December 15, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

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

Dear Sir/Madam:

Response to the invitation to comment on the exposure draft "Leases".

The current model for accounting for leases has been criticized by some for not meeting the needs of financial statement users. One of the more significant criticisms has been that the lessee's commitment to make future lease payments has only been disclosed in the footnotes and belongs on the balance sheet as a liability. Many financial statement users adjust the balance sheet to add all or a portion of the disclosed commitments to liabilities when performing financial analysis.

Any pronouncement which requires the user to adjust the reported amounts in order to use the resulting financial statements is not an optimal pronouncement. However, one of our concerns with the exposure draft is that financial analysts will now subtract the right of use asset from the balance sheet in performing financial analysis. As both the existing and proposed methods result in analysts needing to adjust the balance sheet in order to perform analysis, we believe that the significant expense of moving from one suboptimal pronouncement to another is not justified.

We understand the rights and obligations in the lease contract are the basis for concluding that a liability and an asset have been created. Our view is that the contract only allows for use of the leased asset if rent is paid and the rent will be paid only if the leased asset is made available for use. Paragraph 38 of Concept 6 states that most liabilities are incurred in exchange transactions and are usually based on
written contracts. We believe that it is the exchange of service in a lease which creates the liability, not the signing of the contract. The rights and obligations in a lease are contingent upon the other party complying with its commitments in the contract. Therefore, neither an asset nor a liability is created at lease inception. Given that both parties will fulfill their obligations in the vast majority of leases, it might be too strict an interpretation to conclude that an asset is created each day as the leased asset is used and a liability incurred as the leased asset is made available each day; however, this is the same accounting followed for other executory contracts such as employment agreements. As a result, we believe that lease commitments are appropriately included with other commitments in the current commitments disclosure. We do agree that when a lease is in substance a purchase, the accounting by the lessee should reflect a non-cash purchase transaction.

Recognizing that our opinions above may be the minority and the Boards may conclude that the signing of a lease does indeed create assets and liabilities for the parties, there are other provisions of the exposure draft on which we have comments. We are a lessee of office space and have recently signed a plain vanilla five year lease. Nowhere in that process did we discuss an interest rate with a lessor or discuss the purchase of our floor in the 15 story office building in which we lease one floor. To present to readers of our financial statements 1) a balance sheet that implies that we borrowed to finance the acquisition of an intangible asset and therefore have interest expense; 2) an income statement which front loads the expense when our payments are increasing over the course of the lease; and 3) a cash flow statement that shows our payments as a financing activity, is not a faithful representation of our operating lease transaction. We believe that the fixed payments should continue to be expensed straight-line over the term, with variable escalators recognized in the years they are due and the cash outflows presented as operating outflows. While we understand the desire to achieve comparability among financial statements, we believe we should not present our simple lease as though it were a purchase. In addition, we believe that extensions which are not bargains should be considered a liability only after the lessor has been notified of election to extend and the option becomes a commitment. We understand that while the proposed footnote disclosures will enable the reader to understand our leasing activities, such footnotes should not have to correct an understanding created by the accompanying statements. If the boards believe that there are complex leases which have been structured to avoid capital lease treatment, then those leases should be addressed directly and discretely from the vastly larger
population of simple leases which are truly the use of space or an asset for a specified term and then returned to the lessor.

We are very familiar with lessor accounting and do not find the accounting in the exposure draft to be an improvement upon existing accounting. While we understand that logic implies that lessor accounting should follow the same theory that lessee accounting follows, the benefits of the proposed changes are not warranted by the significant expense of making them. Should you proceed with amending lessor accounting, the Boards must provide additional guidance in order to ensure consistency among preparers.

Sincerely,

Daniel P. Egan