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December 15, 2010

Technical Director File Reference No. 1850-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via email to director@fasb.org

RE: File Reference No. 1850-100, Proposed Accounting Standards Update, Leases (Topic 840)

Dear Technical Director:

We are pleased to provide our comments and observations regarding the proposed Exposure Draft on Leases (ED) issued jointly by the FASB and IASB (referred to collectively as the boards). We agree with the boards' objectives to improve the accounting model for leases for both lessees and lessors, as well as to move toward convergence in this area. Though we support the overall principles of the right-to-use model for lessees, we have some concerns that the proposed model would require lessees and lessors to recognize assets and liabilities that do not meet the current definitions of assets and liabilities. In addition, we believe many lessees will be unable to reliably measure future contingent lease payments in some situations. Our overall comments regarding these two concerns follow. Our responses to the specific questions in the ED are included in Attachment 1.

Overall Comments

Lease term

We agree with the overall right-to-use model that requires a lessee to record a right-to-use asset and a liability for a lease transaction. We do not agree that the lease term should be based on 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. We believe the proposed model does not recognize the underlying economic risks and benefits of renewal options that are negotiated on an arm's length basis between independent parties. Using the maximum term as defined in the ED has the potential to create significant assets that are contingent on a future event (exercising the renewal option) and liabilities that do not represent an unconditional obligation of the entity (not obligated until renewal is exercised). Therefore we propose defining the lease term as "the minimum contractual term of the lease, plus any periods which contain either a significant barrier to canceling the lease or a significant incentive to retain the lease, such that renewal appears more likely than not at the inception of the lease." We explain the basis for our conclusion and expand on the definition in our response to Question 8.

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Boards
December 1, 2010
Page 2

We also believe that using the suggested lease term definition above will reduce some of the complexities in the ED regarding the estimation of the lease term and the impact of contingent provisions, described further below.

Contingent Rentals

The current ED requires lessees to estimate contingent rents for all periods covered by the maximum lease term as defined in the ED, regardless of whether the lessee can reliably measure future contingent rents or not. On the other hand, the ED acknowledges that lessors should only include contingent rents when they can be reliably measured. We agree with the boards' conclusion as it relates to lessors, however, we also believe there could be many situations where lessees will not be able to reliably measure future contingent rents, especially in the retail sector where contingent rents based on sales are commonly used. We believe many companies will be unable to reliably estimate their sales beyond one or two years, and thus they will be unable to reliably estimate their contingent rents beyond one or two years. However, the ED would require this estimate for all periods in the lease term (which could be for many years) regardless of the entity's ability to reliable measure it. The past economic downturn demonstrates the difficulty in predicting future results, and the ability to forecast sales for 5, 10, or 15 years or more into the future would seem difficult for even some of the most sophisticated companies.

Complicating the model further is the requirement to reassess the lease assets and liabilities each reporting period. As contingent rents will almost certainly be different than actual results, we believe the reassessment will be required for many leases with contingent rent provisions. We believe this situation will be further exasperated if the boards retain the proposed lease term definition. As a result, we recommend providing the same requirement for lessees as lessors as it relates to contingent rents; that is to include contingent rents only if they can be reliably measured.

Anti-abuse Concerns

We understand there may be some concerns that leases will be structured to circumvent the intended objectives of the ED and therefore the ED has been developed to minimize the ability to do so; for example, by requiring the current maximum lease term definition. We acknowledge these concerns; however, we believe it is preferable to draft the lease standard based on principles that are consistent with the conceptual framework assuming arms-length transactions between independent parties rather than to build anti-abuse provisions into the lease model. Several of our comments and recommendations are predicated on the assumption that lease transactions are entered into on an arms-length basis between independent parties. We believe a post-implementation review should be performed two years after the lease standard is implemented to determine if it is achieving its intended objectives or if leases are being structured to circumvent these objectives.

We also recognize that leases on an arms-length basis between independent parties exclude related party lease transactions, and the substance of related party leases is often not consistent with the form of the transaction, whether unintentionally or intentionally. We believe the boards should consider specific guidance to address the unique aspects of related party lease transactions in the final standard.

