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Technical Director
File Reference No. 2013-270
FASB
401 Merritt 7
P.O. Box 5116
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Dear Technical Director:

Thank you for allowing us to comment on the proposed accounting standards update on leases. We appreciate the effort of both the FASB and IASB as you work towards improving and converging accounting rules. Below are our comments on the proposed standard.

Identifying a Lease

We agree with the proposed definition of a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time." We also agree with the clarification of this definition to mean having the right to control the use of a specifically identified asset.

Lessee Accounting and Classification of Leases

We do not agree with the approach set forth to classify leases differently based on the expected consumption of the economic benefits of the underlying asset. One of the key reasons for the Board to undertake this project was to eliminate the perceived inconsistencies in how leases are accounted for under current accounting standards. This proposal fails to accomplish this objective, and instead merely replaces the current two-model approach with a different two-model approach. Consistency is not achieved, and in fact, the new inconsistencies that will be created by this proposal will only add to the level of confusion around leases.

The proposal requires nearly all leases (except for short-term leases) to be recognized on the balance sheet. The liability created is handled similarly regardless of whether the lease is Type A or Type B. The right-of-use asset, however, is not handled the same. The asset in a Type A lease is amortized on a straight-line basis, consistent with the economic benefit received by the lessee. Under a Type B lease, in order to straight-line the overall lease expense, the asset is amortized in such a way that the amortization expense is smaller in early periods and increases over time. Thus, the carrying value of the asset is tied to the recognition of the financing costs on the liability, and is higher

in the early periods of the lease. The problem with this is that this amortization pattern does not reflect the underlying economics of the asset, and the subsequent measurement of the asset should be computed independently of the liability.

The proposed standard will also increase confusion on the income statement. Type A leases will be recognized on the income statement as amortization expense and interest expense, which is consistent with the balance sheet presentation for these leases. Type B leases, however, will be recognized on the income statement as rent expense. Users of financial statements would expect to see amortization expense and interest expense based on how these leases are presented on the balance sheet. In particular, it seems highly irregular to record a financial liability and to recognize the related financing costs in any other line except interest expense.

The proposed method of amortization for Type B leases also seems to be currently prohibited in U.S. GAAP. In Paragraph BC36, the Board describes interest-based amortization in which the asset is amortized taking into account the time value of money. This method would result in amortization expense increasing over the lease term. By having the amount of amortization expense recorded each period dependent upon the amount of interest recognized on the liability, the Board is in essence proposing the interest-based amortization method. As is pointed out in Paragraph BC36a.1., this method of amortization is currently prohibited.

The proposed classification of leases will also add to the complexity around accounting for leases. Having two different approaches to assess leases (property vs. not property) will introduce confusion into the process for financial statement preparers. Uncertainty and subjectivity will also be introduced in assessing the new criteria with undefined terms ("insignificant," "major part," "substantially all"). This added complexity, uncertainty and subjectivity will increase the effort needed to be put forth by companies to ensure accurate and consistent financial reporting.

Lease Term

We agree with the proposal on lease term. Renewal options should not be considered part of the term unless it is reasonably certain that the option will be exercised, which we believe the Board addresses by only including options if a significant incentive exists.

Disclosure

We believe the current lease disclosure rules (required lease payments for the next five years) to be adequate, while the new proposed disclosures seem excessive. Narrative disclosures about leases proposed in 842-20-50-3 could become very burdensome and overwhelming when you consider the large number and types of leases that many companies have. All leases are different and have varying terms and conditions. To disclose information about the nature of all these leases could require a very lengthy, and arguably meaningless, disclosure. Also, a reconciliation of the lease

liability seems unnecessary and unusual, as it is not required for any other financial liabilities. We believe that future required cash payments is of primary importance to users of financial statements, and that information is currently disclosed in financial reports today. Adding all the proposed disclosures will only serve to increase the volume of disclosures and hide the truly meaningful information.

Related Party Leases

Generally, we agree that different recognition, measurement and disclosure requirements are not necessary for related party leases. For Type B leases, however, the proposed differences in accounting by lessees and lessors appears to create a problem if the related parties are part of the same consolidated entity. Proposed accounting for Type B leases would result in the underlying asset being recorded on both the financial statements of the lessee and lessor, creating additional complexity and issues when consolidating these entities.

Cost/Benefit Analysis

We believe the cost of implementing, as well as the ongoing compliance, of this proposed standard to far exceed any perceived benefits. As mentioned above, the most important information for financial statement users is the future cash payments required under current leases. This information is provided under current standards. Requiring all leases to be recognized on the balance sheet adds little value. All leases are different and all users think about the impact of leases differently. There is no one way to handle leases that will satisfy everyone's needs. This proposed standard will add complexity and confuse users because it will require them to understand a great deal more information in order to properly adjust the numbers for their respective purposes.

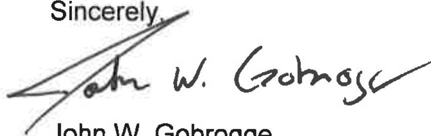
On the other side, this proposal will require a tremendous amount of time, effort and cost for all companies to implement. This includes:

- accumulation and analysis of all existing lease agreements;
- additional effort going forward to analyze and record new leases;
- implementation of new software (which has not yet been developed) to track all leases and perform necessary calculations;
- changes to existing accounting structure and processes;
- increased audit effort;
- implementation/maintenance/testing of new internal control structure;
- changes to existing debt covenants and other legal documents; and
- education of internal and external parties.

The cost of these items will be very large, both in terms of dollars and effort required. This proposed standard will also have a negative impact on companies as it will distract them from the more important task of running the business. This all seems a high price to pay for limited, if any, benefit. Ultimately, we believe that most users of financial statements have models that allow them to handle leases appropriately for their respective needs. This proposed standard will not benefit these users, but will instead require them to change their existing models, only adding to the overall cost of implementing this proposal with no additional benefit.

Again, we thank you for considering our comments and trust they will be addressed as you redeliberate this proposed standard.

Sincerely,



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