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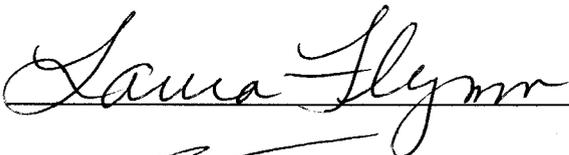
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Project: Leases (Topic 840)
File Reference No. 1850-100

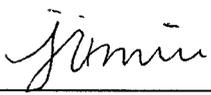
Dear Technical Director:

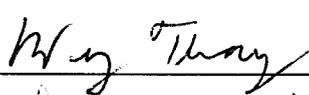
We appreciate the opportunity to comment on the proposed exposure draft regarding lease accounting standards. Our responses to specific questions are noted in the Appendix. As graduate students of Kelley School of Business, we note that our comments are our personal opinions and not the opinions of the Kelley School of Business Indianapolis.

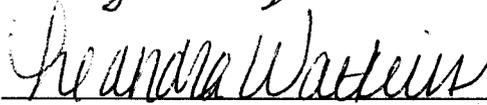
Sincerely,
Kelley School of Business MSA Students

Laura Flynn 

Christopher Kim 

Jiyoung Min 

Wendy Thayer 

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The accounting model

Question 1: Lessees

(a) Do you agree that a 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 agree that a lessee should recognize a right-of-use asset for measuring an unconditional right to use the leased property and an unconditional liability to make lease payments once the lessor has made the leased property available to the lessee. We agree with the boards' view, mentioned in BC6 (a) through (d) of this exposure draft, that this treatment would properly reflect the assets and liabilities arising from the leases in the financial statements, would result in the same accounting for the majority of leases, would be consistent with the boards' conceptual frameworks, and would be applicable to a wide range of leasing arrangements. We also believe that the amount of reported lease liability would be increased and the off-balance-sheet financing effect would be decreased.

(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?

We agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments because the right-of-use asset and liability should be expensed over the duration of the lease term, during which it will be used in operations. In addition, we agree with the use of a straight-line method of amortization. Although this method may not exactly match with the use of the underlying leased asset, this method would be understandable and simple to apply.

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 approach would you propose and why?

(i) We agree that a lessor should apply the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with underlying asset during or after the expected lease term because a lessor determines the present value of the lease payments receivable during the lease term using all relevant information.

(ii) We do not agree that the derecognition approach is appropriate because the business risk is not dependent on the achievement of a given residual value, aside from short term leases and property that have already been excluded. The derecognition approach, however, might be appropriate in some situations depending on the business type or circumstance. For example, if a lessor does not have significant risks or benefits associated with the underlying asset, it would be appropriate to apply the derecognition approach.

(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' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting. The recognition of the performance obligation approach is different from the boards' proposed guidance on revenue recognition because it increases the amount of up-front revenue recognition when performance has occurred. The use of the derecognition approach would not apply to most leases because this would apply only when the lessor does not retain significant risks or benefits associated with the leased property either during or after the estimated lease term.

(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 BC15)? If not, why not? What approach should be applied to those leases and why?

We agree that there should be no separate approach for lessors with leveraged leases because the cash inflows from the attributes of a leased asset are the same to the lessor whether it finances the asset with recourse or nonrecourse debt, as indicated in paragraph BC15 of the exposure draft.

Question 3: Short-term leases

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 agree that the lessor should recognize lease payments in the income statement over the lease term and account for the underlying asset; however, we disagree with the proposed lessee method of accounting. The lessee should be able to account for short-term lease payments in the income statement without recognizing a lease asset and lease liability. We believe that the treatment for short-term leases should be consistent with current operating lease treatment. We agree with what David Wagner wrote in an earlier response (comment letter #13), that accounting for both an asset and liability in the income statement would not only be costly in tracking and accounting for lease items over a short period of time, but would exceed any benefit gained. The accounting for short-term leases in such a way would be unnecessary and more complex than need be.

Definition of a lease

Question 4

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

We agree that a lease is defined appropriately because the definition is meant to define a point when the risks and rights of ownership transfer from a lessor to a lessee. Most parts of the definition are directly related to the definition in U.S. GAAP.

(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?

We agree with the criteria in paragraphs B9 and B10 of the exposure draft for distinguishing a lease from a contract that represents a purchase or sale because paragraph B9 states that this guidance should not be applied to a contract that represents a purchase or sale. Paragraph B9 defines a sale as a transfer of control of an underlying asset and paragraph B10 defines how to determine if control has transferred.

(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?

We think the guidance for distinguishing leases from service contracts is sufficient. Paragraphs B1 through B4 of the exposure draft is specific enough to distinguish leases from service contracts appropriately.

Scope

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?

