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Sent via Electronic mail to director@fasb.org

Re: File Reference 2013-270; Proposed Accounting Standards Update—Leases (Topic 842)

Dear Board Members and Staff:

First American Equipment Finance is an equipment lessor with commercial end users in a variety of industries located throughout the United States and Canada. This project is of critical importance to us in our dual roles as both a lessor and a user of financial statements as we evaluate and analyze our lessees' financial condition. We thank you for the opportunity to comment on the revised Exposure Draft for the proposed Accounting Standards Update, *Leases* (the "Exposure Draft").

Overall, we believe the Exposure Draft represents significant improvement from the original draft. We support the Board's desire to improve the financial accounting and reporting standards for leases, particularly the intent to address accounting for operating leases. Although we acknowledge improvement from the original draft, we remain concerned about several components of the current Exposure Draft that we wish to highlight in this letter. Our primary concerns relate to (i) The Accounting Model and the related classification identified in paragraphs 842-10-25-5 through 842-10-25-8, and (ii) Lessee Accounting. Additionally, we are concerned that the benefits from changes proposed in this Exposure Draft are outweighed by the significant complexity and costs of implementation, for both lessors and lessees.

The Accounting Model

While we agree with the definition of a lease, certain aspects of the Accounting Model in the Exposure Draft, in our opinion, do not represent an improvement over the current standard. We agree that the recognition, measurement, and presentation of expenses and cash flows should vary for different types of leases, and should ultimately reflect the economic substance of the lease. It is our belief that this objective is not achieved based on the broad categorization of Type A or B leases and short-term leases. The Exposure Draft provides that Type A leases are those that involve assets other than property and a short-term lease is any lease of twelve months or less, including expected renewal periods. In application, many leases involve short-



lived equipment such as computers and other office equipment which is returned at the end of the lease. Including this equipment in the same classification and requiring the same accounting treatment as for longer-lived assets (aircraft, vessels, heavy duty transportation, etc.), as a Type A lease, does not appear to achieve the objective of clarified financial reporting. Rather, this actually seems detrimental, particularly given the increased operational complexity a lessee will undertake to account for what would otherwise seem to be a relatively simple transaction.

Lessee Accounting

The premise of the Accounting Model in the Exposure Draft is that the recognition of assets and liabilities on the balance sheet is of greater meaning and transparency than the information disclosed in the notes to the financial statements which does not seem appropriate. Rather, it is our belief that the notes are an *integral part* of the financial statements, and the information contained therein is considered of equal value to that on the face of the financial statements.

Furthermore, it is our experience that there are a large number of lessees who lease (primarily computer) equipment to mitigate technological obsolescence. The current operating lease accounting appropriately reflects the economic substance of these transactions from the perspective of our lessees, as they use the equipment for the lease term and return the equipment at the expiration. Because the rent for the use of the equipment is a periodic expense and the obligations of the required rents are disclosed in the notes to the financial statements, the current operating lease treatment is transparent to us, as a user of our lessees' financial statements. Conversely, the resulting accelerated expense a lessee will recognize under the Exposure Draft does not appropriately reflect the economic substance of certain transactions (*right-to-use* rentals), and is inconsistent with the overall objectives of the Exposure Draft. Since a lessee could always simply acquire the equipment and depreciate the cost on a straight-line basis, it is not clear why the expense of leased equipment should be recognized differently on the income statement than equipment acquired in an outright purchase.

Two suggestions to improve this part of the Exposure Draft include changing the definition of a Short-Term Lease to 36 months or less, and considering a focus on additional foot note disclosure for enhanced clarity.

Cost-Benefit of Additional Complexity and Implementation Costs

It is our opinion that the benefits realized by the proposed changes are likely to be overshadowed by the operational complexity and the significant estimated costs that will be required to implement the changes called for in the Exposure Draft. The requirement to evaluate leases at the asset level is burdensome. The information system changes required for both lessors and lessees will be expensive and difficult to implement. The requirement to record all liabilities on the balance sheet will likely require lessees to renegotiate debt covenants, the documentation of which will involve significant banking fees. This Exposure Draft undoubtedly creates a significant burden of analysis, documentation of assumptions and judgments, and theoretical future decisions by both lessors and lessees. It is not clear the resulting benefits from this Exposure Draft warrant this complexity and cost.



Summary

This Exposure Draft has continued improvement from the draft of 2010 and perhaps is well suited for complex lease financing arrangements. However, in attempting to improve financial accounting and reporting for the vast majority of ordinary and routine leasing transactions, this standard seems to require more complexity and cost to implement, without appearing to provide the desired benefit to offset those costs. We respectfully request the Board to consider these comments as it continues to deliberate the most effective and appropriate standards for this important lease project.

Thank you for the opportunity to express our opinion on this topic.

Sincerely,

Laurie

Laurie Leo
Chief Financial Officer

Mike

Michael Ziegelmann
Chief Credit Officer