To: FASB Technical Director

File Ref No: 1850-100 (Proposed Lease Accounting)

Dear Sir or Madam:

While I am not opposed to adopting the concept of capital leases in nearly all cases, I have some different views with reference to the questions posed as numbers 8, 9, and 10 and pasted below for reference:

Question 8: Lease term

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? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value 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?

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?

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure 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 residualvalue guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

The financial accounting for this topic is flawed from the perspective of how a financial person would view a contingency or an option. That is, a financial person (assume a lessee's position) would view an option to extend or contingent rent based on whether it is financially advantageous to an entity to exercise that option. It is a question of economic advantage or disadvantage as to whether or not those options or contingencies become reality.

To be able to value a question of economic advantage properly would require a significant level of expertise, possibly a Black-Scholes model approach.

To value the contingency or the option simply based on the discounted cash flows does not properly account for or consider proper valuation of future economic advantage. It is a far less superior method and as such is relatively useless.

To deploy a more sophisticated modeling approach is more costly and time consuming. For complexity reasons, one should argue then that the contingency rent should not be valued. There are too many variables that can come into play, many of which are highly variable.

Rather, keep the lease term to the base term or more or less to the minimum possible term. Leave the accounting for contingencies and "the more likely than not" requirements alone. The proposed method to account for them is inadequate from an appropriate economic substance perspective.

Also, regardless of the method deployed to value the contingencies, the current proposal will require continuous review work and re-consideration that in turn will generate needless fees in support of the calculations. This in turn serves only to erode enterprise value and reduces shareholder value by increasing operating costs. Besides creating work for lessees and lessors to reconsider likelihood on an annual basis, this approach also allows for subjective reasons as to recording assets and liabilities . . . reasons that a financial reader cannot know, and thus cannot be more informed as a result. I would offer that the average reader does not have the capacity to understand when and why decisions regarding contingent rents are made.

Asking lessees to value contingencies, even if more likely than not, requires some pretty strong estimation techniques. Estimations can be subject to change and opinion. For example, a real estate lease may have a base 10 year term, a stated 5 year option at so much per year for the years 11-15, and a second 5 year option that is listed at market rent.

As the lease matures, it may not have been clear at the outset that the second option would have been exercised, so the first 15 years (base plus first option) are valued on the balance sheet. At some point after the first option is exercised, it appears more likely than not that the second option will be exercised, and so it is recorded. A few years later, but before the deadline with the landlord has passed to exercise the second option, market conditions for the particular location have changed and now it is not favorable to the company to renew the lease at market rates.

A contingent rent may contemplate market rates 20 years from today. Your method places the burden on both lesees and lessors to constantly monitor market rates. All of a sudden you're introducing a mark to market scenario where one didn't exist before, for leases? This seems like an awful lot of extra work and all because you want to value contigent rents.

A company must reconsider and adjust the balance sheet at various times to account for this.

To simplify this, contingent rents should remain just that. Time, energy, and money do not need to be wasted considering and pondering the future. Rather, the contingent rents should be recorded anew when they are agreed to by both parties going forward. Most leases contain language stating when parties are to notify each other when they need to accept or reject their options.

Going back to the above scenario, the first part of the lease would be recorded and amortized over the 10 year base term. The first option would become effective when agreed to and measured over years 11-15, and the second option, if agreed to, over the final the final five years 16-20.

In summation:

- The lease term should be left to the actual term currently in force, not the longest possible term that is more likely than not to occur by taking into account options to extend or terminate.
- Contingent rentals, options, and residual value guarantees should not be taken into account as the value being ascribed to them is based on an discounted cash flow method of stated cash flow rather than using a true financial valuation whereby the option is determined to have some future value and stands a chance at being "in the money" using a Black-Scholes approach.
- Reassessment is not necessary in the absence of 8 and 9 and furthermore does not help the reader in any real sense except to identify future cash flows that may or may not happen and their very presence is subjective and reliant on many assumptions that may not be true (guesswork in predicting the future). Secondarily, the requirement to reassess is fairly self serving to the accounting profession and therefore is wasteful from adding any sort of enterprise or shareholder value.

Sincerely,

Travis N. Wiser

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