases that represent sales (which we discuss further below) would be subject to the sales recognition criteria of the revenue recognition proposal. Leases that do not represent sales would be accounted for consistently with other arrangements to provide goods/services continuously over time (that is, like other service contracts). We believe this approach avoids the complexity associated establishing new models and provides a conceptually supportable solution.

(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 BC 15)? If not, why not? What approach should be applied to those leases instead?*

We agree with the elimination of leveraged lease accounting.

Question 3: Short-term leases

This exposure draft proposes that a lessee or 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 leases would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of 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 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?

We believe the basis for providing an exception for short term leases is that application of the proposed approach would not result in a sufficiently different accounting outcome to justify the increased costs of measuring and tracking those short-term leases. Therefore, we would propose the Board also allow lessees to apply the simplified approach for lessors (that is, item (b) above).

Question 4: Definition of a lease

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

No. We believe the definition of a lease should incorporate the notion of control as discussed in the Revenue Recognition ED. See responses to (b) and (c) below.

(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?

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As noted in our comment letter response to the Revenue Recognition ED, we believe further deliberation is required on the topic of transfer of control, specifically on the difference between temporary control (lease accounting) and permanent control (sale accounting). The Lease ED defines a sale as a contract that "transfers to another entity control of the entire underlying asset and all but a trivial amount of the risks and benefits associated with the entire underlying asset." On the other hand, the Revenue Recognition ED provides that revenue be recognized when the customer obtains control of the asset, which refers to the "present right to use the asset for its remaining economic life or to consume the asset in the customer's activities."

We are troubled by the prospect of two different definitions of a sale and do not understand how the Board views lease transactions under the proposed revenue recognition model. Does a lease represent a permanent transfer of a right-of-use asset (which is temporary by definition)? Or is a lease a temporary transfer of a physical asset? By proposing a dual approach to lessor accounting, the Board has failed to appropriately answer the question.

Some members of the committee observe that the distinction between a sale and lease would be unnecessary from a lessor perspective if the derecognition approach was required for all leases.

(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?

No. The proposed approach will result in a great difference from current practice with respect to leases with service components (or conversely, service contracts with embedded lease components). This essentially creates a new bright-line (albeit a fuzzy one) whereby similar economic transactions might receive different accounting treatment depending upon how they are analyzed (that is, as a lease, a service contract, or both). For example, would a contract with a single asset, owner-operated trucking service always be considered to contain a lease of the truck? Why would this be different from an identical contract with a larger company that owned many trucks? Alternatively, consider a records management arrangement that includes certain warehousing/archiving services. Would a lease component have to be recognized if the contract identified dedicated warehouse space? Does the answer change if the contract provided the "lessee" with no direct physical access to the space?

We believe accounting standards which result in disparate treatment for similar transactions results in information that is neither relevant nor representationally faithful. This inevitably will lead entities to structure around the rules in order to achieve the desired accounting result, thereby exacerbating complexity.

Question 5: Scope exclusions

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?

We agree with the proposed scope except for the decision to exclude leases of intangible assets. We do not see the difference between the right to use a physical asset and the exclusive right to use an intangible asset. Like the Boards state in paragraph BC 36, we can identify no conceptual basis for excluding leases of intangible assets from a leasing standard. Additionally, we believe additional guidance is required to assist users in differentiating between a sale and a lease.

Question 6: Contracts that contain service components and lease components

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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 (paragraph 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:*
    - *a. A lessee should apply the lease accounting requirements to the combined contract.*
    - *b. A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.*
    - *c. 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 the 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?

As discussed above, we believe that this issue would be resolved by applying the approach described in the revenue recognition ED. Under that approach, the lease and service components would be considered performance obligations and revenue would be recognized as the performance obligations are satisfied (most likely continuously over time).

If the Boards retain the proposed approach, we believe that the lessee and lessor should apply the lease accounting requirements to the combined contract for service components that are not distinct, consistent with the FASB proposal. We believe the information provided by separating all service components from leases will not justify the costs of performing such an exercise. We recommend that the Board provide additional examples and implementation guidance to assist preparers in applying this approach.

Question 7: Purchase Options

Do you agree that a lessee and lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that lessee or lessor should account for purchase options and why?

If the right to use a specified asset meets the definition of an asset, then surely the right to acquire that asset in the future would also meet the definition. So conceptually, we believe options granted to the lessee under the lease agreement should be valued and recorded in the balance sheet as an asset with the initial carrying amount based on an allocation of the consideration transferred at inception. However, due to the complexities involved with estimating the value of such options, we support the Boards' decision to account for purchase options only when they are exercised.