Should you have any questions please contact James A. Dolinar.

Very truly yours,

Crowe Horwath LLP

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Attachment 1

Question 1: Lessees

(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 lessees should recognize a right-of-use asset and a liability to make lease payments. We believe that the proposed treatment by the boards better reflects the substance of lease transactions.

(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. This is consistent with the current accounting treatment for capital leases as well as when a purchaser borrows funds for the purpose of a acquiring an asset for use.

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 model would you propose and why?

We believe lessors should only apply one model for all leases, that being the derecognition approach, except for land leases and sale leaseback transactions, which should follow the performance obligation approach. Lessees apply only one model, the recognition of a right to use asset over a given period of time. We believe the derecognition approach for the portion of the asset a lessor no longer has the right to use is conceptually the same whether the lessor retains significant risks and benefits or not. We believe retaining the asset when the lessor retains significant risks and benefits during or after the lease period should not impact the model, since the lessor has given up the right to use the asset to another party and cannot use that asset during the lease period. We believe the concept of removing the portion of the asset the entity provided to another party to use should be the same whether the entity gives up 90% and retains 10% or vice versa.

Providing only one method for lessors also removes the complexity and subjectivity that must be considered when evaluating whether the lessor retains exposure to significant risks or benefits under the current proposed model. We believe that under the proposed model two different lessors will apply their individual judgment to the same fact pattern and could reach different conclusions on whether they retain significant risks and benefits, since the proposed model does not provide a detailed definition of significant risks or benefits. Eliminating the performance obligation approach will avoid the complexity of applying the significant risks and benefits criteria.

If the boards retain both models for lessors, we recommend providing further guidance on the significant risks and benefits criteria, otherwise practice will evolve to define bright lines that entities, auditors and regulators will look to for consistency in approach.

(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?

As described in our response to question 2(a), we believe lessors should only use the derecognition approach, except for land leases and sale leaseback transactions. We agree with

the boards' proposal for recognition of assets, liabilities, income and expenses under the derecognition approach, except as described in our response to Question 9.

(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?

We agree there should not be a separate approach for lessors with leveraged leases. The means by which a lessor funds the acquisition of an asset should not affect the accounting for the right to receive lease payments or the obligation to permit a lessee to use the asset.

Question 3: Short-term leases

This exposure draft proposes that a lessee or 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 12 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 leases would recognize lease payments in the income statement 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 continue to 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 also 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 believe very few leases will meet the criteria under the boards' proposed definition for short-term, and those that do would likely not result in material transactions for a lessee. In addition, the reduced complexity of not discounting short-term leases is not a substantial reduction in effort for lessees. Therefore, we believe lessees should be provided the same practical expedient as lessors for short-term leases and recognize lease expense as incurred over the lease period for short-term leases.

Question 4: Definition of a lease

(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 with the boards' proposed definition of a lease. We believe that it appropriately conveys the essence of what a lease represents, that being the agreement between parties to convey the use of an asset for a period of time in exchange for consideration.

(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 proposed criteria for distinguishing a lease from a contract that represents a purchase or a sale. A lease contract that automatically transfers title at the end of the lease to

the lessee or contains a bargain purchase option is in substance a purchase and sale even though the contract may be written as a lease.

(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?

Please see our response to Question 6.

Question 5: Scope exclusions

This 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?

It is unclear why the boards decided to exclude leases of intangible assets from the scope of this exposure document. The boards acknowledged in paragraph BC36 that "there is no conceptual reason why lease accounting guidance should exclude intangible assets." We recommend the boards reconsider the need to include leases of intangible assets within the scope of this exposure document.

Question 6: Contracts that contain service components and lease components

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraph 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 guidance in the exposure draft on revenue from contracts with customers.

Do you agree with the 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?

It is unclear how the ED applies to all lease contracts that contain service or pass through elements, for example, insurance, maintenance, and real estate taxes in a building lease. One of the elements in paragraph B7 of whether a service component is distinct, is if the item "has a distinct profit margin-a service has a distinct profit margin if it is subject to distinct risks and the lessor can separately identify the resources needed to provide the service". We believe insurance and maintenance could fit this criteria, as the lessor could choose to sell these services separately with a profit margin or could choose not to charge a profit margin. In addition, the lessor would likely be able to identify the resources necessary to

provide the maintenance and the resources needed to evaluate, obtain and price the insurance to be charged to building lessees.

