FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
TELEPHONE (850) 224-2727 • FAX (850) 222-8190

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Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via e-mail: director@fasb.org

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FASB Proposed Accounting Standards Update: Leases *(Topic 840)*

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the "Committee") has reviewed and discussed the above Proposed Accounting Standards Update (the "Update"). We appreciate the opportunity to respond to the Update. Our comments are outlined below. These comments specifically relate to the Questions for Respondents and an additional comment on a specific question's topic.

The Accounting Model

1. (a) On this issue, the committee is split. Most members agree that a lessee should recognize a right-of-use asset and a liability; however, there is a concern that there is too much subjectivity in measuring these assets and liabilities. There is a concern that the measurement is subjective and that there will be a significant amount of disparity in practice.

   (b) Yes. The right-of-use asset should be amortized as this practice is consistent with the accounting for intangible assets with a finite life. Interest should be recognized on the liability as the right-of-use asset under this proposal is considered to be acquired with borrowed funds.

2. (a) Yes. We agree that the lessor should apply 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 the derecognition approach otherwise.

   (b) Yes. We agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting.

   (c) Yes. We agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP.

3. Yes. We agree that a lessee or a lessor should account for short-term leases under the proposed simplified requirements.

Definition of a Lease

4. (a) Yes. We believe that a lease has been defined appropriately.

   (b) Yes. We agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale.

   (c) Yes. We think that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient.

Scope

5. Yes, as there already is specific accounting guidance for the areas excluded from the proposed scope.

6. We believe the FASB and the IASB need to provide examples as to how this would be treated separately under the performance approach and the derecognition approach. It is our belief that service components are either distinct or not. We could not think of a situation where they would not be distinct.

7. We agree that a lessee or a lessor should account for purchase options only when they are exercised as there is no longer a lease in effect when the option is exercised.

Measurement

8. Yes. We believe that language should be added to state that the lease term should be the longest possible term that is more likely than not to occur taking into account the effects of any options to extend or terminate the lease based on “historical experience”. In adding this language, we feel that historical experience often provides insight into future actions.

9. We believe that if we are using the “more likely than not” criteria, than we should include everything that meets that threshold as opposed to using an expected outcome technique such as probability analysis. We believe that lessors and lessees should apply the same “more likely than not” criteria so that there is a consistent application.

10. Yes. We agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in the 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).

Sale and Leaseback

11. Yes. We agree that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases.

Presentation

12. (a) Yes. We agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-to-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease.

    (b) Yes. The presentation presents the information in a way that discloses that the lessor continues to own the leased asset. In addition, the linked presentation avoids the overstatement of total assets and liabilities in the statement of financial position.

    (c) Yes. We 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.

    (d) No, unless there is a concentration in the value of the subleases.

13. We belief that the current practice in the presentation of lease income and lease expense is appropriate.

14. It is our belief that the cash flows arising from leases should be presented separately in the statement of cash flows from other cash flows if the amounts are significant.

Disclosure

15. Yes. We believe that because of the subjectivity contained in this exposure draft, that information regarding the underlying assumptions that were used to measure the right-of-use assets and liabilities should be disclosed.

Transition

16. (a) Yes. We belief that the simplified approach will be less cumbersome than the full retrospective approach.

    (b) Yes. It is our belief that in specific instances, it might be appropriate for a company to present information under a full retrospective application.

    (c) We belief the implementation of the proposed guidance will be both costly and timely. As a result of this, we feel that sufficient time should be given to allow for compliance.

Benefits and Costs

17. It is our belief that the benefits do not outweigh the costs. We suggest that consideration be given to applying the guidance only to new leases and to apply the standard on a prospective basis. Even though we understand that concerns of the comparability of information under this approach, it is our belief that in applying the simplified retrospective approach, the costs in the year of implementation will be significant to many private companies and will greatly outweigh the benefits to the limited users of these financials.

Other Comments

18. It is our belief that with the proposed Exposure Draft a significant inconsistency will exist as contingencies under the proposed guidance will be treated differently than they are in current practice under Statement No. 5, Accounting for Contingencies (ASC 410-50-05-5). ASC 410-50-05-5 states that a contingency is to be accrued using "probable" as the criteria for when to recognize a liability. With the proposed guidance, the recognition for contingent rentals is based on a "more likely than not" threshold.

Non-public Entities

19. We propose that there be an option for not-for-profit organizations to elect to be excluded from the requirements. We also recommend that there be an exception in the proposed guidance on donated leases.

Again, the Committee appreciates this opportunity to share its views and comments on the Draft. Members of the Committee are available to discuss any questions you may have regarding this communication.

Sincerely,

Steven Wm. Bierbrunner, CPA Chair
FICPA Accounting Principles and Auditing Standards Committee

Committee Members Coordinating this Response:
Yanick J. Michel, CPA
Joshua Rader, CPA
Laura A. Prevratil, CPA,CFE