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Financial Accounting Standards Board
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The objective of the revised lease accounting Exposure Draft is to “(recognize) lease assets and liabilities on the balance sheet and (disclose) key information.” The core principle of the proposed standard indicates “that an organization should recognize assets and liabilities arising from a lease.” The proposed lease accounting standard accomplishes the objective of requiring lessees to recognize lease assets and liabilities on the balance sheet. However, the standard goes much further than this initial objective and makes multiple changes to current lease accounting. These changes have minimal benefit to financial statement users at a significant cost to both lessees and lessors. This must be considered in the development of this new standard. To put more rules in place that have no real benefit is a complete waste of time and money and must stop. We agree that lessees need to recognize their committed obligations on the balance sheet. However, this is as far as the new standard should go.

Lessee rental expense associated with a fair market value lease should be expensed on a straight line basis. A lease that does not include transfer of ownership is a contract for the periodic use of an asset. The proposed front loaded expense pattern does not reflect the true economic activity from the lessee perspective. A lease for the periodic use of an asset should have a straight line expense pattern that aligns with the use of the asset. The lease expense pattern should be determined by the economic substance of the transaction, whether the lease has an end of term transfer of ownership or is for the periodic use of an asset. The lease expense pattern, whether front loaded or straight line, should not be determined solely because the lease is for real estate or equipment. Fair market value leases do not differ economically or legally solely because the leased asset is equipment or real estate. Requiring financial statement preparers to account for fair market value equipment leases in a different manner than fair market value real estate leases adds unnecessary complexity for preparers and gives zero benefit to the users of the financial statements.

The objective of the proposed standard focuses on properly recognizing lease assets and liabilities on the balance sheet. Current lessor accounting standards already require recognition of lease assets and liabilities on the balance sheet. The proposed changes to lessor accounting go beyond the objective of the Exposure Draft. Lease assets are currently recognized on a lessor’s balance sheet as either a lease receivable or equipment on lease depending on the economic structure of the lease transaction. Why would this change? There is no value to making a change. This must be considered in the development of this new standard. To put more rules in place that have no real benefit is a complete waste of time and money and must stop. The current lease accounting standard for lessors adequately captures the economic substance of a lease. Financial statement users currently have the ability to see a lessor’s lease assets and liabilities on the balance sheet. Again, changing this makes zero sense and would just
make Companies incur undo expenses. In the case of smaller entities the changes could force businesses to shut down because of accounting costs that have and provide zero benefit to any user.

Additional problems with comparability among lessors may occur as a result of the residual and receivable model’s front loaded income requirement. Under the residual and receivable approach with a front loaded income pattern a lessor with a newer portfolio of equipment could appear more profitable than a lessor with a more mature portfolio. This could occur regardless of the fact that leases generally cash flow on a straight line basis over the life of the lease and would skew balance sheet comparability. We all know that lessors in this case will do what is best for their entity, which may not be correct. The standard currently in place works just fine for lessors. Changing any lessor accounting is a major mistake by the Standards Board.

For example, the fact that the airline industry does not show airplane leases on their balance sheet or that certain large retailers do not show any real estate commitments on their balance sheet does not make sense (and we know there are many other examples). We completely agree that lessee’s need to recognize their committed obligations on the balance sheet. Beyond this, we sincerely believe that the Standards Board is going above and beyond their objective and this provides zero benefit to any user. This must be considered in the development of this new standard. To put more rules in place that have no real benefit is a complete waste of time and money and must stop.

Sincerely,

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