Based upon the definition of a lease given in this exposure draft and definitions of assets and liabilities approved by the boards in the October 2008 Joint IASB & FASB Meeting, we think intangible assets should not be scoped out. In U.S. GAAP, intangibles are scoped out of lease accounting because it clearly states that the scope is for leases of property, plant, and equipment and other tangible assets. In the definition jointly approved by the boards, intangibles meet the definition of an asset. In this exposure draft, the lease of an intangible asset meets the definition of a lease. The reasons given for changes to lease accounting, according to paragraphs BC6 (b) and (d) of the exposure draft, are to obtain the “same accounting for the majority of leases” and to “be consistent with the boards’ conceptual frameworks”; therefore, we believe that leases of intangible assets should be included within the scope of these changes. We agree with the other scope exclusions.

Question 6: Contracts that contain service components and lease components

Do you agree with 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?

We agree with the FASB’s proposal for contracts with non-distinct service and lease components for several reasons. First, this practice coincides with the exposure draft on revenue from contracts, and we believe the guidance should be consistent with that other proposed new guidance. Second, it seems that the IASB’s proposal could be more accurate. At the same time, however, the accounting also seems unnecessarily complex. If the service component is not distinct, it makes sense for uniform guidance to

treat the whole contract as a lease. If the service component is not distinct, how are we supposed to determine what is the service component? In paragraph BC53 of the exposure draft, the IASB makes a comment that it is rare that a service component be non-distinct for a lessor. Therefore, we believe it is not necessary to make measurement so complex for something that rarely occurs.

Question 7: Purchase options

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

We agree that when a purchase option is exercised, the lease contract should be considered terminated. The lessor no longer owns the asset and no longer has any risk associated with this asset. It is a purchase by the lessee and a sale by the lessor. As mentioned in an earlier response by Jeffrey Kraut (comment letter #1) until a purchase option is actually exercised, there is a possibility that the leased asset will be returned to the lessor. Until the purchase option is actually exercised, one cannot assume that a purchase option will in fact be exercised. Therefore, we agree that purchase options should be accounted for only when exercised and disclosed when there is the option.

Measurement

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?

We do not agree that renewal options should be taken into account in determining the lease term. Other than evident presumptive rentals, the effect of any options to extend or terminate the lease is unpredictable, in our opinion. There are too many circumstances that could arise in any given period of time, altering the contract upon renewal. As stated by Jeffrey Kraut (comment letter #1), equipment may be replaced with newer versions even if the plan was to initially renew. The primary lease term should be the vital lease term unless the renewal is certain.

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?

The measurement of assets and liabilities arising from a lease should not take into account contingencies using an expected outcome technique. We agree with David Wagner (comment letter

#13) in that contingent rentals should be accounted for in current operations, primarily due to the fact that a contingency is not an obligation until the occurrence of an uncertain future event. Requiring a lessor to make assumptions regarding contingent rentals is rather excessive. The risk of uncertainty in assumption is misleading not only to the lessor, but the lessee as well. In attempt to eliminate undue complexity and lack of comparability, the proposed accounting for contingent rentals and expected payments under term option penalties and residual guarantees is actually more likely to have an opposing effect.

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?

The measurement of assets and liabilities arising from a lease should not take into account contingencies, even if they can be reliably measured. Financial statement measurements should be reliable regardless of whether it is specifically stated in the standard, but the fact that a contingency is not an obligation until the occurrence of an uncertain future event still exists. We are unsure of the probability in actually estimating contingencies in an inexpensive and efficient way. More guidance would be required to even consider estimating contingencies in confidence in order to significantly measure assets and liabilities arising from a lease.

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 residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We agree that assets and liabilities arising under a lease should be remeasured when facts or circumstances indicate there is a significant change arising from changes in the lease term or contingent payments. This approach would require only leases that have had a significant change be remeasured, which will cut down on the cost to implement by not requiring all leases be remeasured.

Sale and leaseback

Question 11

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 agree with the criteria for classification as a sale and leaseback transaction. Paragraph 66 of the exposure draft requires that the sale and leaseback be part of a single transaction, and defines what constitutes a single transaction. The criteria in paragraphs B9, B10, and B31 of the exposure draft outline

the criteria for classification as a sale. Together, these paragraphs sufficiently define what constitutes a sale and leaseback.

Presentation

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

We agree that right-of-use assets should be included as separate, tangible assets in the property, plant, and equipment section of the financial statements for reasons given by the boards in paragraphs BC143 and BC144 of the exposure draft. We think they should be presented as tangible assets because the lessee uses the underlying assets to generate earnings. Requiring all companies to present leased assets this way will increase the comparability among companies, regardless of if they own or lease their assets. We also agree that a lessee should present liabilities to make lease payments separate from other financial liabilities in the financial statements for the reasons stated by the boards in paragraph BC145 of the exposure draft, which allows users of financial statements to understand the extent to which a company uses lease arrangements and connects the lease liabilities with the right-of-use assets.

