

Sean Morton
sean.morton@tcu.edu
November 30, 2010

Financial Accounting Standards Board
File Reference 1850-100

Dear Board Members and Staff:

The proposed revision to leasing standards that would necessitate recognition and disclosure by a lessee of an asset for the right of use of an underlying leased asset and a corresponding liability for expected rental payments should in most cases provide a truer caption of the economic substance of a leasing transaction and as such should be implemented in GAAP. Along with this preferred treatment on the part of a lessee, it will also be appropriate to implement similar guidance as described in fuller detail in the exposure draft for a lessor necessitating the recognition of an asset for the right to receive rental payments and, depending on its level of exposure to risks and benefits associated with the leased asset, either the recognition of lease liability (representing a performance obligation) or derecognition of the underlying leased asset net of any right to a residual interest. While not coming without expected backlash from various interested parties, the proposed changes to the leasing standards will certainly improve transparency and representational faithfulness in financial reporting and as a result increase the efficiency and function of the capital markets upon which our world rely.

In response to Question 4, I agree that a lease is defined appropriately as ‘a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration’. This definition epitomizes the economic nature of what a lease is- a contract for one party’s use of an asset belonging to a counter party for some period of time, essentially as

a source of low-cost short-term financing. Additionally I agree with the criteria in paragraphs B9 and B10 for distinguishing a leasing contract from a sale contract. If it can be reasonably assumed (either through explicit terms or the existence of a bargain purchase option) that an agreement exists under the contract facilitating the transfer of title of a leased asset to a lessee at the end of the lease term, the arrangement is in effect an installment purchase and should be accounted for as such. I also agree that the guidance in paragraphs B1 through B4 appropriately delineates service contracts from leases by defining the significance of specific asset identification in leasing contracts, although I believe that more exemplar guidance will be necessary to clear up misgivings in practice. Based on this accurate and comprehensive definition of a lease it makes sense to propose accounting guidance in harmony with the definition. The proposed guidance in the exposure draft more accurately reflects this definition than the current guidance which specifies certain 'bright-line' rules governing asset and liability recognition that often preclude the true economic nature of a lease arrangement.

In almost all cases, rights and obligations arising from leasing arrangements will meet the Conceptual Framework definitions of assets (probable future benefits) and liabilities (probable future cash outflows). As such, these assets and liabilities for both lessees and lessors should be recorded on the face of the statement of financial position with related revenues, expenses and cash flow effects recorded on the statement of changes in financial position and the statement of cash flows respectively. This treatment will provide greater transparency for financial statement users. In response to Questions 12 through 15 addressing presentation and disclosure issues with the new guidance, I agree that it will be advantageous to disaggregate values dealing with leases by presenting them separately from other financial statement line items. It will also be appropriate to disclose in the notes to the financial statements other relevant information about

the amounts presented in the financial statements and any other information that could affect the amounts, timing, and uncertainty of future cash flows relating to leases.

In response to Question 17 addressing the costs and benefits associated with the new guidance, I agree that the benefits of the proposed change to GAAP outweigh the inherent costs. The additional transparency will unequivocally provide the greatest benefit to financial statement users. Analysts and other users will no longer have to adjust the statements to reflect the true economic consequences of leasing transactions, which is the current practice that leads to inconsistencies in the interpretation of such transactions. Preparers of financial statements will naturally incur additional costs of compliance with the proposed guidance particularly in the early years directly following the transition to the new standard, but will also be relieved at least in part of their burden to structure leasing transactions in a certain way so that they can be classified as operating leases under current practice. Auditors of the financial statements will appreciate the new guidance in that it reflects the Conceptual Framework for GAAP more closely and will provide more relevant and accurate information.

In conclusion and after careful review of the facts, it appears conclusive that the implementation of the proposed new guidance on leasing will provide an overall benefit to financial statement users, capital markets, and society as a whole. The new standard will more accurately reflect the economic realities that exist in leasing transactions and should be integrated in GAAP. I thank the Board for the opportunity to comment on this issue.

Sincerely,

Sean Morton
Graduate Student
M.J. Neeley School of Business – Master of Accounting
Texas Christian University