Real estate taxes on the other hand do not appear to be an element that could be sold separately or meet the other distinct criteria in the ED. If the service is not distinct, the ED requires that element to be combined and included as part of the lease payment. This would result in a lessor recognizing the future real estate taxes that are included as part of the lease payment as revenue at the date of inception for a lease using the derecognition approach. We do not believe it would be appropriate to recognize this income at the date of inception for a lessor. We recommend the ED should follow the IASB proposal in (b) iii. above. This is just one example of where the ED does not appear to address a common lease transaction. We recommend the boards consider other lease transactions that may include similar elements before finalizing the proposed standard.

We also recommend the boards provide an example of a common lease situation in the implementation quidance to illustrate the accounting for these types of arrangements.

Question 7: Purchase Options

This exposure draft proposes that a lease contract should be considered 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 BC 64).

Do you agree that a lessee and lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that lessee or lessor should account for purchase options and why?

We agree that a lessee and lessor should account for purchase options only when they are exercised unless they are considered bargain purchase options, in which case the lease would be accounted for as a sale and not subject to the guidance contained in this proposal.

Question 8: Lease term

Do you agree that a lessee or 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?

The proposed definition of "the longest possible term that is more likely than not to occur" does not distinguish the minimum contractually obligated term from the non-obligated term (i.e. renewal options). We offer the following observations as to why we believe the boards should consider the minimum contractual term as part of the underlying definition (which is provided following these observations).

Transaction Economics

Arms length transactions between third parties that include renewal terms are key features that contain real economic risks and benefits to the parties and as such consideration of those features is important in the evaluation of whether they impact the lease term. We believe there is a fundamental economic difference between a 30 year lease and a 10 year lease with two 10 year renewal options or four 5 year renewal options. Renewal options provide the lessee with the ability to terminate the lease transaction with no penalty or obligation to the lessor on the renewal dates, as opposed to the 30 year lease which would involve an economic penalty to the lessee during the entire lease contract. Lessees use renewal options to provide the flexibility of exiting a location or lease that no longer meets their original business strategy, whether due to an economic downturn, or shift in business model, and the renewal options provide the lessee the ability to exit without penalty as a result of that action.

Consistency with Concept 6 and Proposed Conceptual Framework

We believe the proposed ED is not entirely consistent with the definitions of assets and liabilities in Concept 6 and is also not consistent with the proposed definition of a liability in the Conceptual framework project. We understand the FASB board believes that the proposed ED is consistent with the conceptual framework as described in paragraph BC7 (a), which states: "Furthermore, the proposals are consistent with the existing conceptual framework and it is unlikely that future developments in the conceptual framework project would cause the FASB board to revise their fundamental conclusions about the definitions of assets and liabilities arising from leases or their recognition." The definition of an asset in Concept 6, defines assets as follows (underlining added): "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events". We believe the exercise of a renewal option is not a past transaction or event, rather it is a contingent future event that should not require recognition until it has occurred and therefore is not consistent with the current definition of an asset. We believe there are fundamental economic reasons why lessees include renewal options rather than enter into longer lease terms which are part of the arms-length negotiations. Even if the lessee believed it was highly probable at inception that they would exercise the renewal option, the renewal option gives the lessee the ability to change their mind in the future without impacting the cash flows to the business.

We believe the lease liability as defined in the proposal is not consistent with the definition of a liability in Concept 6, which defines a liability as follows (underlining added): "Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." Obligations are further defined in the Concept as (underlining added): "Obligations in the definition is broader than legal obligations. It is used with its usual general meaning to refer to duties imposed legally or socially; to that which one is bound to do by contract, promise, moral responsibility, and so forth (Webster's New World Dictionary; p. 981). It includes equitable and constructive obligations as well as legal obligations". We believe a lease renewal option is not a legal or social obligation and therefore does not meet the definition of a liability.