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights 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, BC148 and BC149)? 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?

We agree with this presentation for a lessor applying the performance obligation approach for the reasons given by the boards in paragraphs BC148 and BC149 of the exposure draft, that it reflects the interdependency of the underlying asset, lease payments, and lease liability and shows the lessor continues to own the asset.

(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, BC154 and BC155)? 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?

We agree with this presentation for a lessor applying the derecognition approach for the reasons given by the boards in paragraphs BC154 and BC155 of the exposure draft, that the nature of rights to receive lease payments and residual assets are of a different nature than other assets on the financial statements and should be presented separately.

(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 agree that assets and liabilities arising under a sublease should be stated separately in the financial statements for the reason provided by the boards in paragraph BC150 of the exposure draft, which states that this would be “consistent with the presentation requirements for lessees and lessors that are not in a sublease arrangement”.

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, BC151, BC152, BC157 and BC158)? 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 think that by separately presenting lease income and lease expense from other items, users may reap benefit from this relevant financial information for their financial decisions. For valuation purposes, using present value for lease payments and presenting this as a separate item may render predictive value to better determine the future cash flow. Furthermore, it renders the enhancing characteristics of comparability between other reported items and entities to better assist users for their financial decisions.

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?

As mentioned in our answer to question 13, the benefit that arises from disclosing the lease portion as a separate item matches the proposed conceptual framework. It will improve predictive value and enhance the comparability of financial information. Classifying the lease payment as a financing activity in the lessee’s financial statements and as an operating activity in the lessor’s financial statements will reflect these values.

Disclosure

Question 15

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
(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 disclosing the identification and explanation of the amount arising from leases will become necessary to present relevant information for financial users. We also agree with disclosing the description of how leases may affect the amount, timing, and uncertainty of the entity's future cash flows. We believe these disclosures may serve the users with relevant information to assist in their financial decisions.

Transition

Question 16

(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 with the statement in paragraph BC187 of this exposure draft that a full retrospective approach would be too costly for the little benefit derived. Also, a prospective approach would not be sufficient because of the possibility for too many inconsistencies. A simplified retrospective approach appears to be a good balance of costs and benefits.

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

We think full retrospective application should not be permitted. Having multiple methods for application increases confusion and decreases comparability for the users of financial statements. If an entity so chooses to take on this lengthy and costly task, financial statements using the full retrospective approach should be kept as an internal document only.

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

We do not have any suggestions for any additional transitional issues the boards need to consider.

Benefits and costs

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? Why or why not?

In the big picture, we believe that the proposal for both lessees and lessors will benefit the various financial users, especially those without in-depth knowledge of accounting and financial information.

The newly proposed provisions will enhance the accuracy of the firm's value in disclosure via reflection of right-of-use assets in its books. As an example, compare two firms that operate under the same industry and conditions and generate the same operating revenue and cost, but differ in the fact that one owns the actual asset and the other leases for its day-to-day operations. The former one will show a much higher return on invested capital in comparison to the latter one under U.S. GAAP, while their ability to generate operating revenue and cost are the same. Therefore, we believe that the proposed practice will benefit a great number of users in increasing the comparability of companies.

Alternatively, the cost constraints for such benefits may be too much for some firms. In order to implement this transition, a task force team will be necessary to employ this new approach at its initial point, and then it will also become necessary for hiring and training practices be changed to maintain such financial information. This cost is more focused towards smaller firms with a smaller work force, which will find it more difficult to comply with the proposed accounting.

Other comments

Question 18

Do you have any other comments on the proposals?

As this convergence project is purported to bring standardized practice to enhance comparability and transparency to assist users in making their financial decisions, it is essential to ensure there will be benefits for both the users and firms. In order to achieve the balance of cost-benefit, more specific guidance will become necessary.

For instance, if there is a provision that renders the option for smaller firms (i.e., overall value less than \$1 million) to aggregate the lease portion with other items in their disclosure, the cost-concern may be solved. In turn, these particular firms must still disclose all the quantitative and qualitative information (fulfilling the proposal from paragraphs 70 (a) and (b) of the exposure draft) of their leases that users may be able to compute the necessary financial information on their own

Non-public entities

Question 19

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?

Companies that are not publicly traded should not be required to implement this proposed guidance. Many of these entities only staff bookkeepers to post the daily transactions. Attempting to follow this guidance may be beyond the scope of their knowledge of accounting and cause many errors as a result. Hiring CPAs on staff may not be financially feasible for small, non-public companies. The cost of this implementation would not exceed the benefit to the users of these financial statements.