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Financial Accounting Standards Board
401 Merrit 7
PO Box 5116
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Re: File Reference NO 1850-100

To FASB Board:

As an end user of financial statements, I believe that transparency is the most important aspect of financial statements for investor. Although the current rules for Capital Lease recognition (as outlined in the FASB Accounting Standards Codification) sufficiently detail the circumstances for the accounting treatment of capital versus operating, it still leaves a grey area and flexibility for circumvention. I applaud the joint effort of the FASB and IASB to address these grey areas.

Right-to-use

Recognition of a right to use would effectively transfer to the lessee's balance sheet the amount of asset conveyed at the time of the lease. The offset of the liability to pay the lessor and the amortization of the asset over the lease term or economic life (whichever is shorter) would let investor's know the true amount of debt obligation when applying debt to equity or return on asset ratios. This new requirement would take away the ability of the lease agreement or contract to mask the true nature of the transaction. There will no longer be a need to abide by the current rules of:

- 75% or more of estimated economic life
- Minimum lease payments exceeding 90% of the excess fair value

The requirement for amortization of asset over the lease term or economic life (whichever shorter) is essential as under the right-to-use recognition there should not be any residual value left at the end of the lease.

Performance Obligation

In the same way that “right-to-use” will provide transparency on the amount of asset being transferred to the lessee, “performance obligation” will likewise alert the investor of the lessor’s remaining liability. It will alert the investor that the lessor retains a dollar amount of exposure and risk related to the leasing transaction.

Downside

The downside of the new rules would be the affect it would have on the tenuous economic recovery in the United States. The new rules would affect crucial financial ratios that companies depend on to comply with their debt covenants. Sufficient lead time would be needed for companies to either clean up their balance sheets or to negotiate the appropriate debt covenants with their lenders.

Lease Term

I disagree with the new lease term definition that includes contingent rentals and term options assuming the longest possible term that is “more likely than not to occur.” This will penalize the real estate leasing industry to an unfair degree. First of all, I agree that the “more like than not to occur” is a looser standard than what is required in GAAP. This will ensure that the proper term is determined. I disagree that lease term options should be included in the measurement of the lease term; as applied to the real estate industry. Tenant leases are negotiated by leasing agents. The ensuing deals result in a lease contract where options are negotiated as a protection to the lessee. A middle ground needs to be found as industry statistics will show that multiple options are rarely exercised.

Thank you,

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