October 27, 2010

Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856  
Email: director@fasb.org  
File reference No. 1850-100

Dear Board Members and Staff:

I appreciate the opportunity to comment on the Lease Exposure Draft (ED). I am commenting on the lessee side of the ED. I am an experienced leasing professional and entrepreneur, not a professional accountant.

I have been working in this industry for 32 years and am currently the Co-Founder and Chief Operating Officer of Pacific Rim Capital, Inc. I started this firm 20 years ago. My experience is wholly in the field of financing large capital assets for investment grade public companies.

My concerns are strictly practical.

1. Capitalization of extension rents.

I think that the manner in which the extension rents are proposed to be capitalized runs counter to the way that a lease for a physically depreciating asset such as a forklift (or 100 forklifts) is conceptualized and understood by a lessee. In our experience, a lessee will lease forklifts because it believes that the equipment will wear out and need to be replaced at the end of the lease term. However this only happens if the lift is used as much as the lessee thinks it will. In many cases, the lessee discovers that the lift truck has not been used for as many hours as it predicted and so it decides to keep the lift for a few months, or longer. There are also unpredictable administrative issues that will cause leases to run for a few additional months before new equipment arrives. These issues are impossible to determine at the beginning of the lease. Any decision to capitalize renewals in advance will be purely arbitrary and not depictive of reality. We feel that the extensions should be accounted for when they occur. It is the only time they are known. The current proposed change will not accurately reflect the intent of the parties.
2. Materiality

The sieve that FASB is proposing to catch abuse has very small holes. My average lessee is a Fortune 200 company who leases $5 million of equipment from us annually. Many of these lessees sign hundreds of schedules with us. Nationwide, there are millions of separate transactions done by thousands of companies. The burden of making these decisions and estimations by the lessees will be very large and expensive, in many cases without adding transparency to the financial statements of such giant companies. Therefore, I believe that there should be some size or materiality consideration for the new rules.

3. Recording the assets and liabilities and the amortization of the liabilities

Our usual lessee does not want to own its equipment. Recording the assets and liabilities for such equipment on the lessee’s books will cause the balance sheet to balloon unnecessarily without materially adding to an analyst’s understanding of the financial statements.

The use of the effective interest method of amortizing the liability will result in the largest charge to earnings in the first years of the lease with the charge decreasing over time. This does not match the parties’ intent, nor does it reflect the actual cash flows of a lease, where the payments are level throughout the term and the equipment is intended to be returned upon the lease’s conclusion. We believe that it will sow confusion and simply not tell the story of the actual transaction that is occurring.

In many senses, this change will simply serve to discourage leasing due to the new burdensome accounting treatment. We have not seen any statements indicating that the FASB/IAS wants to discourage leasing as a policy matter, nevertheless, this will be the effect of these changes.

4. Catastrophic loss of demand for capital equipment

Leasing is a means for a corporation to order more equipment. When capital budgets are treated no differently than operating budgets less equipment will be ordered by corporate users. There will clearly be less money available for equipment. Banks will have less capital so they will be unable to lend as much. Loan covenants will be violated, and unless they are changed, which will not happen rapidly for small and medium sized companies during these tight credit conditions, corporations will not be able to borrow as much money. The effect on smaller companies will be significant. The sheer burden of accounting for leases will make many lessees choose to purchase instead. If more equipment is purchased, less will be ordered on a macro level.
In summary, we propose that possible lease extensions are not included in the capitalization protocol and there is a materiality exclusion.

Thank you for allowing me to comment on this Exposure Draft.

Sincerely,

[Signature]

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