We also note that the last sentence of paragraph BC7 (b) in the ED indicates (underlining added): "At that point, the lessor cannot prevent the lessee from using the underlying asset nor can the lessee avoid payment without causing a breach of contract". We agree with this conclusion as it relates to the minimum contractual term, however, we also believe this conclusion supports the view that a lease renewal is not an obligation as the lessee can avoid making lease payments in the renewal period by terminating the lease without causing a breach of contract.

We also believe the tentative definition of a liability included in the current project update of the Conceptual Framework-Elements and Recognition, would indicate that the obligation related to the lease renewal period does not meet the criteria of a liability. While we understand this project is still in process and not final, the boards' conclusions as described above indicate that they do not expect the definitions in this project to change from the current conceptual framework. The following tentative definition of a liability from the project update is as follows: "A liability of an entity is a present economic obligation for which the entity is the obligor". The project update also clarifies this tentative definition with the following (underlining added): "Present means that on the date of the financial statements both the economic obligation exists and the entity is the obligor. An economic obligation is an unconditional promise or other requirement to provide or forgo economic resources, including through risk protection". We believe a renewal option is not an "unconditional promise" and therefore is not a liability.

We acknowledge the tentative definition of an asset in the project update of the Conceptual Framework could result in the conclusion that a right of use asset exists for the renewal periods based on the provisions in the ED. We believe the boards should resolve the inconsistencies in these definitions as they move forward with that project, and consider how it will affect the proposed lease ED.

Structuring of Transactions

We understand there may be some concern regarding the ability to structure transactions if renewal periods are not included in the lease term definition. We believe most independent parties to a lease transaction will negotiate the lease on an arm's length basis to meet each party's economic objectives rather than to structure the lease to avoid accounting for the substance of the transaction. For example, if two independent parties desire to enter into a 5 year lease with the possibility of extending it up to 20

years, we believe the parties would be willing to modify the number of renewal periods within a reasonable limit that recognizes the economic risks and rewards each party is willing to accept. In this situation, we believe a lease structure for a 5 year minimum period, with three 5 year renewals, might be considered reasonable by the parties, however, we do not believe two independent parties would enter into an arm's length one year lease term with 19 one year renewals at the same annual lease rent. Under the latter situation, the economic risks to the parties are very different and assuming it is on an arm's length basis, the pricing would reflect those differences.

We also understand that there may be situations where a renewal option would need to be considered as part of the lease term, for example, if there is an economic penalty to the lessee to terminate the lease early. We have addressed this type of situation in our proposed lease term definition.

Our concerns are primarily focused on lessees, since we believe many lessors will conclude to use the contractual term under the ED, however, we believe the suggested alternative would also apply to lessors.

For all of the reasons described above we do not agree with the current lease term definition and suggest the following alternative, which is based on the existing US GAAP definition with some modifications.

The lease term is defined as the minimum contractual term of the lease, plus any periods which contain either a significant barrier to canceling the lease or a significant incentive to retain the lease, such that renewal appears more likely than not at the inception of the lease. Factors that should be considered in evaluating the lease term may include the following:

- 1. Significant legal barriers or financial penalties that would result with exiting the lease
- 2. The existence of loans, guarantees, or other relationships between the lessee and the lessor
- 3. For the lessee any renewal periods which are at the lessor's option

In addition, we recommend disclosures of cash flows required under the contractual lease term definition above, and disclosures of potential cash flows for any periods not included in the minimum contractual lease term, but subject to renewal or cancellation provisions. We also recommend disclosures of contingent rents that management is able to reliably estimate and the terms of other contingent arrangements that management cannot reliably estimate the contingent rent payments and the circumstances why such estimates cannot be made.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual 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?

We believe there are likely some contingent rent arrangements where the lessee can reasonably estimate contingent rents, however, we are concerned about the lessee's ability to estimate contingent rents in all situations, for example in the retail industry where rents often include a contingent element based on sales. Using contingent rents based on sales as an example, we believe many entities may be able to budget and forecast the next fiscal year's sales within a reasonable range, however, periods beyond that would be subject to even more variation, and each year into the future would be subject to significant variation, such that it does not seem reasonable that amounts, 3, 5 or 15 years in the future could be reliably measured. Therefore, we recommend that lessees should only include contingent rents if they can be reliably measured. We recommend the reliably measured criteria should also apply to term option penalties and residual value guarantees.

