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November 1, 2010

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

File Reference 1850-100

Dear Director:

We appreciate the opportunity to comment on the exposure draft for the proposed Accounting Standards Update of Topic 840, Leases. We commend the boards' efforts on the proposed Accounting Standards Update of Topic 840 and want to take this opportunity to provide our viewpoint on the questions asked by the boards.

Overall, we agree with the boards' general principles proposed in the Exposure Draft. Mainly, we are concerned on whether or not the costs exceed the benefits and the usage of the derecognition approach. Our responses to the questions regarding this topic are below.

Sincerely,

Jeremy Lill *Jeremy Lill* ______

Sung-Jin Park ______

Amanda Williams *Amanda Williams* ______

Renqin Yu ______

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payment?

We agree with the boards' proposal of new accounting model for lease in which a lessee is required to recognize a right-of-use asset and a liability for lease payments. According to the most recent Project Update of Conceptual Framework –Elements and Recognition (Phase B), the boards tentatively defined an asset as "a present economic resource to which the entity has a right or other access" and a liability as "a present economic obligation for which the entity is the obligor." We believe that a lessee's right to use an asset and an obligation to make lease payments created by entering a lease contract meet these definitions of an asset and a liability. Also, we agree on the boards' interpretation of a lease in paragraphs BC 7(b) and BC 17 as not an executory contract but unconditional rights to use the underlying asset by a lessee and to receive lease payments by a lessor in that the right are protected and enforceable through the lease contract after the date of commencement of the lease.

(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?

We agree with the boards' proposal of recognizing the amortization of a right-of-use in accordance with Topic 350 and the interests on the lease payments liability using the interest method. Even though some comment letters (for instance, comment letter 14) show concerns about the front loaded pattern of lease expenses to a lessee, we believe the proposed amortization method is consistent to the treatments of other intangible assets and financial liabilities. Also, we feel that the benefits from this consistency and comparability will exceed burdens to the affected financial statement preparers and provide more faithful representation of financial statements to their users.

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 recognition approach otherwise?

We disagree with the boards' proposal and feel the derecognition approach should be dropped altogether to require a single accounting model for all leases. We are afraid that the information provided under the derecogniton approach is going to be very subjective, and the resulting inconsistency may mislead the users of financial statements.

In our view, treating a transfer of "***significant*** risks and benefits" and a transfer of "***all but a trivial amount*** of risks and benefits" (emphasis added) differently is too arbitrary to maintain necessary verifiability and comparability for faithful representation of the financial statements. According to paragraph 29, derecognition approach should be applied "if a lessor does not retain exposure to significant risks or benefits associated with an underlying asset." However, while explaining how to distinguish between a lease and a purchase or sale, the boards stated in paragraph B9 that "if … an entity 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," the contract is actually for a purchase or sale of the underlying asset.

Therefore, in situation where the derecognition approach is proposed to be applied, we believe that performance obligation approach or purchase/sale treatment should be applied instead. If a control of the underlying asset is to be transferred at the end of the contract, a lessor should apply a sales treatment; and if the lessor "does not lose control of the underlying assets," it should apply performance obligation approach and continue to recognize the underlying asset with no adjustments.

(b) Do you agree with the boards' proposals for recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting?

We agree with the boards' proposal for the recognition of assets, liabilities, income and expenses arising from a lease transaction for the performance obligation. Similar to our answer to Question 1(a), we believe that the lessor's unconditional right to receive lease payments and obligation to transfer a right to use the underlying asset meet respectively the definition of an asset and a liability in the conceptual framework.

As discussed in Question 2(a), we feel the derecognition approach should not be an option and be omitted from the proposal.

(c) Do you agree that there should be no separate approach for lessors with leveraged leases?

We agree with the boards' decision to eliminate a separate accounting model for leveraged leases. Without this elimination, existing lease accounting of incorporating deferred taxes in the measurement of leveraged leases would reduce the understandability of lease assets and liabilities.

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 on the boards' approach to mitigate the financial statement preparers' concerns on the cost of accounting for short-term leases. Assuming that a short-term lease is not recognized by a lessee, the statement of financial position would fail to provide faithful representation of economic substance of the lessee. Nevertheless, given the short-term nature of lease term, difference coming from not discounting lease payments by a lessee would not be material. We feel that the cost savings aspect for the lessor of not recognizing lease assets and liabilities arising from short-term leases would outweigh the costs of reduced comparability.

