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Financial Accounting Standards Board

We appreciate the opportunity to comment on the recent Re-Exposure Draft (RED) on lease accounting.

The ELEX Group, Inc. is a second generation independent leasing company that has been in the leasing industry for 40 years. As an independent lessor, we have focused on middle market lease transactions ranging from \$100K to \$2.0M. We provide a needed service for our customers and the business environment, and that is another source of capital to finance their needed capital equipment and grow their business. We are a stakeholder in all facets of the leasing industry. We are a lessor, a user and a lessee. Since we grant credit to our customers to acquire the necessary equipment to run their businesses, we need to analyze our customer's credit worthiness and financial position and therefore we are a user as well. We are also a lessee as we lease some of our office space and equipment to operate our business.

Over the last several years we have attended numerous conferences and meetings that reviewed the original ED and the most recent proposal on lease accounting. The general discussions have recently been centered on the complexity of the proposed regulations, the cost of compliance of the proposed regulations and the lack of benefit of this new proposal.

We do not support the Board's proposal because it isn't clear how users will benefit from the proposal and for the basic premise that the proposed changes will not result in an improvement to the financial information presented. The main purpose of this project was to present users of financial statements with more useful information than current lease accounting. While I agree with the general concept that a lease has an asset and liability component to it, I do not agree with the notion that recognizing this asset and liability on a lessee's balance sheet is an improvement over current lease accounting. As the proposal is written, how we get from recognizing the asset and liability on the balance sheet to how we account for this asset and liability is far too complex and has too much estimation and assumptions on the part of the lessee to provide meaningful information to the users.

As a user of financials statements I am mostly concerned with my customer's ability to re-pay their debts, therefore I am concerned about cash flow. We feel that if the proposed accounting changes were implemented, as a user and analyst, we would still have to make adjustments to a lessee's financial statement to understand the cash flow of a lessee and their ability to meet their obligations. So if we are still making adjustments to get to useful information that we as users need, what have we accomplished? The notion that current accounting rules require users to take an educated guess as to the leverage of a company isn't what is important. What is important to know as a reader / user of

financial statements is a company's cash flow. I would offer as an alternative to capitalization of the asset & liability of a lease, that more disclosure through the footnotes be required to disclose total lease debt. This will allow users who want to know what the total lease liabilities of a company are, to easily obtain this information.

In addition, the cost and complexity of the revised ED is far too great for the limited benefits it would provide to a user. The proposed accounting changes would drastically increase costs for the lessee to comply with these new regulations. Not only will there be increased cost for the lessee in the initial re-classification of existing leases or when a new lease is put on the books, but also the requirement of re-assessment and reclassifying each lease when there is a change at each new reporting period. This administrative burden will prove too costly for lessees and will create situations where management will make a cost / benefit analysis and either 1) make it a policy not to lease or 2) not diligently comply with the regulations (which would defeat the purpose of the ED).

The standard will not bring about significant improvements in the financial reporting to justify the cost and complexity of compliance to the new approach. There are several Board members who acknowledge the large volume of low value leases that will be affected. Board member Thomas Linsmeier was quoted as acknowledging that the proposed changes "will result in financial reporting by the lessee that is so complex that it will hinder the ability for investors to understand what is going on" (because there is not enough disclosure). Other FASB members have acknowledged that "we've created a very complex proposal that does not serve user's needs". Even Moody's Managing Director Mark LaMonte was quoted as saying he "wants to see it go away" because he doesn't feel the new rules will give investors a better understanding of a company's lease obligations. It is easier now he feels.

If the Boards continue down the path of requiring the assets and liabilities of leases to be brought on the balance sheet, I would recommend that an exception for all non-core lease assets or a materiality test be implemented. This will allow those lessees with insignificant lease amounts to not be burdened by the cost and complexity of compliance. While I acknowledge that a materiality test already exists in general accounting principles, I feel that the ED should provide specific testing requirements that define exclusion of non-core leased assets or a specific materiality test. Without a clear definition of a materiality test or non-core asset exclusion in the accounting regulations, lessees will still have to go through the analysis on every lease they have to determine if each lease is "not material" based on the criteria they have developed with their auditor. Having specific definitions within the regulations will allow lessees that have insignificant lease obligations to exempt them from bringing these lease obligations on the balance sheet and account for these as expense items.

