

September 12, 2013

Submitted via email: [director@fasb.org](mailto:director@fasb.org)

Technical Director, Financial Accounting Standards Board  
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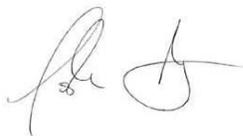
Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to comment on certain matters in the Proposed Accounting Standard Update (Revised) to Leases (Topic 842). The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

Overall, many of the members of the Missouri Society of CPAs feel this standard is unnecessary and significantly increases the costs of reporting for businesses, particularly privately-held businesses, without commensurate benefits. We generally agree with the proposed balance sheet accounting of the standard, but we believe the expense (lessee) and income (lessor) recognition patterns create unnecessary complexity. We would urge the Board to give consideration to significantly simplify these provisions for privately-held businesses more than what is currently proposed in the exposure draft. We would also like to request a differential (delayed) effective date of this standard for privately-held entities of at least one year.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Josh Ayers, TIG Chairman ([jayers@stonecarlie.com](mailto:jayers@stonecarlie.com)).

Sincerely,



Joshua A. Ayers, CPA  
TIG Chairman



Mark G. Hinsén, CPA  
Project Leader

The following responses address the questions for respondents:

**Question 1: Identifying a Lease**

Overall, we agree with the definition of a lease. We feel this definition correctly defines the substance of the majority of lease transactions.

**Question 2: Lessee Accounting**

We generally agree with the proposed balance sheet accounting of recognizing a right-to-use asset and lease liability for the lessee. However, we don't believe the distinction in expense recognition patterns between Type A and Type B leases are necessary unless ownership of the underlying asset is actually transferred. The "front loading" of expense on a Type A lease may not be reflective of the economic reality of the lease. We believe a straight line recognition of expenses should continue to be the appropriate recognition method for all types of leases as is reflected in the Type B model. We believe it is more representative of the economic reality of the transaction.

We do not agree with the Board's justification for the difference in expense pattern recognition as it is discussed in paragraphs BC46, BC47, BC51, and BC52. In supporting why there should be different expense recognition patterns, BC47 states that a lessor of an office building would not require recovery of any of its investment. BC51 states that a land element is inherent in a property lease and is a large proportion of the related lease payments. We do not believe either attribute should be assumed or applied to all leases to justify a different expense recognition pattern. Further, and more importantly, BC52 states that "equipment and vehicles are depreciating assets whose value not only declines over their economic lives but generally declines faster in the early years of their lives than in the later years." This statement is then used to support a conclusion that "a lessee will generally consume more than an insignificant portion of the economic benefits" in the underlying asset. We do not agree that the relationship between the value (or fair value) should be directly correlated with the consumption of the underlying asset by the lessee. The lessor, not the lessee, bears the risks and rewards of the changes in fair value and may not relate to the consumption or use of the underlying asset. These comments are meant to reinforce our view that a straight-line expense recognition pattern is more appropriate. As the Board notes in paragraph BC38, a single lessee accounting model "would be easy to understand and ... would reduce complexity by removing the need for a lease classification test and systems that could with two lessee accounting approaches," and we agree.

We are also concerned with the lack of a definition of an insignificant portion of the economic benefits of the underlying asset. This seems highly subjective, possibly prone to manipulation and difficult to audit. We believe this concept needs a more exact definition.

### **Question 3: Lessor Accounting**

We are concerned that the lessor accounting approach is too broad and may cause difficulty related to some specific industries. For example, the industry surrounding large truck leasing/rentals would seem to contradict this model. Based on our understanding of the exposure draft, we believe truck leases of this type would generally be classified as a Type A lease. Many leases in this industry include maintenance costs of the underlying asset. If the lessor is providing maintenance, should it really “derecognize” the asset at the inception of the lease? He will have an asset with some “value” remaining at the end of the lease term but a more than insignificant portion of the economic benefits will be consumed.

We also do not believe immediate profit recognition at the commencement of the lease is appropriate. It is not uncommon for a lease to be cancelled. What would the appropriate accounting be in this circumstance? We believe it would be more appropriate to recognize the profit over the term of the lease. This is more reflective of the economic substance of the transaction. When a lessor examines the economic benefit of the lease, he is looking at the benefit over the term of the lease not an “expected profit recognition” at inception.

### **Question 4: Classification Leases**

While we understand the classification criteria, please note our comments under Question 2. We believe there needs to be more exact definitions in this area.

### **Question 5: Lease Term**

Overall, we agree with the proposal on lease term. We believe additional implementation guidance and greater variety of examples in this area would be helpful.

### **Question 6: Variable Lease Payments**

We agree with the proposal regarding the measurement of variable lease payments including reassessment. We believe additional implementation guidance and more examples in this area would be helpful.

### **Question 7: Transition**

We agree with the transition proposals. We ask that you provide extensive implementation guidance. We would also ask that you consider the impact the implementation of this standard will have on accounting for income taxes. Including examples of the income tax effects in your implementation guidance would be helpful.

### **Question 8: Disclosure**

We agree with the requirement to disclose cash flows for the following five years plus the remaining amount. We, however, do NOT believe the reconciliation between this undiscounted disclosure and the discounted cash flows provides useful information. We believe the reconciliation between the discounted and undiscounted amounts will be difficult and time consuming to prepare. Given the limited value of the information provided users and the significant cost to be incurred by an organization, particularly one with several leases, the reconciliation requirement should be omitted from the standard.

**Question 9: Nonpublic Entities**

We appreciate FASB's consideration of nonpublic entities and their needs in its deliberations. While we understand the manner in which the utilization of a risk free discount rate may simplify the implementation of this standard, we are concerned that it could be misleading and prone to manipulation. Overall, utilization of a risk free rate does not significantly reduce the cost of complying with the measurement, reporting and disclosure requirements of this standard. While use of this rate would reduce the time spent developing a risk-adjusted discount, we do not feel this small time savings justifies the potential for supplying misleading information.

We do believe the exemption to provide a reconciliation of the opening and closing balances of the lease liability will help reduce the cost of implementing the new standard without sacrificing information necessary for the users of the financial statements.

**Question 10: Related Party Leases**

We agree that related party transactions should be reported based upon legally enforceable terms. It is too subjective and difficult to assess these transactions based upon economic substance. Most related party leases are related to a privately-held business owner purchasing a building and leasing said building to his privately-held business. A majority of these transactions are financed with bank financing. When these transactions are consummated, they are generally required to be supported by a realistic lease for the bank to provide financing. Thus, we feel that the majority of these transactions legal form will mirror economic substance in the areas that FASB is most concerned.

**Question 11: Related Party Leases**

We do not believe it is necessary to provide additional disclosures beyond those required in Topic 850. The required disclosures in Topic 850 are fairly broad, and we believe they will provide users of financial statements with the information they would require on related party leases.