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?

The definition of a lease in the exposure draft is "a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration." We agree with the boards and feel this definition is clear and precise for users of financial statements. Also, we feel this definition is consistent with the definition of contract in the proposed accounting standard for Revenue Recognition (Topic 605).

(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 paragraph B9 and B10 for distinguishing a lease from a purchase or sale based on the transfer of control and all but trivial amount of the risks and benefits associated with the entire underlying asset. Agreeing with comment letter 14, we feel the boards should define the term "trivial" more clearly and provide examples in the application guidance. It is very important that the boards define "trivial" and make clear examples because its meaning will be very judgmental and may provide inconsistency.

(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 agree with the guidance in paragraphs B1-B4 for distinguishing leases from service contracts. We believe the attributes illustrated in the paragraphs - identification of specific asset, no substitution with similar asset, transfer of a right to control the use the asset, and exclusion of fixed payment per unit of output or at current market price – are sufficient to differentiate lease and service contracts.

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 respect the boards' decision to exclude the leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources from the scope of this Exposure Draft. We expect these excluded assets will be discussed in separate topic statements.

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 boards' approach to accounting for leases that contain service and lease components. In paragraph 6, the boards require both lessee and lessor to apply the proposed accounting standards for Revenue Recognition (Topic 605) if the service component is distinct. The boards proposed that lease accounting rules are applied to the combined contract if the service component is not distinct. Here, we share the boards' doubt on whether a good or service that is not distinct can be an asset, which is illustrated in paragraph BC 51 of the exposure draft on Revenue Recognition. In addition, per paragraph 63 of SFAS No.5, any item should meet the definition of an element of financial statements to be recognized. Since a service that is not distinct from lease cannot be recognized in the financial statements by SFAS No. 5, we believe that applying lease accounting to the entire combined contract is a logical conclusion.

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 on the boards' proposal on the treatment of purchase option as purchase (by the lessee) and sale (by the lessor) of the underlying asset only when it has been exercised. In paragraph B1(b), lease is defined as "the contract conveys the right to control the use of a specified asset for an agreed period of time." However, when a lessee exercises purchase option, not only a right to use but the control of the underlying asset is transferred to the lessee. Consequently, we believe the purchase and sales treatment is logical conclusion once the purchase option is exercised.

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 respectfully disagree 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. The proposed method would allow for similar leases to be accounted for differently. More fundamentally, we feel it is not appropriate to recognize an asset in the statement of financial position based upon what might or might not happen. We doubt that the component of lease term with contingent nature actually meets the definition of asset in the conceptual framework.

Instead, we propose that the lease term be determined on the fixed/based term stated in the contract. The terms of what is likely to happen can be disclosed in the footnotes so users are aware of the possibilities of the lease term length. This allows for no subjectivity and judgmental issues that may arise by determining the lease term as the longest possible term that is more likely than not to occur. Also, the cost of estimating the probability for each term length can be very costly for firms with a great number of leases and will not necessarily be accurate as mentioned earlier.

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?

We agree on the boards' proposal to include residual value guarantees in the measurement of lease assets and liabilities, which is consistent to existing criterion for minimum lease payments in Topic 840.

However, we respectfully disagree on the boards' decision to include contingent rentals in the measurement of a right-of-use asset and a liability for lease payments. The boards argued in paragraph BC125 that "In the boards' view, the measurement of the right-of-use asset and right to receive lease payments should reflect all right received, even if the payment or receipt of those rights is contingent." And they added, "a lease could specify zero fixed lease payments and high contingent rentals. The right-of-use asset and right to receive lease payments for such a lease would be zero if contingent rentals were not included in the measurement of those rights." However, we believe the boards' concern is groundless in that a lease with zero fixed payment should specify its lease payment based on a certain measure of unit of output (*e.g.*, sales), accordingly is not classified as lease defined in paragraph B4. Specifically, paragraph BC 32 states that if lease payments are determined in terms of a fixed price per unit of output, the payments are not for lease of the underlying asset but payments for a product or service.