Lease financing is utilized by many organizations because it provides an easy access to capital that allows business to acquire their necessary equipment to grow their business. The small business community is one of largest users of leasing. If the proposed model is implemented, we feel that many small businesses will no longer utilize leasing due to the cost and complexity of compliance. As an example, if we look at a typical small business that has a work force of 100 employees that leases their office equipment, furniture, computers, and or manufacturing equipment, this small business doesn't have the resources or manpower to analyze every lease they have to comply. However the total liabilities of their lease debt could equate to less than 1% of their total company liabilities. Without specifically defined non-core asset carve out or a well defined materiality test, the CFO will do a cost benefit analysis and when they realize the time and effort and cost for compliance they will rethink their leasing decision. There should be exceptions for these types of scenarios where the lease liabilities are an insignificant part of a company's overall debt.

We also feel that the proposed dual approach is flawed. The line that is drawn based on property and equipment leases to type A & B shouldn't be based on asset class. Our main issue with type A classification is still the notion of front loading of the expenses. We feel that all leases should be expensed on a straight line basis. The proposed accounting for a lease does not follow the cash. Readers of financial statements are more concerned with the cash obligations and the cash flow of a company, not the amortization of the ROU of an asset. If the Boards feel it is necessary to put all of the lease assets and liabilities on the balance sheet, then all leases should be treated as type B leases, where you have a level expensing model.

Another important part to us is how these proposed leasing rules will impact government contractors. Almost all government contractors utilize leasing, because under a qualified contract with the federal government, the full lease payment is a recoverable expense under their contract. Under the proposed accounting there will no longer be a "lease payment". The lessee will have a right of use asset and interest amortization component; therefore they will no longer have a recoverable expense under the terms of their contract.

Our biggest fear of these proposed accounting changes is that it will take away a valuable source of capital for companies. We feel that lessees will view the proposed changes as too burdensome, too costly and too complex that they will elect to no longer utilize leasing as a means to acquire their necessary equipment. They will elect to just do term loans. We have talked with many of our customers and lessees around the country and they share this same view.

The cost and complexity of the overall accounting will far outweigh the limited benefit of putting the lease asset and liability on the balance sheet. We feel the revised exposure draft as written will have a huge impact on the over \$600 Billion leasing industry. Companies lease for an ease of doing business and an easy access to another source of capital. The cost and complexity of the new accounting model will take this benefit away and drive customers away from leasing. The proposed accounting model will therefore have a large detrimental impact on the leasing industry.

Operationally, the cost for a lessee to manage their entire lease portfolio to comply with the proposed accounting standard will be a huge undertaking that will take thousands of hours and have dramatic cost increases for companies. In analyzing & discussing the proposed regulations with our constituents, the magnitude of what an enormous task this will be for lessees is being realized. As an example many larger organizations don't even know how many leases they have at their various locations throughout the world. Even though many of these leases will be insignificant to their overall debt obligations, they will be required to inventory and analyze each lease to determine the impact. In addition to each lease they need to inventory and analyze, they will also need to look at every service contract they have to determine if there is a lease component that is part of each service contract. This will require every customer to inventory every lease and service contract they have, which could be well over 20,000 – 40,000 transactions in many instances. After each organization has inventoried a complete list of all their leases and service contracts, they will then need to analyze the components of each individual transaction and break out that portion of the lease payment that is a service contract and the portion of the lease payment that is a "lease", so they can PV the lease portion and capitalize the asset and liability. Due to the lack of clarity on the definition on the part of what constitutes a lease and the amount of estimation on the part of the lessee, this will also create many instances where similar economic lease transactions are treated very differently from one lease to the next. This analysis will be a huge undertaking that will have significant cost for the lessees and at what benefit?

In summary we do not support the Board's proposal because it isn't clear how users will benefit from the proposal and for the basic premise that the proposed changes will not result in an improvement to the financial information presented. We feel that the new revised ED does not meet its primary objective and that is to create transparency for users of financial statements and simpler financials for a user to read. Due to the complexity of the reporting requirements and the multiple areas of interpretation on the lessee's part to capitalize the lease obligation, there is more confusion for lessees to comply and more opportunities for manipulation of the accounting treatment. All of these concerns will create a much higher probability that economically similar leasing transactions will be recorded and treated differently. While we feel it is important for readers of financial statements to be presented with the lease obligations of a lessee, we do not feel that this would require recognition of an asset and a liability and can be better accomplished through additional disclosure on the foot note side.

We thank you for this opportunity to comment on the RED and should the Board like to discuss any areas of our comment letter, please do not hesitate to contact me.

Sincerely,

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