December 15, 2010

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

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

Dear Board Members:

Thank you for the opportunity to comment on the Financial Accounting Standards Board’s (FASB) and the International Accounting Standards Board’s (IASB) Exposure Draft (ED) Leases.

GFC Leasing is the financing arm for Gordon Flesch Company, Inc (GFC). GFC is the largest independent office equipment dealer in the United States. We are a 55 year old family owned business that employees over 600 people throughout the Midwest. Monthly, we lease approximately 600 multi-function devices (copiers) which represent approximately 80% of our total sales transactions. Our average lease amount is under $20,000.

While we commend the Boards’ efforts to take this project on and improve lease accounting, we do not believe the proposals in the ED fully meet the objective in several key areas. These key areas are: term contingent rentals and term options, lessor accounting and transition provisions. We believe the Boards’ should reconsider these areas. Generally, we are supportive of the alternative view expressed by Mr. Steve Cooper in the IASB ED.

Contingent Rentals and Term Options
We do not support the proposal to include expected payments under contingent rentals and term options in the measurement of lease assets and liabilities. Contingent rentals do not meet the definition of a liability. Currently, a liability is defined as a present economic burden for which an entity has a present obligation. The payments of contingent rentals in the option period are not based on a past event, rather a future event. Contingent rentals and term options are non-guaranteed provisions in a lease that may or may not be exercised. Lessees do not enter into a fixed term lease contract with the intent to extend the term. If their intent was to lease the equipment for a longer period, they would have entered into a contract with such term.

The majority of our leased equipment includes computer peripherals and components which are subject to high obsolescence. More often than not, the equipment becomes obsolete before the useful life is exhausted. It is our intent to cycle new equipment to lessees prior to the lease term ending. The option to extend an equipment lease lies solely on the lessee. We believe the ED will cause lessees to return their equipment when the contract term ends, resulting in a loss of revenue to lessors. The proposed standards will result in lessees changing their leasing patterns to avoid complexity in

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determining the estimated lease term. In addition, the lessee’s financial statements will not reflect the contractual obligation of the lease.

We strongly believe including estimates for contingent rentals and term options will distort the financial statements. Interest income will be overstated due to the lease being front-ended. The concept of recognizing revenue before an event has occurred is in conflict with current GAAP. Additionally, we believe the re-evaluation of the contingent rentals and term options at each reporting period will not only add increased compliance burden and costs, but will result in artificial gains and losses.

**Lessor Accounting**

We disagree with the proposed two accounting model (performance obligation and derecognition) approach for lessors. The performance obligation approach does not comply with the basic principal that a right-of-use asset has been transferred and the lessee is obligated to pay.

We would prefer that all leases be accounted for under one methodology – the derecognition approach or the modified derecognition method. This approach transfers the right-of-use asset from the lessor to the lessee. The lessor’s performance obligation is fulfilled when the lessee accepts the lease. The lessee controls the asset for the lease term and has quiet enjoyment of the asset which the lessor cannot legally disturb.

Additionally, the derecognition method matches the economics of captive finance companies, such as ourselves. Sale-type lease accounting treatment should be retained since gross profit exists when the lease transfers right of ownership in a right-of-use lease.

The derecognition approach is a regression from the current direct finance lease since the economic effect of the residual asset is not accounted for - the residual asset should be accreted. Additionally, we do not believe the residual asset is Property, Plant and Equipment since it is not an asset the lessor plans to use. It is merely a financial asset.

**Transition and Cost Benefit of the proposed standards**

We believe the simplified retrospective approach may be effective for many companies. We believe in some cases a full retrospective approach may result in a more accurate representation of the economics. We also feel the final standard should address how existing leases should be tested for classification between the performance obligation or derecognition in transition.

The costs associated with transitioning to the new standards will be extremely costly. We do not believe the proposed standards meet the FASB’s chairman stated intention, to “decrease [lease accounting’s] current complexity”. Rather, we believe the complexity has increased and the effort to comply with the standards will be burdensome and costly. The new standards will require the following:

- Each lease will need to be rebooked since the current methods will no longer exist. Based on our current portfolio, it will take us over a year to re-book our existing leases and the size of our staff will more than double in order to complete the transition.
- Lessor accounting systems will need to modified and/or replaced. Systems will need to track additional data in order to determine estimated terms and contingent rentals.
• Additional staff will need to be added in order to book, service and remeasure leases at each reporting period
• The process of converting a lease from book to tax will become more complex under the proposal. Each lease will now have a book to tax reconciliation.
• Users of the financial statements will need to be reeducated. All ratios and metrics will change.
• Training and education costs will increase dramatically. We also believe these cost will be ongoing.
• External consulting fees, accounting and legal fees will increase.
• The proposed standards will increase the cost of financial audits
• Renegotiation of debt covenants will be timely and costs.
• Sales & Marketing costs will increase. All pricing documents will need to be revised, new marketing programs will need to be developed, changes to sales ERP systems will need to occur and there will be delays in the “selling” cycle

**Summary**

Overall, we feel the ED leaves too much room for interpretation. Bright line tests needs to be added to the proposed standards. The lack of these bright line tests will lead to incomparability within the leasing industry and benchmarking will be lost. The cost to comply with the proposed standards will be excessive. The complexity of the ED will have a negative impact on the leasing industry and the overall economy. We believe certain lessors will shut their doors, dealers will use third-party lessors instead of own their captives due to lower servicing costs, and customer will chose to buy instead of lease.

We had the unique opportunity to attend a joint session with the FASB/IASB in CT to present samples of our lease transactions under the proposals set out in the ED. The message was consistent from the lessors in attendance: not much benefit will be gained for the amount of complexity that will be added.