In paragraph BC 123, the boards commented that "contingent rentals meet the definition of liability for the lessee and an asset for the lessor. It is only the amount to be paid that is uncertain." However, we disagree on this view in that contingent rentals are conditional obligations to variable lease payments based on the price change or market rate change, the lessee's performance derived from the underlying asset or the usage of the underlying asset by the lessee. Considering conceptual framework's definition of liability is an unconditional promise to provide or forgo economic resources, we believe contingent rentals should be excluded in the measurement of lease assets and liabilities. In the same vein, we disagree on the inclusion of expected payments under term option penalties in the measurement.

Instead of proposed expected outcome technique for the calculation of lease payments, we would like to ask the boards to use the minimum lease payment calculation defined in paragraph 840-10-25 which has higher understandability and verifiability.

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?

We agree with the boards' proposal that lessors should only include reliably measurable expected payments under term option penalties and residual value guarantees in the measurement of lease payments. In addition, we agree to include contingent rentals if it means the use of current market rate instead of using forward rates or indices when contingent rentals depend on an index or a rate, which is consistent to existing rule in Topic 840. Since current rate or index represents economic condition already realized, contingent rentals based on these are not conditional obligations and may be included in the measurement of lease payments.

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 disagree with the boards' proposal and feel the remeasuring assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change is too broadly worded. This proposal allows for a lot of subjectivity and judgment of when to reassess and will cause inconsistency problems similar to Question 8. The changes in facts or circumstances should be disclosed in the footnotes, but we feel this information should not be used to remeasure assets and liabilities from the leases on the balance sheet. This approach will be very costly on the company with thousands of leases to review all the leases for reassessment and this also as stated earlier is going to be very subjective on whether to remeasure assets and liabilities. The cost of remeasuring will not outweigh the benefits provided to the users of the financial statements. Remeasuring should occur at the execution of a new legally binding contract not on changing circumstances that might or might not affect the contract.

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 believe that the proposed accounting treatment of sales and leaseback transactions would provide more faithful representation of economic substance. In paragraph B60, it states that control is the determining factor in whether and entity transfers an asset to another entity. We agree that this "control" factor is an appropriate way to determine if a sale has occurred. Although we do agree with the idea of control being the determining factor in deciding whether the actual sale has been made, we would like to see a more thorough explanation of what would constitute control.

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 BC 143-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 with the board that the lessee should present liabilities to make lease payments separately from other financial liabilities because they are distinct from other financial obligations and therefore should be presented separately in the financial statements. This will allow users to have a better understanding of the liabilities of a company. Lease liability payments are different than other liabilities in that they are linked to the right-of-use asset.

(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, 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?

We support the proposed linked presentation of underlying assets and the lease assets and liabilities gross and total net amount altogether in the statement of financial position. According to paragraph 119 of FASB staff draft of an Exposure Draft on Financial Statement Presentation (Staff Draft), an entity shall "disaggregate assets and liabilities and present them separately in the statement of financial position when the function, nature, or measurement basis of an item … is such that separate presentation is relevant to an understanding of the entity's financial position." We believe the function, nature, and measurement basis of underlying assets are different from the rights to receive lease payments and lease liabilities. So, we agree on the boards' proposal to present gross of lease assets and liabilities in the statement of financial position.

Also, as stated in paragraph 114 of the Staff Draft, assets and liabilities (and its categories and subcategories) are to be presented consistently to their use. Underlying assets are economic resources of the lessor separate from the lease asset and liability which are derived from usage of the underlying asset. Therefore, it is recommendable to treat those underlying assets, lease asset and liability as one category of asset presenting their net amount in the statement of financial position.

(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?

We disagree with using the derecognition approach, and our reasoning can be seen in Question 2(a).

(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, BC 150, and BC 156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

We agree on the separate recognition of lease assets and liabilities from sublease because we believe the sublease transaction is a separate contract with different nature from a head lease. Consequently, the lease assets and liabilities from the sublease should be presented separately.

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, BC 146, BC 151, BC 152, BC 157 and BC 158)? 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 agree on the boards' decisions on the separate presentation of lease income and lease expense from other income and expense items. In paragraph 137 of the Staff Draft, income and expense are to be classified consistent with the classification of the related asset and liability. Since lease assets and liabilities are presented separately from other assets and liabilities, we believe separate presentation of lease income and lease expense is logical.

