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September 13, 2013

Technical Director
File Reference No. 2013-270
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

via e-mail to director@fasb.org

Re: File Reference No. 2013-270

We appreciate this opportunity to provide our views on the Financial Accounting Standards Board's (FASB) May 16, 2013 Proposed Accounting Standards Update (Revised) to *Leases (Topic 842): A revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 842)* (the "revised Exposure Draft").

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While we support the core principle put forth by the FASB and International Accounting Standards Board (together, the Boards) that entities should recognize assets and liabilities arising from leases, we are concerned that certain of the proposals in the revised Exposure Draft substantially reduce decision usefulness and comparability of financial statements given the complexity of the alternative accounting methods, the extent of judgments required, and the scarcity of guidance and examples regarding the Boards' intended meaning of key terms such as "insignificant" and "significant economic incentive."

We view the multi-step Type A and Type B model in the revised Exposure Draft as being much more complex than the capital and operating lease model in existing U.S. GAAP, and do not see how the benefits would justify the costs of application. We would have favored revisions that added operating leases to the balance sheet as right-of-use assets and lease liabilities.

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We are hopeful that the Boards will reconsider its approach and completely revise the proposed guidance. However, should the Boards move forward with substantially the same model as in the revised Exposure Draft, our specific concerns are noted in the following responses to the Boards' questions.

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.

Response: We do not object to the definition as proposed.

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?

Response: We do not disagree that the economics of a lease that conveys a right to use a substantial portion of the underlying asset may be different than for a lease that conveys a portion deemed to be insubstantial. Our concern, however, is that instead of increasing the decision usefulness of financial statements by simply requiring all leases to be recorded on the balance sheet, the revised Exposure Draft increased complexity in two important ways.

First, whereas existing U.S. GAAP requires lessees to classify leases as either operating leases or capital leases, the revised Exposure Draft includes three classifications: Type A, Type B, and short-term leases, which will be referred to here as Type C leases for clarity.

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Second, existing U.S. GAAP requires all leases to be evaluated in the same manner. A lease is classified as a capital lease if it meets any one of four criteria that in substance convey an ownership interest, with all others being treated as operating leases. The revised Exposure Draft, however, requires a multi-step classification and evaluation:

(a) The first step is to distinguish between leases of assets that are not property versus those that are property.

(b) The second step is then to determine whether the leases of assets that are not property, which are designated as Type A leases, violate what is essentially a rebuttable presumption that they will not be for an insignificant portion of the total economic life, and the present value of lease payments will not be an insignificant portion of fair value of the asset. Note that the requirement is not that the term or present value represent a significant portion, but rather that they not be insignificant. If the term or value is not insignificant, then the lease is treated as a Type B lease rather than a Type A lease.

For leases of property, which are Type B leases, the rebuttable presumption is that they will be for an insignificant portion of the total economic life, and the present value of lease payments will be an insignificant portion of fair value of the asset. If a Type B lease violates either of those presumptions it would be treated as a Type A lease. Thus, instead of the either/or classification under current U.S. GAAP based on whether an ownership interest is conveyed, the proposed changes not only require a confusing evaluation described above, but then can result in Type A leases being treated like Type B leases and vice versa.

(c) In addition to this confusing two-step evaluation, if a Type B lease contains a purchase option that the lessee has significant economic incentive to exercise, it would be treated like a Type A lease per paragraph 842-10-25-8. As with the economic life and the present value criteria, this test appears similar to the bargain purchase option in existing U.S. GAAP, the presence of which indicates a capital lease.

(d) The fact that 842-10-25-14 allows companies to choose to leave short-term leases, which are designated here as Type C leases, off the balance sheet instead of treating them as Type A or B leases would only add to the difficulty for financial statement users to compare results across companies.

(e) Adding still another layer of complexity to the classification guidance in the revised Exposure Draft is that it appears per paragraph BC55 that the determination of an insignificant versus not insignificant portion of the economic life is intended to be different for Type A and Type B leases. Making the guidance even more difficult to apply is the fact that there is little guidance on what the levels are intended to be. The only parameters we noted were that for property, which is subject to Type B leases, the line between insignificant and not insignificant for the economic life is somewhere between the 4% in BC47 (2 of 50 years is deemed insignificant) and 30% in BC56 (15 of 50 years is *not* deemed insignificant). For Type A leases, we note only that paragraph BC46 indicates that the lease term would be more than insignificant at 42% of the economic life (3 of 7 years). While we understand that one goal of the revised

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Exposure Draft is to move away from the bright-line rules in existing U.S. GAAP, the numbers above allow for a wide range of interpretation of what “insignificant” means, which will severely decrease comparability across companies.

It appears that the end result of the Type A and B classifications and evaluations is to identify those leases that essentially convey an ownership interest, as existing U.S. GAAP does. We see little value in substantially increasing the complexity of the methodology to reach a similar conclusion as existing GAAP.

We recommend that either the practical expedient of treating leases of non-property assets differently from those of property be respected uniformly, or else the criteria for Type A and Type B leases be changed to whether the lease is for a significant versus non-significant portion of economic life or fair value, similar to existing U.S. GAAP for capital and operating leases.

If the Type A and Type B concept is retained, the Boards must clarify substantially the guidance and examples of what is meant by “insignificant.”

