

June 26, 2013

Ms. Leslie Seidman  
Chairman  
Financial Accounting Standards Board  
301 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-05116

The Honorable Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
United Kingdom

**Re: Leases (FASB Project 2013-270, Accounting Standards Update Topic 842)**

Dear Chairmen Seidman and Hoogervorst

Our organizations represent all sectors of the global economy and speak for businesses that employ tens of millions of workers world-wide. As such, we recognize that accurate and transparent financial reporting is a cornerstone of our world-wide and domestic capital markets.

First, we would like to thank both the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) for the continuous dialogue during the development of the proposed exposure draft on leases, **Leases (FASB Project 2013-270, Accounting Standards Update Topic 842)**, (“proposed leasing standard”). We will collectively and individually submit comments with the FASB and IASB on the proposed leasing standard.

However, we must submit for the record our distress that the proposed leasing standard fails to address the questions and concerns we have raised. Based upon our initial review, we believe that the proposed leasing standard has not been developed in accordance with the principles we thought necessary to address those concerns. In its current state, it is our opinion that the proposed leasing standard may result in substantial costs to businesses, lack any benefits for investors and drive economic activity rather than reflect it.

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Accordingly, we know that the proposed leasing standard does not represent a final decision by FASB and IASB and would like to meet with you to discuss our apprehensions and to explore the possibility that the proposed leasing standard be revised to resolve them. If our concerns cannot be addressed, then it is our belief that the proposed leasing standard should not be finalized.

### **Issues with the Proposed Leasing Standard**

Collectively, we have written to FASB and IASB, to raise our concerns on the proposed leasing standard, on December 8, 2010, May 26, 2011, July 8, 2011, April 26, 2012, and September 10, 2012.

In these communications, we outlined a set of concerns and flaws that needed to be addressed in the lease accounting proposals:

- The potential breach of loan covenants and contractual arrangements and loss of cost reimbursement for rent in contractual arrangements that are based on current U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) as well as overall changes to credit underwriting requirements;
- Complicated recognition and presentation requirements that mask true economic activity and do not reflect the value of a contract;
- Adverse impact to capital of banks, during the ongoing financial crisis, due to both lessee and lessor accounting changes;
- Adverse impact on the ability of businesses to borrow, the cost of leases, and capital formation;
- Adverse impact on equipment and real property valuations, with consequential impact on lenders, especially the already fragile banking sector;
- Front-ended lessee cost patterns that do not reflect true economic activity;

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- Differing recognition of assets and liabilities creating mismatches that do not reflect the value of a contract for lessors;
- Rules that are not consistent for lessors and lessees;
- Inequitable treatment of executory costs for lessors and lessees;
- Requirements to forecast and record future events and contingencies that are unique to leases, dependent upon unpredictable changes in the economic environment, and not aligned with existing U.S. GAAP requirements;
- Unknown implementation costs, including the need for costly implementation of new accounting systems, as well as ongoing compliance costs; and
- Changes in behavioral actions that will depress commercial real estate values, as well as a de facto prohibition of accepted business activities including permissible allowable cost reimbursements allowed under contractual obligations and government regulations.

To address these concerns we outlined a set of principles for an effective leasing standard:

- **New lease accounting standards must reflect economic activity, not drive it;**
- **New lease accounting standards must permit financial statements to represent the true effect of lease transactions;**
- **New lease accounting standards should not raise the cost of capital or unnecessarily create adverse impacts upon financial statements;**

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- **FASB and IASB should ensure that the benefits of revised rules outweigh the costs;**
- **New lease accounting standards must take into account non-accounting issues, such as contractual obligations, industry related practices, and potential regulatory environments, to truly represent lease transactions;**
- **To ensure accuracy, lease accounting standards should be consistent for the lessor and lessee; and**
- **Standard-setters should transparently identify the investor interests and needs they seek to address.**

We appreciate that the FASB and IASB have made changes over the course of time to address some of the issues we have raised and the resulting revised exposure draft is improved as a result. Nonetheless, we believe the latest proposed leasing standard does not adhere to the principles that we believe necessary for the standard to be finalized. We believe the proposed leasing standard will increase complexity, drive economic activity rather than reflect it and will create adverse unintended consequences and pressures upon financial reporting systems. Further, the proposed leasing standard will not result in more decision-useful information compared to that currently available.

### **Due Process Concerns**

The broad implications and ramifications of the proposed leasing standard will impact many different industries and business models. As we have written before, this will require a thorough vetting process, specifically the identification of investor interests the proposal seeks to address, a robust cost-benefit analysis published for review and comment and a comprehensive pre-implementation review through field testing.