Question 8: Lease term

Do you agree that a lessee or 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?

We disagree with the Board's approach and believe leases should be accounted for based on the existing definition of lease term (that is, contractual term plus periods covered by bargain renewal periods or leases

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reasonably assured of renewal). Our views are generally consistent with the Alternative View included in the IASB Lease ED. Including optional periods in the lease term results in an increase to the lease obligation, a result we believe is inconsistent with the definition of a liability. The proposed approach also results in the lessee recording interest expense (and the lessor recording interest income) on the accretion of amounts that are not contractually required. We do not understand how this provides useful information.

We believe there is distinct economic difference between a 20 year lease and a 10 year lease that includes two 5-year fixed-rate renewal options. In practice, this is demonstrated by the fact that lease rates tend to be lower for longer fixed terms (as lessors are willing to sacrifice rents in exchange for additional contractual payments), all else being equal. Yet if the exercise of the renewal options is considered "more-likely-than-not" to occur, the Board's approach will account for those leases identically at inception and subsequently (assuming the renewal options are exercised). In reality, the lessee with the renewal options is in a superior economic position because they can renew at the fixed rate should market rates increase OR they can decline the renewal and enter into a new lease if market rates decrease. We believe an approach that does not differentiate between different economic transactions provides neither relevant information nor a faithful representation of the transaction it purports to represent.

We also note that the proposed approach would be costly to apply and difficult to audit, as the decisions made by financial statement preparers may include both quantitative and qualitative factors.

Question 9: Lease payments
Do you agree that contingent rentals and expected payments under term option penalties and residual 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?

We agree with the Boards characterization of the different types of contingencies in paragraph BC 121 and with including contingent payments related to external contingencies in the measurement of the lease asset and liability. However, we disagree with the Board's conclusions with respect to contingencies based on lessee performance or usage of the underlying asset. Our views are generally consistent with those described in the Alternative Views of the IASB Leasing ED.

We question the Board's rationale in paragraph BC 123 that not reflecting contingent rentals in the measure of the lease liability would result in structuring opportunities. We observe that leases with contingent payments have very different economic characteristics than fixed rate leases. Consider a lease arrangement in which the lease payments were entirely based on usage (that is, a 100% contingent lease) and the average expected usage would result in a lease payment of $100. The Board's approach would initially account for this lease in the same way as a lease with a fixed rate of $100. We believe these leases are quite different from an economic standpoint and should be accounted for differently. As noted above, we believe an approach that does not differentiate between economically dissimilar transactions does not provide information that is relevant or representationally faithful.

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?

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We generally disagree with the Board's approach to contingent rentals (see above). If the Board continues to pursue the proposed approach, we believe additional guidance is needed to explain what is meant by "reliably measured."

Question 10: Reassessment
Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts and 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 options 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?

As noted in our responses to questions #8 and #9, we disagree with the proposed approach to accounting for lease term options and contingent rentals. If the Board continues to require reassessment, we believe such remeasurement should be infrequent in nature (such as when facts and circumstances indicate that there is a significant change to the lease asset or liability). The application of the proposed guidance in this area will be very difficult for preparers of financial statements. In order to understand exactly when remeasurement should be required, additional examples should be provided.

Question 11: Sale and leaseback
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?

We disagree. As noted in our response to question #4(b) above, we believe the criteria for recognizing a transaction as a sale should be consistent with the revenue recognition project. Including additional, different criteria for sales treatment in the leasing guidance adds to complexity.

In addition, we believe the Board should clarify what is meant by "financing" in paragraph 67(b). If the Board has particular guidance in mind, then the specific reference to that guidance should be provided.

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, what do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you disclose and why?

We believe that separate presentation of assets and liabilities should not be required on the statement of financial position. Companies should be allowed to disclose this information in the notes to the financial statements if that presentation is determined to be more meaningful. We believe that users of financial statements are generally concerned with the overall position of the entity rather than whether or not assets are owned by the entity, or are classified as a right-to-use asset. We also note that this issue is more appropriately addressed by the Boards' project on financial statement presentation.

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, right 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, BC 148 and BC 149)? 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?

As noted above, we do not agree with the Boards' approach to lessor accounting.

(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, BC 154 and BC 155)? 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?*

As noted above, we do not agree with the Boards' approach to lessor accounting.

(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?*

We disagree and believe this information should be disclosed in the notes to the financial statements.

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, BC152, BC 157 and BC159)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We believe entities should be allowed to disclose lease income and expense separately in the notes to the financial statements. Requiring separate presentation on the income statement might not result in the most meaningful presentation for users of financial statements. We note that this issue is more appropriately addressed by the Boards' project on financial statement presentation.