We also believe that should the boards retain the proposed lease term definition (the longest possible term that is more likely than not to occur) that it would add to the difficulty in predicting and measuring reliable future contingent amounts, and further support the concept that lessees should be allowed the same exception as lessors; that is to only include contingent rents when they can be reliably measured.

We understand there may be some concern that if estimated contingent rents are not included in the lease payment definition that leases may be structured to be all or mostly all contingent in order to avoid recognizing lease assets and liabilities in the balance sheet. For similar reasons described in response to Question 8, we believe it is unlikely that independent entities will enter into arms length transactions to avoid lease accounting rules using 100% contingent rents. Such structures would create significantly different economic risks and rewards to the parties to the lease.

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 reliably measured? Why or why not?

We agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees when they can be reliably measured.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts and 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 options 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 agree with the boards' proposal regarding reassessment only if there are changes in facts and circumstances that indicate there is a significant change in the lease asset or liability, however, consistent with our views described in Question 9, we believe there will be frequent reassessments especially as it relates to contingent rents. We also believe this may result in the reassessment occurring almost every reporting period since actual results will almost always be different than projected. This situation will be further exasperated if the boards retain the proposed lease term definition. If the boards retain the lease term and payment definitions currently in the proposed ED, we recommend including additional guidance and examples of circumstances that result in a significant change to the lease asset or liability, and specifically address contingent rents based on sales in a retail situation.

Question 11: Sale and leaseback

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 as proposed. We believe that the proposed guidance contained in paragraphs 66 - 69, B9, B10 and B31 is consistent with the notion a sale has only occurred when the seller transfers to the buyer control of the entire asset and all but a trivial amount of the risks and benefits associated with the entire underlying asset.

Question 12: Statement of financial position

- (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, but separately from assets that the lessee does not lease (paragraphs 25, and BC143-BC145)? Why or why not? If not, what do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you disclose and why?
- (b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, right 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, BC 148 and

BC 149)? 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?

- (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, BC 154 and BC 155)? 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?
- (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?

We commend the boards for recognizing that information regarding leasing activities should be presented more transparently in the financial statements, based on the requirements set forth in this proposed guidance as well as those set forth in the FASB's proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. However, we are concerned that the statement of financial position would become unnecessarily cumbersome to prepare and difficult for many users to understand if the proposed presentation requirements were included in a final standard. We believe that it would be preferable to allow such information to be presented in the notes to the financial statements as opposed to only in the statement of financial position.

Question 13: Income Statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC152, BC 157 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?

Consistent with our response to Question 12 (a)-(d), we believe that separate presentation of such activity in the income statement is unnecessary and that a lessee should be allowed to disclose such information in the notes as well.

Question 14: Statement of Cash Flows

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?

Consistent with our response to Question 12 (a)-(d), we believe that separate presentation of such activity in the statement of cash flows is unnecessary and that a lessee should be allowed to disclose such information in the notes as well. In addition, paragraph 27 provides that lessees shall classify cash payments for leases as financing activities in the statement of cash flows. It is unclear if this means that all cash flows (both principal and interest) should be included as a financing activity which would be inconsistent with how cash flows related to interest for other debt obligations are currently presented.

Question 15: Disclosure

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?

