While I commend the FASB and the IASB in taking on a project to overhaul the accounting for leases, I believe the proposed standard will not deliver the improvements needed for lessee accounting.

The proposal starts off well. The concept of recording a right-to-use asset and a lease obligation is satisfying, and would result in elimination of off-balance sheet financing given to lessees by existing standards.

The proposal veers into unnecessary accounting work with its proposed classification of leases into Type A and Type B categories. Perhaps it was done as an attempt to appeal to as broad a swath of constituents as possible; I can’t figure out any other reason for the derivation of two different kinds of leases with different accounting treatments based on whether the underlying leased asset is “property” or “not property.” Nor can I see any reason how accounting for a lease as a Type B lease provides more meaningful information to financial statement users:

- Just as with a Type A lease, the Type B lease accounting reports the lease asset and liability, but the accounting requirements force the issuer to go to great lengths to transform the amortization and interest into a clone of the existing reporting of lease expense.
- The Type B accounting invisibly amortizes the asset and liability. It’s not evident how this provides clearer information about the relationships between the balance sheet and the income statement.
- Even though Type B leases have the same underlying economics as Type A leases, the proposal doesn’t offer compelling reasons why it’s better than reporting them as “Type A” leases.

I am also concerned that the Board considered it necessary to include a “short-term lease exemption.” Accounting standards have always carried an application exclusion based on the materiality of the standard’s application relative to the financial statements. A standard need not be applied if there is no material effect on the financial statements. With this exclusion, a possible transaction structuring opportunity may exist.

A final, overarching concern: I would hope the Board will continue to improve this proposal and not take seriously any suggestions that only disclosure improvement is needed. Standardized measurement is needed. Some investors make their own adjustments to balance sheets for estimated assets and leverage that would be present if leases were capitalized. Those estimates may be more inaccurate than these investors believe. Furthermore, not all investors make such adjustments – and even if they did, it’s unlikely that the investing public would be evaluating similar information. The job of standard setters is to set accounting principles that will present consistent, reliable information in financial statements for capital providers to evaluate. Simply giving them a batch of ingredients and letting them concoct their own recipes for what should be in the financial statements is an abdication of the standard setter’s responsibility.

If you would like to discuss this further, please do not hesitate to contact me. Best regards.

Sincerely,

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