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?

We believe that entities should be allowed to disclose cash flows from leasing transactions in the notes to the financial statements rather than be required on the face of the statement of cash flows. Requiring separate presentation on the statement of cash flows might not result in the most meaningful presentation for users of financial statements. We note that this issue is more appropriately addressed by the Boards' project on financial statement presentation.

Finally, we believe the Board should clarify why interest cash flows for lease transactions should be treated differently from other interest cash flows.

Question 15: Disclosure
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*

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(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?

We agree that lessees and lessors should disclose adequate information to allow a user of financial statements to understand how amounts were recognized, including key assumptions that were made by the preparers. However, we believe the extensive disclosure requirements may be overly costly to prepare. In particular, the cost of preparing the reconciliation of opening and closing balances of lease assets and liabilities required in paragraphs 76 and 80 may exceed the perceived value of that information for users.

Question 16: Transition

(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?

We agree that both lessors and lessees should recognize all outstanding leases upon adoption of the proposed guidance to ensure proper comparability between various reporting entities and periods presented in financial statements. We agree that looking at only future lease payments and receipts is appropriate, as re-evaluating prior payments and receipts would not add additional value for users of financial statements.

(b) Do you think full retrospective application of the lease requirements should be permitted? Why or why not?

Yes. Given the amount of judgment involved with application of the proposed guidance, perfect comparability among reporting entities will never be achieved. Entities wishing to apply the full retrospective method should be allowed to do so.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We believe additional guidance should be provided for determining the appropriate discount rate to be used by lessees in transition. Specifically, we believe that the transition discount rate should be estimated using a long-term perspective of borrowing rates. Depending on when the proposed guidance is adopted, use of a spot rate for estimating the initial carrying amount of lease assets and liabilities could result in an unrealistic starting point for lease accounting that would be carried into future periods.

We also believe the Board should provide additional transition guidance for leases which were previously accounted for by lessors as sales-type or direct finance leases. We observe that under the ED, contracts that provide for the transfer of title of the underlying asset will be outside the scope of the leasing guidance. If the standard on revenue recognition is not issued and effective concurrently with the lease standard, what guidance would apply to the amounts remaining on lessor balance sheets? Additionally, how should lessors account for amounts previously recognized or deferred gains (losses) in accordance with current sales-type lease accounting?

Question 17: Benefits and costs

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?

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We are not convinced that the proposal will provide benefits in excess of the costs. As noted above, we are concerned that the proposal will result in a) economically dissimilar transactions being accounted for similarly and b) economically similar transactions being accounted for differently, which would not provide useful information to users.

Based on our review, we believe the costs to implement and apply the proposed guidance would be significant. The proposal represents a fundamental change in the way leases are accounted for and reported in the financial statements and will require extensive modifications to accounting and reporting systems. Given our reservations about the usefulness of some of the information provided by the proposed model (as discussed above), we are not convinced that any incremental benefits are justified by the costs.

Question 18: Other comments
Do you have any other comments on the proposals?

We believe the Boards should clarify the treatment of certain executory costs (e.g. real estate taxes, common area maintenance fees, etc) that are sometimes included in lease payments because we believe there is confusion about whether such charges are intended to be included in the initial measurement of the lease asset and lease liability.

We also recommend that the Board provide guidance on how to analyze right-of-use assets for impairment. We do not believe the guidance in Topic 360 was developed with these types of assets in mind. In addition, we are unclear how the fair value of right-of-use assets should be determined and whether the scope exception in Topic 820 for leases would apply.

Question 19: Non-public entities
Should any of the proposed guidance be different for non-public entities (private companies and not-for profit organizations)? If so, which requirement(s) and why?

In general, we believe that effective accounting standards should provide useful information to users of both public and non-public entities. When different guidance is requested for non-public entities, we think this often signifies that the proposed guidance is not cost-beneficial.

We appreciate the opportunity to offer our comments.

Sincerely,

Reva Steinberg, CPA
Chair, Accounting Principles Committee

Jeffery Watson, CPA
Vice-chair, Accounting Principles Committee

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APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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Michael J. Maffei, CPA	GATX Corporation
Jacob R. Mrugacz, CPA	U.S. Cellular
Karen R. Page, CPA	David Lewis Co.
Anthony Peters, CPA	McDonald's Corporation
Educators:	
James L. Fuehrmeyer, Jr. CPA	University of Notre Dame
Laine E. Malmquist, CPA	Judson University
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