If Type C leases are to be separately identified in the guidance, a better solution would be to require all Type C leases to be recognized in profit and loss on a straight-line basis over the lease term rather than allow two different methodologies.

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?

Response: Please see our response to Question 2 above.

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?

Response: We do not see the advantage in classifying leases based on whether the underlying asset is property given the rebuttable presumptions and the purchase option consideration noted in our response to Question 2 above. We would favor a simpler model that evaluated leases based on whether they conveyed an insignificant portion of the total economic life or fair value.

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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?

Response: We generally believe that the revised Exposure Draft reflects an improvement over the 2010 Exposure Draft in this area as there is no longer a requirement to determine the longest possible term that is more likely than not to occur.

However, we are concerned with the practical application of determining whether there is a “significant economic incentive” to exercise, as while there is guidance regarding the type of factors to consider in 842-10-55-4, we do not see guidance on what magnitude of such factors would constitute “significant.” We suggest that the Boards consider adding some guidance to better define the level that would be considered “significant.”

In addition, we recommend that there not be a reassessment unless there is a modification to the lease. Requiring a reassessment when there is a “change in relevant factors” as 842-10-25-3a proposes would be difficult and expensive to apply in practice, and there likely would be considerable differences among companies in when the reassessment would occur.

Further, it would enhance clarity if the concepts in 842-10-25-3b were moved to a separate paragraph that stated how to treat option periods that were unexpectedly exercised or not exercised, rather than including them in the guidance regarding reassessment of the lease term. It is not clear how not exercising an option to renew a lease, for example, would be treated within the guidance of determining the lease term. Does that mean a lease that had been treated as a Type B lease for an insignificant portion of the asset may sometimes end up being treated as a lease for more than an insignificant portion? The journal entries for such a change would be onerous. A better solution would be to treat such unexpected additional periods as a new lease.

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?

Response: We recommend that the Boards eliminate this requirement to reassess the measurement of variable lease payments if there is a change in an index or base rate used to determine payments. The assessment should be made using the rates in place at commencement, with any changes between a lessee’s lease liability and amount paid flowing through lease expense or interest expense, depending on whether the lease is a Type A or Type B lease. Lessors would use the same approach for its lease receivable.

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The amount of complexity and cost to track and modify the amounts on the balance sheet for changes in such rates would outweigh the benefit to users, especially as the index or rate may change multiple times during the lease term.

Disclosing the dollar amount of a lessee's total lease liability that is subject to variable payments, and the index or rate on which the payments are based should provide sufficient information to financial statement users.

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?

Response: We agree with the Boards' reasoning in BC308 that supports a modified retrospective approach, and while a prospective approach would be the least costliest to apply, we see the Boards' point in BC307 that such an approach might result in some long-term leases continuing to follow the old guidelines for decades. However, to improve comparability we recommend that the full retrospective approach not be permitted.

Given the effect on companies' results of operations and financial position that this guidance will have, we recommend that the Boards set the effective date sufficiently far in the future to allow companies to perform pro forma calculations of ratios in debt covenants and other agreements and negotiate changes in such if needed.

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 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?

Response: We do not object in principle with the proposed disclosures, but we are concerned with how companies with a large number of leases will apply this guidance. The Boards' allowance in paragraph 842-20-50-2 that lessees "consider the level of detail necessary to satisfy the disclosure objective," and aggregate or disaggregate information as deemed necessary is sufficiently vague that it likely would result in wide variations in practice. We suggest that the disclosure requirements be modified to allow companies to aggregate the information for property leases and separately for non-property leases. The range of option periods and the total residual value guarantee for each group then could be disclosed.

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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?

Response: Regarding the first relief, while allowing nonpublic entities to make a policy election to use a risk-free rate to measure the lease liability may save the time required in calculating the incremental rate, it will unfairly increase the amount of such liability, thereby increasing the amount that flows through the income statement in future periods. Using the risk-free rate would result in an arbitrarily higher value of lease liabilities for nonpublic companies making the election versus those not, and versus public companies, and likely would be met with bankers or other creditors having to recalculate the liability using a higher rate that is more relative for the company.

An alternate solution would be to allow nonpublic companies to use the rate on their most recent line of credit or term loan agreement that was in place prior to inception of the lease. This would result in a rate that is closer to the company's incremental borrowing rate than the risk-free rate while still saving some time in calculating the true incremental rate.

The second relief for nonpublic companies to exempt nonpublic entities from having to provide a reconciliation of the opening and closing balance of the lease liability would save only a minimal amount of time, and may hamper financial statement users' ability to relate the change in the balance to the income statement amount. We do not see this as being a cost savings to companies that would justify the reduction in benefit to users.

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?

Response: We agree that it is not necessary to provide different recognition and measurement requirements for related party leases.

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Question 11: (FASB Only)

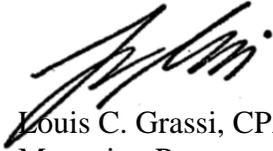
Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

Response: We agree that no additional disclosures should be required for related party leases.

Thank you for your kind consideration of our responses.

Sincerely,

GRASSI & Co., CPAs, P.C.

A handwritten signature in black ink, appearing to read "L. Grassi", is written over the typed name.

Louis C. Grassi, CPA, CFE
Managing Partner