

Sent: Thursday, October 14, 2010 9:23 PM
To: 'director@fasb.org'
Subject: Comments on proposed new lease accounting rules

To Whom It May Concern:

I am writing to provide my comments on the proposed new lease rules. I am restricting my comments to lease issues that I am most affected by as the Chief Financial Officer of a private company.

I believe the current rules under FAS 13 are misleading and do not report accurately the true essence of many real property lease transactions. Most companies that enter into a lease for real property are going to be forced by the lessor to sign a lease longer than 1 year. That is just reality. Most companies are going to end up paying significant lease payments relative to the FMV of the property over the period of the lease for real property. That is just reality. To handle these real property lease transactions differently if they do not meet the arbitrary FAS 13 rules doesn't make sense and here is why. If the NPV of the lease payment is at 90% of the FMV of the property the company is required to put an asset and liability on it's balance sheet. These amounts will likely be significant but it informs the reader the significance of the transaction entered into right on the face of financial statement. If on the other hand the NPV is but 1% less at 89% the company is only required to tell the reader in a footnote what the future lease payments that are required in the base term of the lease. This slight difference shouldn't result in such a drastically different treatment on the financial reports.

I have long argued that if a lessee negotiates lease extensions into a lease they do it for a reason. If you don't think you will lease the property past the base term why negotiate the lease extensions? At the end of the base term the lessee could decide not to renew but at that time only would I conclude that the lease is not going to be exercised. Don't leave that as a vague "to be determined based on reasonable fact patterns". Make it mandatory that the lessee assume all lease extensions will be exercised to keep it consistent and eliminate potential manipulation of assumptions.

The conclusive factor for me is the fact that I can't see how a 10 year obligation to pay lease payments is not a liability to be recorded on a balance sheet but a 10 year mortgage requiring debt payments is. How can those two absolute obligations not both be recorded on the balance sheet? Is the obligation to make payments under a written lease somehow less of a commitment of the company cash than an obligation to make payments under a written lease? I don't think it is.

I do believe that in terms of booking an asset there may be a unique problem for leases in multi tenant vs. free standing properties. To require a tenant to obtain an appraisal (or some other method) to determine the value of the asset they are leasing may be viable if the property is free standing (or if the tenant is the majority tenant) but if a tenant is leasing less than some significant fraction (say 50%) of a multi tenant property would be overly

burdensome. For example if the tenant leased 5,000 square feet of a 100,000 square foot office high rise to ask the tenant to obtain a value for their 5% of the property would be overly burdensome. On the flipside by including the majority language it would preclude someone from leasing 99% of a property and claiming that since they are not the 100% tenant they are excluded from the requirements.

I also believe that the materiality of leased asset must be considered. For example if a company leases it's copiers for 3 years there has to be an exclusion allowing lease obligations that fall under some materiality threshold to be treated as operating leases. Requiring these immaterial assets to be handled as an asset and liability would be overly cumbersome and not meaningful to the reader. If I have missed that exclusion in the proposed rules please ignore this comment.

I applaud your efforts to provide a more realistic treatment of leases. As I said the current FAS 13 rules do not produce the type of realistic, consistent reporting that the readers of financial statements deserve.

Sincerely,
Greg Klein
Vice President/CFO
Inland Truck Parts Company
913-345-9664

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