We agree with the boards' decision to require the disclosure of quantitative and qualitative information that provides increased transparency with respect to the amounts recognized in the financial statements arising from leases as well as how leases may affect the amount, timing and uncertainty of an entity's future cash flows. However, we believe clarification is needed with respect to the following:

- 1. Paragraph 84 of the exposure document states "An entity shall disclose information in accordance with the proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)", however, paragraph 4i of this proposed Accounting Standards Update specifically excludes from its scope financial assets or liabilities pertaining to a lease that is within the scope of Topic 840 on leases. It is unclear what specific disclosures the boards intend by referring to the other exposure document.
- 2. Paragraphs 85 and 86 of the exposure document require the presentation, by both lessor and lessees, of a maturity analysis that shows cash flows relating to either the right to receive lease payments (lessor) and the liabilities to make lease payments (lessee) undiscounted on an annual basis for the first five years and a total of the amounts for the remaining years". It is unclear if this analysis should be presented on a contractual basis or based on the lease term as determined by either the lessor or the lessee, as applicable. It is also unclear how future contingent rentals should be presented in the maturity analysis.
- 3. Given the extent of the new disclosures, as well as the matters presented in our response to this question, we recommend providing a robust example of the application of the proposed disclosure requirements from the standpoints of both a lessor and lessee. We further suggest that such examples provide the basis for how the amounts are derived. For instance, the example disclosure contained in paragraph B28 of the ED provides an example of determining lease term when the assessed lease term decreases though it does not provide support for how the lease term was determined.
- 4. In the proposal, lessor and lessee disclosures are presented together. We believe that separate presentation of lessor and lessee disclosure requirements would provide increased clarity.

Question 16: Transition

(a) This 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?

We agree with the boards' decision to require a simplified retrospective approach for transition to the lease requirements contained in this proposed standard.

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

We agree with the boards' belief that the costs of a fully retrospective approach, which would require entities to calculate the carrying amounts of all outstanding leases as if those leases had always been accounted for in accordance with the proposed requirements, would be excessive and that the benefits provided by the information obtained by doing so would not outweigh those costs.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Sale and Leaseback Transactions

ASC Topic 840 requires the seller-lessee to defer any profit realized from the sale of the property subject to the sale and leaseback under certain circumstances. It is unclear how any remaining deferred profit related to pre-existing sale and leaseback transactions would be accounted for at transition. For example, it is not clear whether the deferred profit should be recognized in the income statement at transition, whether it should continue to be deferred, or whether it should be recognized as an adjustment to retained earnings consistent with impairment.

Question 17: Benefits and costs

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 believe that preparers of financial statements would be in the best position to respond to this question.

Question 18: Other comments

Do you have any other comments on the proposals?

We have the following additional other comments on the proposals:

Initial Direct Costs

Paragraph B14 defines the types of initial direct costs that a lessee is required to record as part of the cost of the right-of-use asset. While these costs are generally consistent with the costs a lessor would consider under current US GAAP, they are not consistent with current US GAAP as it relates to the acquisition of property and equipment, which is silent on the types of costs that may be capitalized, or costs incurred related to business combinations, which are required to be expensed. We believe the guidance for initial direct costs should be the same whether a company purchases an asset or enters into a lease for a right-to-use asset. We also believe the boards should explain in the basis for conclusions why the accounting for these types of costs differs from costs incurred in a business combination.

Right to Receive Lease Payments

Paragraphs 33 and 34 requires a lessor to recognize an asset for the right to receive lease payments by estimating the lease term, which includes renewal options that in many cases are at the option of the lessee, not the lessor. We believe the lessor does not have a right to receive lease payments beyond the contractual minimum term, until the lessee exercises its option. Therefore, assuming the boards retain the current lease term definition, we recommend changing the reference from "the right to receive lease payments" to "estimated lease payments", as the lessor does not always have the right as of the measurement or reassessment dates.

Lease Arrangements Involving a Construction Period

It is not clear how build-to-suit lease arrangements and other leases involving construction are addressed in the ED. Specifically, it is not clear how construction period lease payments or rental expense incurred during the construction period should be accounted for. We suggest that the boards consider incorporating the concepts currently contained in ASC Topic 840-20-25 into the final leasing standard.

Implementation Guidance

We believe it would be very helpful to illustrate some common lease examples in the implementation guidance. For example, guidance would be useful for leases based on changes in the consumer price index, contingent rents based on sales, and reassessments evaluations in both those situations.

Question 19: Non-public entities

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 believe the proposed guidance should be applicable to all companies that engage in leasing transactions. However, we believe non-public entities often benefit from the implementation experience of public entities and therefore recommend a delayed effective date for non-public entities for at least one year after the effective date for public entities.