August 31, 2010

Technical Director
Financial Accounting Standards Board

RE: File Reference Number 1850-100
   Exposure Draft of August 17, 2010 on Leases

Thank you for allowing us the opportunity to comment on the FASB’s proposed update to Topic 840 “Leases”.

Cover & Rossiter is a regional accounting firm headquartered in Wilmington, Delaware. Many of our Clients are small businesses and small, mid-sized and large nonprofit organizations. We currently have no Clients who file with the SEC. My comments will focus on the potential impact of the Exposure Draft on our Client base.

Specific Question:

“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 do you propose and why?
(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 do you propose and why?”

If implemented, the Exposure Draft will create confusion to financial statement users:

The average user of financial statements understands what a lease is. “Right of Use Assets” and offsetting “Future Lease Payment Liabilities”, discounted to their net present value and amortized as the lease term progresses (with an interest component) will cause a significant amount of confusion on the part of financial statement users. This is a needless complication of a relatively routine topic that will only in rare cases add meaning and value compared to the simpler “Operating and Capital Lease” approach which exists currently.

The effort required to implement and account for leases under the exposure draft will outweigh any benefit derived:

The exposure draft seeks uniformity by essentially making nearly all leases “capital leases” as they are currently thought of. As discussed above, the Exposure Draft will, in my opinion, detract from rather
than add to the value of the financial statement presentation. Again in my opinion, the only advantage the approach put forth in the Exposure Draft can achieve is uniformity.

The Exposure Draft draws no distinction between the small office, copier, vehicle and postage machine leases that exist at nearly all entities and a very small number of massively complex leasing structures that have come into existence with a specific accounting treatment in mind. In attempting to cure the perceived inconsistency in treatment with a very small percentage of actual leases, the Board will impose substantial conversion and ongoing compliance costs on all entities.

Similar to depreciation, it is easy to foresee a new accounting software package needed to track leases; calculating net present values over expected terms, factoring in renewal periods, amortizing and splitting out interest expense / income based on payments and the passage of time. Book vs. tax differences would also need to be taken into account; all for what I perceive to be a very small marginal benefit.

The costs to implement the changes recommended in the Exposure Draft apply to all entities, not just those with complex leasing strategies. The benefit of comparability, while a worthy goal, is essentially conferred upon only a very select group of financial statement users. Uniformity already exists in the vast majority of organizations with only operating leases. As a generalized comment I feel that the Board needs to be more cognizant of the costs of all the organizations which will be required to implement a proposed change, not just those directly involved with the problem that is being addressed.

**The Exposure Draft may not achieve the uniformity it seeks:**

The Board appears to identify as its major concern the existence of a “lack of comparability and undue complexity because of the sharp “bright-line” distinction between capital leases and operating leases”. This problem is created by entities with a motivation to make the lease appear as either an operating lease or a capital lease for financial reporting purposes. As the Board is no doubt aware, an entire cottage industry of accountants and lawyers has formed around this decision point.

Paragraphs 64 and 65 of the Exposure Draft allow for lessees and lessors to essentially use the “Operating Lease” approach if their lease is a short-term lease. With that being the case, it could be argued that the Exposure Draft conceptually does not eliminate the “bright-line”; it merely moves it far over to one side. The same specialized legal and accounting minds that invented many of the lease structuring techniques which gave rise to the “lack of comparability and undue complexity” will now have a different (albeit smaller) target to aim at. As I write this today, it is likely that they are poring over the Exposure Draft looking for loopholes and working on innovative new leasing structures to circumvent the uniformity / consistency which is the primary goal and single benefit of the Exposure Draft.

As discussed above, I respectfully disagree with the proposed model. I believe it will lead to less meaningful financial statements in the majority of cases, that the cost will outweigh any benefit, and that it is likely that there will continue to be inconsistent applications.

The current lease accounting rules have remained substantially unchanged in the 25 years since I left college. They are not perfect, but they do, in my opinion, provide an adequate framework around a
difficult topic. That the grey area in this topic has grown more complex is not so much due to flaws in the existing guidance as it is to those who seek to “push the envelope” to obtain a specific result.

In the overall small percentage of entities where there are large and complex leasing strategies being employed, financial statements are rarely taken at face value by those relying upon them. Where those financial statements are being analyzed and investment decisions made, generally the wherewithal exists to retain individuals with the expertise to do the detailed analysis required; cutting through the accounting treatment to the substance of significant leasing transactions.

Thank you in advance for your consideration of these comments.

Very respectfully,

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