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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-516

Via email: director@fasb.org

Re: File Reference Number 2013-270

Director:

Thank you very much for the opportunity to comment on Leases (Topic 842) a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840) Exposure Draft (File Reference Number 2013-270).

I am a local public accounting firm with non-public clients. The majority of my clients only enter into leases that fall under operating leasing rules under current guidance. I do not believe that the high costs of implementation and ongoing maintenance justify this guidance that gives no benefit to users of non-public entity financial statements. Further, the potential impact to loan covenants due to altered ratios such as current ratios for bank loans could be extremely costly to renegotiate and detrimental to my client's operations.

The majority of my clients have leases such as copiers, postage machines, computers, light duty vehicles, and office space that are classified as operating leases under current GAAP. These clients tend to have a single accountant/ bookkeeper or less on staff. In many cases the person performing the bookkeeping role has had no formal training or education in accounting. Non-public entities do not have the depth of knowledge, system tools, or staff in order to initially record these right-of-use assets and lease payment liabilities and to record the ongoing amortization and interest.

I believe many of my clients would dismiss or ignore this guidance prior to audit, even with appropriate training, etc. This of course would lead to increases in audit fees for these clients as I would have to assess the difference between the proposed method and the superseded guidance for all leases to determine the financial statement impact on an annual basis. If a client was diligent in implementing the guidance, the costs to implement would be excessively high for my clients, as they do not have the tools or resources to commit to becoming compliant.

The biggest concern I have on behalf of my clients, is that the investment by my clients for this guidance would not give them nor the users of their financial statements any benefits. The right to use asset and related lease liability would not provide more meaningful financial statements. The users of non-public entities financial statements typically are more concerned with cash flows, as the focus is covering expenses and debt service. These expenses include rent expense under operating leases. Users would be uninterested in how much amortization of the right to use asset and how much interest expense are incurred in the current year as they are constructs that try to approximate the rent expense as incurred under the operating lease guidance. I believe additional costs will be incurred by users of non-public financials in trying to “translate” these expenses back to what rent expense under operating lease guidance would have been, indicating that the guidance would be not just be non-beneficial to my clients, but an actual deterrent to my clients.

The accommodations provided for non-public entities to use the risk-free discount rate and reconciliation exemption (Question 9) would make the conversion marginally less work; however, the issue still remains that the overall proposal is costly to non-public entities and for no benefit. While this accommodation is appreciated for calculation purposes; it indicates that the Board understands that this proposal does not give users of non-public entity financial statements meaningful information.

The potential impact to an entity’s current ratio could be catastrophic to the entity as they may not be able to stay compliant with loan covenants. While larger organizations may have the ability to renegotiate loan terms; the majority of my clients do have enough sway or ability to influence lending institutions to renegotiate terms timey or effectively.

I believe that non-public entities should have the option to use some form of the operating lease accounting methodology either through an exemption from the scope of the guidance, specific non-public entity guidance added to this exposure draft, or the extension of the short-term lease guidance options to non-public entities.

The cost of having US GAAP financial statements for non-public entities has risen dramatically due to the complexity of US GAAP, and I encourage the Private Company Council to assist non-public entities in this matter as this guidance would be costly to implement as well as provide no benefit to the users of non-public entity financial statements.

Thank you again for the opportunity to comment.

Sincerely,

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