WASHINGTON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

September 12, 2013

Via Email (director@fasb.org)

File reference No.: 2013-270

Dear Technical Director:

This correspondence is intended to respond to your invitation to comment regarding the Proposed Accounting Standards Update (Revised) on Leases (Topic 842), a revision of the 2010 proposed Financial Accounting Standards Board (FASB) Accounting Standards Update, Leases (Topic 840).

This response is being issued by the Accounting, Auditing, and Review Standards Committee of the Washington Society of Certified Public Accountants. The members of the committee represent CPAs in public practice, private practice, and governmental practice. The majority of the committee members in public practice are with medium to small public accounting firms that specialize in privately held enterprises. Our members involved with private companies range from small businesses to Fortune 500 companies and not-for-profit organizations. Generally, all committee members would fall into the financial statement preparer category.

Our committee represents the Society's at large membership for which the majority of the members are CPAs in public and private practice in medium to smaller firms. While the Society does have members that practice in Big 4 accounting firms, we are presuming those firms will be issuing their own comment letters.

Our response is organized in the same sequence as the Invitation to Comment.

Question 1: Identifying a Lease

This revised Exposure Draft defines a lease as —a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. An entity would determine whether a contract contains a lease by assessing whether:

1. Fulfillment of the contract depends on the use of an identified asset.
2. The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset. Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

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The Board's definition of a lease is clear and concise. We are not aware of specific fact patterns which would make the definition of a lease difficult to apply or lead to a conclusion that does not reflect the economics of the transaction.

Question 2: Lessee Accounting

Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

We understand the Board's proposal for recognition, measurement, and presentation of expenses and cash flows arising from a lease should be different for Type A and Type B leases. However, there are alternative methods to achieve the desired result without complicated accounting and records. The depreciation methods can vary depending on the type of lease and provide consistency with the accounting. This would eliminate the need to recalculate the present value on varying interest payments throughout the life of the leased asset.

Question 3: Lessor Accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

As noted above, we understand the Board's proposal for recognition, measurement, and presentation of expenses and cash flows arising from a lease should be different for Type A and Type B leases. The separation of the residual asset and the receivable adds complexity to impairment testing.

Question 4: Classification of Leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

We understand the principle of separating Type A and Type B classification, however it will be difficult to assess whether leases involve consumption of a more than insignificant part of the underlying asset. Inconsistent classification may result due to different assessments of "more than insignificant". The standard should include clear guidelines and definitions of "more than insignificant" similar to the original FAS 13 definitions.

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Question 5: Lease Term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

We do agree with the proposal of lease terms as it appears to appropriately identify the specific arrangement that was agreed upon by the two parties in the contractual agreement.

Question 6: Variable Lease Payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

We agree with the measurement of the variable lease payments as it appears to be capturing changes in the economic environment and it's affect on the asset or liability placed on the books of the entities.

Question 7: Transition

Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the Boards should consider? If yes, what are they and why?

The various transition approaches appear to have been a bit buried into paragraphs BC299 etc. The Board has taken away the prospective application option and provided us the 'break' of the Modified Retrospective Method (MRM) as an option to the Full Retrospective method. The MRM allows you to use information available at the date of transition. We believe that either option will result in a lot of work for companies and their auditors. We suggest additional carve-outs of allowing use of the prospective method alone for private companies that are over a specified scope and are not engaged in the leasing business.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures

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about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why***?***

We believe the additional disclosure requirements are relevant for users of public companies and of leasing/financial company financial statements. We do not believe the additional information would be generally be utilized by users of smaller company financial statements. The Board needs to consider the cost/benefit of the additional detailed disclosures and their relevance to financial statement users.

Question 9: Nonpublic Entities (FASB Only)

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

1. To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.
2. To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

We believe the specified reliefs for nonpublic entities would give them the option to determine for themselves if it would reduce the cost without unduly sacrificing information necessary for the users. Most users of nonpublic entities typically have a more in depth knowledge of the client and gather the necessary information needed to make informed decisions.

Question 10: (FASB Only)

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

It may be necessary to provide different recognition and measurement requirements, since the terms and conditions can be changed without possible consequences to the related party. Thus unless the related party can show a history of arm length with the lease in question perhaps listing the full lease for its economic substance as a current liability, much like a shareholder loan makes more sense.

Question 11: (FASB Only)

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Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

The Committee agrees that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party lease transactions.

Question 12: Consequential Amendments to IAS 40 (IASB Only)

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40, Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

We agree the right-of-use asset model should be within the scope of IAS 40 if the leased property meets the definition of investment property. This will improve consistency for reporting of investment properties.

The Committee appreciates this opportunity to respond to this Exposure Draft. Members of the Committee are available to discuss any questions or concerns raised by this response.

Respectfully submitted,
Via email

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