December 13, 2010

Subject: File Reference No. 1850-100

To the Director:

Thank you for the opportunity to comment on the Exposure Draft (ED) for lease accounting, referred to above. Please note that the comments contained herein are my personal opinion, and are not those of my employer.

My concerns with the ED stem from a situation, in which a lessee must maintain, track and evaluate the data for tens of thousands of leases (greater than 25,000).

Question 8

Do you agree that a lessee or a 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?

Response:

I disagree with the requirement that the lease term should be determined by 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. For an organization with tens of thousands of leases, this requirement adds a level of subjectivity that will undoubtedly lead to inconsistent determinations of the lease term within the organization. Additionally, the subjectivity may create issues with and for the auditors. The ED also suggests that an entity consider "other lessee-specific factors, such as lessee's intentions and past practice." Given the current economic environment, I would suggest that it may not make sense to include past practices to determine the probability of future lease obligations.

I believe a more auditable route would be for the lease term to be determined by the current lease document and non-contractual factors as stated in B18 (b) of the ED. This provides the auditors with a tangible way to corroborate the recorded asset and liability. In turn, the readers of the financial statements can be assured that they can rely on the amounts presented. However, since actual rent expense is not presented, the reader will not be able to determine/estimate the future cash outlays for the organization.

Question 10

Do you agree that lessees and lessors should re-measure assets and liabilities arising under a lease when changes in facts or 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 option penalties and residual value guarantees) since the previous reporting period?

Response:

Section BC 205 states that "...this exposure draft proposes that detailed examination of every lease is not required unless a significant change in the lease payments is expected to occur."

Without a detailed review of each lease, how would an organization know whether a significant change has occurred? I believe that it is unrealistic to state that a detailed review of each lease is not required. An organization may attempt to program this into the system, but ultimately, someone must review the lease to make a final determination. This review will cause the organization to incur substantial costs on a yearly basis. Again, for an organization that has tens of thousands of leases, with thousands being renewed each year, accomplishing reassessment will be an onerous task requiring tens of thousands of staff hours for successful implementation.

Question 17

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?

Response:

I disagree with the Board's assessment that the benefits of implementing these changes will outweigh the costs, particularly for organizations with a large number of leases. Some of the real costs of implementing these changes may include:

- A major overall of the current lease tracking system or an entirely new system that will capture all of the data points necessary to position the organization to make lease term decisions
- Increased staff hours to plan and implement the new standard; the organization would have to employ additional staff or supplement the current workforce with consultants to review each lease and make a determination as to what lease term should be used
- Increased staff hours to continuously reassess the lease period to be used on the financial statements
- Training of employees without accounting backgrounds on accounting issues
- Maintenance of documentation to support the determination of the lease terms in preparation for the auditors

After incurring these costs, I do not see the benefits to the reader of the financial statements. I do not believe they would have a substantiated idea of the true leasing costs, an asset and a liability with associated amortization will be supplied, but where will the true leasing costs be presented?

Question 18

Do you have any other comments on the proposals?

Response:

I am concerned that the level of subjectivity with regard to the lease term, as proposed in the ED, really does not provide the reader of the financial statements with a real sense of what the organization's true costs are. They no longer have access to a "rent expense" amount. If an organization has tens of thousands of leases and is constantly reevaluating them, how could the reader get a definite sense of what is being paid for leasing activities?

Currently, the reader can rely on the fact that the financial statements have been audited by an independent party. Rent expense can be recalculated and validated for both operating and capital leases. I am concerned, especially when the volume of leases is so large, that the proposed ED does not provide a way for the auditors to validate the amount recorded on the organizations financial statements.

When an organization has tens of thousands of leases to negotiate, renegotiate, track, and on which to make subjective lease term decisions, it occurs to me that the amount presented on the financial statements would be obsolete almost immediately.

Overall, for organizations with a large number of leases, the benefits simply do not outweigh the costs. I do not believe that the Board has truly considered the magnitude of what it is asking these organizations to do.

Thank you again for the opportunity to comment on the Proposed Accounting Standards Update to the accounting treatment of leases.

Sincerely,

Dawn Blanchard