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These issues go to the core of the lease accounting project and remain unanswered for some industries years into the project. In short, we believe that these process concerns must be met before stakeholders can provide informed commentary on the proposed lease standard, and before it is finalized by the FASB and IASB. Recent statements by investors that the proposed leasing standard does not provide any additional useful information over what exists under current standards highlights potential lack of understanding of investor needs and the absence of a benefit.

In her speech concerning the collaboration of the FASB and IASB on new standards, delivered December 6, 2011, FASB Chairman Seidman stated that “robust due process” and “a considered cost-benefit analysis” will be required in adopting future standards. However, we have reason to be concerned that this commitment has not yet been matched by an announced schedule of public roundtables, cost-benefit analysis, and field testing. Moreover, on the FASB’s website, under the heading “Cost-Benefit Analysis,” appears this statement:

#### **A CASE IN POINT—ACCOUNTING FOR LEASE TRANSACTIONS**

**As noted above, accounting standards are not intended to drive behavior in a particular way; rather, they seek to present financial information so that financial statement users can make informed decisions about how to best deploy their capital. For example, the FASB currently is engaged in a joint project with the International Accounting Standards Board (IASB) to improve financial reporting about leases.**

**The project was added to the Boards’ joint agenda in response to feedback from investors and other financial statement users concerned about the lack of transparency relating to material lease obligations that today are not included on the balance sheet. While some industries have argued that increased transparency about lease obligations would potentially create a less favorable economic picture of certain**

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**companies, the objective of the proposed standard is to provide a fair and complete representation of the obligations and rights of a company. The purpose of our due process is to determine the appropriate representation of the economic phenomena; investors may view the new information favorably or unfavorably and that is the expected consequence of neutral information. The Boards will carefully consider the feedback received about the proposed changes to lease accounting before a final standard is issued.**

We have read the commentary that was submitted in connection with the last Exposure Draft, and believe this statement on the FASB website to be a mischaracterization of the record. It is inaccurate for FASB to assert that concerns about the cost of the proposed leases standard reduce merely to industry claims that “increased transparency about lease obligations would potentially create a less favorable economic picture of certain companies.” FASB and IASB have acknowledged that an entire category of leases—real estate leases—are generally not disguised financings but genuine economic and business choices, and thus not pretextual attempts to dress up a balance sheet. We believe this is also the case for many lease transactions that do not involve real estate. Yet the outsized costs of the proposal, which have been documented by voluminous comment letters, are not even acknowledged in the foregoing passage, nor have they thus far been addressed by the Boards in any serious way.

For these reasons, we respectfully request that FASB adhere to its own norms by providing the following assurances of adequate due process and cost benefit analysis:

- 1. Clearly identify the specific investor groups and users of financial statements that FASB and IASB believes it is serving in the current lease accounting proposal;**
- 2. Provide the opportunity for investor groups and users of financial statements to participate in at least two rounds of public roundtables**

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**devoted to substantive discussion of the recently released Exposure Draft;**

- 3. Conduct and publish a robust cost-benefit analysis of the proposal;**
- 4. Commit to field testing of the proposal prior to its finalization, to ensure that the cost-benefit analysis is rooted in reality.**

### **Conclusion**

Once again, thank you for the work done by the staffs of FASB and IASB, as well as the continuous dialogue both Boards have engaged in with our Associations during the consideration of this project. However, we have substantial concerns regarding the need for the proposed leasing standard, the process used to develop the proposed leasing standard, as well as concerns about the proposal itself.

We look forward to discussing our concerns with you further.

Sincerely,

American Financial Services Association  
American Trucking Association  
Associated Builders & Contractors, Inc.  
Associated Equipment Distributors  
Association for Financial Professionals  
Australian Equipment Lessors Association  
Australian Fleet Lessors Association  
Barnert Associates, Inc.  
Building Owners and Managers Association  
International (BOMA)  
CCIM Institute  
Equipment Leasing and Finance Association  
Food Marketing Institute

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The Inland Real Estate Group of Companies, Inc.  
Institute of Real Estate Management  
International Council of Shopping Centers  
NAIOP, Commercial Real Estate Development  
Association  
National Association of REALTORS®  
National Business Aviation Association  
National Electrical Contractors Association  
National Parking Association  
National Restaurant Association  
National Retail Federation  
National Roofing Contractors Association  
Property Casualty Insurers Association of America  
Real Estate Board of New York  
REALTORS® Land Institute  
Society of Industrial and Office REALTORS®  
The Financial Services Roundtable  
The Real Estate Roundtable  
Truck Renting and Leasing Association  
U.S. Chamber of Commerce

Cc: Mr. Russ Golden, Chairman Designate, Financial Accounting Standards Board  
Mr. Paul Beswick, Chief Accountant, U.S. Securities and Exchange  
Commission