We thank the Boards for their consideration. Should you have any questions or need further clarification, we will be happy to discuss our views with you.

Sincerely,

Diane M Parisi  
Accounting Manager  
GFC Leasing
Responses to detailed questions in the exposure draft

Question 1: Leases
   (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 would you propose and why?

   We agree that a lessee should recognize a right-of-use asset and liability. We also believe current GAAP should be used to define the minimum lease payments to be recorded in the financial statements. Estimating the term and contingent rent will result in subjectivity in measuring the assets and liabilities.

   (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 would you propose and why?

   We agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments.

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 Derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

   (b) Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and Derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

   (c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

Response
   We disagree with the Boards’ proposal for lessor accounting. We understand the desire to develop a consistent model for both lessees and lessors. However, we do not believe the ED achieves the results set forth. We recommend that lessor accounting should not be included in the scope of the project.

   Assuming lessor accounting remains within the scope of the project, we agree that a lessor should apply the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset. However, we believe the performance obligation approach should only be applied to leases where the risk to perform by the lessor is so high that a lessee may no longer make cash payments.
Question 3: Short-term leases
The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in profit or loss over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65). (See paragraphs BC41-BC46). 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 that a lessee or lessor should account for short-term leases in this way.

Question 4
(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

We agree that a lease is defined appropriately.

(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 paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale. We believe the reference to “trivial amount of the risks” in paragraph B9 should be removed and/or defined as a bargain purchase option or automatic title transfer. The word “trivial” leaves too much room for interpretation and may result in inconsistent accounting treatment.

(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 believe the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient.
Question 5
The exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

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 believe all leases, regardless of the type of asset being leased, should be included in the scope of the project.

Question 6
The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:
(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
(b) The IASB proposes that:
   (i) A lessee should apply the lease accounting requirements to the combined contract.
   (ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
   (iii) A lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in Revenue from Contracts with Customers. 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 disagree that service components that are non-distinct should be capitalized. We believe lease and service components should be accounted for separately. We also feel the Boards need to further define distinct vs. distinct service components. During the FASB/IASB Lessor workshop we attended, companies representing the same industry with similar transactions account for the similar service contracts differently. By not further defining services we feel comparability within the industry could be lost.

Question 7
The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).
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 that lessees and lessors should account for purchase options only when they are exercised.

Question 8
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 do not agree that a lessee or lessor should determine the lease term as the longest possible term that is more likely than not to occur. We do not believe options to extend or terminate a lease meet the definition of a liability. The proposed standards create comparability and symmetry problems. They also result in front-ending the leases and potentially overstating revenues/expenses if the estimated term is never fulfilled.

Question 9
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?

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 measured reliably? Why or why not?

We disagree that contingent rentals and expected payments should be included in the measurement of assets and liabilities. As mentioned previously, contingent rentals and renewal payments do not meet the definition of a liability.

Question 10
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 do not agree with lessees and lessors remeasuring assets and liabilities arising under a lease. We believe the current GAAP definitions of lease term and minimum lease payments should be
retained. The accounting for renewal options and contingent rents should occur when the event happens.

Question 11
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 agree with the criteria for classification as a sale and leaseback transaction.

Question 12
(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 or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143-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?

Yes, we agree.

(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, BC148 and BC149)? 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?

No, we do not agree. We believe the components should be net on the asset side of the balance sheet as well as the income statement.

(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, BC154 and BC155)? 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?

Yes, we agree the right to receive lease payments should be presented separately. We also believe the residual asset should be presented with the lease receivable. The residual asset is a financial asset, not an asset the lessor plans to use.

(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, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?
Question 13
Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

Yes, we believe lessees and lessors should present income and expense separately.

Question 14
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, BC147, BC153 and BC159)? 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 believe cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows.

Question 15
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 BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

Yes, we information should be disclosed in the footnotes. There is much room for interpretation and subjectivity in the ED. All assumptions and methodologies should be disclosed.

Question 16
(a) The 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 (paragraphs 88-96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

As mentioned previously, the cost and time associated with transitioning the leases will be costly. We believe our direct finance leases should be grandfathered since the overall recognition difference will be immaterial.

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

We think full retrospective application of lease accounting requirements should be permitted.
(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Question 17
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 strongly disagree with the Boards’ assessment that the benefits of the proposals would outweigh the costs. We feel the costs to comply with the new standards will be extremely high. Below is high level summary of several areas where we anticipate increase costs/burdens as a result of the proposed changes:

- Lessor accounting systems will need to modified and/or replaced. Systems will need to track additional data in order to determine estimated terms and contingent rentals.
- Additional staff will need to be added in order to book, service and remeasure leases at each reporting period
- The process of converting a lease from book to tax will become more complex under the proposal. Each lease will now have a book to tax reconciliation.
- Users of the financial statements will need to be reeducated. All ratios and metrics will change.
- Training and education costs will increase dramatically. We also believe these cost will be ongoing.
- External consulting fees, accounting and legal fees will increase.
- The proposed standards will increase the cost of financial audits
- Renegotiation of debt covenants will be timely and costs.
- Sales & Marketing costs will increase. All pricing documents will be need to be revised, new marketing programs will need to be developed, changes to sales ERP systems will need to occur and there will be delays in the “selling” cycle

Question 18
Do you have any other comments on the proposals?

No, we do not have any additional comments.

Question 19
 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 strongly believe non-public lessees should not be subjected to the proposed standards. We also feel establishing a de-minimis dollar threshold would alleviate pain and excessive cost associated with complying with the new standards.