Paragraph 26 states that "a lessee shall present the amortization of the right-of-use asset and interest expense on the liability to make lease payments separately from other amortization and interest expense, either in the income statement or the notes." We support the boards' proposal that the lessee will report these as separate line items in the income statement if it is deemed relevant to understanding the entity's financial performance as stated in paragraph BC146.

We agree with the boards' proposal that the lessor should present interest income on the right to receive lesase payments, lease income resulting from satisfaction of a lease liability, and depreciation expense on the underlying asset as separate line items on the income statement as noted in paragraph 44 for the presentation for the lessor under the performance obligation approach. As noted in our response for Question 2(a), we do not agree with the boards' proposal of using the derecognition approach, therefore we do not feel that presentation need be included in the exposure draft.

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, BC 147, BC 153 and BC 159)? 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 agree that cash flows should be presented in the statement of cash flows separately from other cash flows. Referring to BC 147, BC 153, and BC 159, it explains that the cash flow from the lessee is included in financing activities separately from other financing activities and the cash flows from lessor is included in operating activities separately from other operating activities. It is important for financial statement users to be able to distinguish cash flows arising from leases compared to other cash flows because it allows the users to get a better understanding of the company's cash flow. Also, this separation is not going to be costly to implement for companies.

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

(b) Describes how leases may affect the amount, timing, and uncertainty of the entity's future cash flows?

(paragraphs 70-86 and BC 168-BC 183)? Why or why not? If not, how would you amend the objectives and why?

We agree on the proposed disclosure requirements to lessees and lessors. In order to improve the understandability of the information, we believe that it is important to disclose information which identifies and explains the amounts recognized in the financial statements related to lease transactions. In addition, we think that contingent rentals and expected term option penalties may be disclosed under the section for "how lease may affect the amount, timing and uncertainty of the entity's future cash flows." Although we mainly agree with the boards' proposed disclosure requirement, we feel that the boards need to provide further guidance on the disclosure requirements.

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 (paragraph 88-96 and BC 186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

We agree with the simplified retrospective approach because a full retrospective approach would be very costly. The full retrospective approach would make companies have to reconstruct and recalculate information that was not required before this proposal.

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

We think full retrospective approach should be allowed but not required because it is the most faithful representation of the leases on the balance sheet. However, we do not see many companies applying the full retrospective approach because of the cost as discussed in part A. The cost would be a significant burden on the companies and would not be very practical for most companies.

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

We feel there are no additional transitional issues that the boards need to consider.

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?

We share the concern of the board about lack of comparability in existing lease accounting rules. We believe that recognizing asset and liabilities arising from lease transactions will lead to more faithful representation in financial statements. However, we feel that the costs to implement the proposed accounting for leases would be high. We have concerns that the benefits would not outweigh the costs if the proposed measurement and remeasurement rules are adopted. According to a survey conducted by Grant Thorton LLP, many CFOs shared our concerns. Over 80% of CFOs surveyed agreed regarding recognizing an asset and a liability arising from a lease transaction. But more than half of them disagreed on the inclusion of contingent and probability-based components in the measurement of lease asset and liability.

There are many aspects to consider regarding costs. First, the mere expense of training the accounting staff and time associated with this new method would be great. Another aspect that may be overlooked is the impact of this change on managerial decisions. David Wagner noted in his comment letter 13 that many companies have debt covenants that include liquidity and debt-to-equity provisions that would be greatly affected by the significant amounts of debt on these company's balance sheets. He notes that if this causes problems for companies seeking financing, the economy may deteriorate even further.

Overall regarding costs, we do feel that they would be excessive. Because we do agree with many of the proposed changes in this exposure draft we feel that with some work the boards could reach some relief between the benefits these changes would bring and the costs that they would impose on entities affected, especially to the smaller companies that may be less capable of bearing the cost of this proposal.

Question 18: Other comments

Do you have any other comment on the proposal?

We feel that FASB has bad timing in making companies implement these changes in this downward economy. Many of the proposed changes are going to be costly on the companies to implement.

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?

We do feel that there should be some relief for non-public or private entities. Non-public entities often can have a difficult time attracting the talent and expertise that some of the larger public entities have. These new lease reporting requirements would be sure to cause a challenge for entities that have limited funds in order to compensate well trained accountants.

Nevertheless, we believe that similar transactions should receive the same accounting treatment in order to maintain consistency and improve comparability. For that reason, we feel that the same guidance should apply to both public and non-public entities.