

13 September 2013

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk CT 06856

Via email to director@fasb.org

Re: Exposure Draft on Lease Accounting, File Reference No, 2013-270

Dear Chairman Golden and Chairman Hoogervorst:

This comment is provided in my capacity as President and Chief Operating Officer of CSI Leasing, Inc. ("CSI"). CSI is an equipment leasing company focusing primarily on high-tech equipment. We have been in business for over 40 years and have grown to be one of the largest independent equipment leasing companies in the world, employing over 800 people, with a current portfolio over \$2 billion in original cost located in over 30 countries.

We are concerned about the implications of the proposed changes to the lease accounting rules from two different viewpoints. First, as a leasing company with thousands of lease transactions on our books, we are concerned about the costs of compliance with a switch to different rules. Second, as a user of financial statements, we review the creditworthiness of hundreds of potential clients each month, and we want to be comfortable that any change to the accounting rules materially improves our ability to judge credit risk.

Lessor Accounting Treatment

The proposed changes to lessor accounting seem to me to be a solution in search of a problem. While the current rules are indeed complex and involve some estimation with respect to residual values, the proposed rules are just as complex and require even more judgment and estimates, and would produce less clarity and comparability.

The average stated initial term of CSI's leases is about 30 months, with many leases being upgraded or otherwise modified during the initial term to accommodate the lessee's desire for financial and technological flexibility. The proposed changes would require us to re-analyze thousands of leases that have been booked over the past several years (so that we can satisfy the need for prior comparative periods to have uniform accounting methodology), and then re-book the initial leases, re-book the leases again as of the time they were upgraded or amended, so that we can re-create an accounting history. Because of the short term nature of these leases, many of them already will have expired and the equipment returned to us and disposed of, yet we will have to expend considerable resources to re-create a new accounting history for these assets. We are aware of no automated solution to this task and believe this will be a largely manual, expensive accounting task for no obvious purpose.

My accounting staff tells me that in many cases applying the proposed new rules would result in relatively minor changes to the monthly accounting entries. I still do not understand what problem with lessor accounting is prompting the accounting standards boards to require such a complete waste of resources. The standards setting boards should not ignore the substantial economic waste involved with re-booking lease transactions that in many cases already will have expired.

Lessee Accounting Treatment and Evaluating Credit Risk

Most of our customers enter into short term leases because of a desire to gain some protection against rapid technological obsolescence as well as the conservation of cash flow and the benefit of a fixed, non-floating rate during the stated term. They want to use the equipment, not own it. The current FASB 13 bright line tests, while not perfect and subject to some structuring, do generally provide objective tests for classification of the lease transactions that make some sense. Certainly there is a difference between paying for the use of someone else's asset for a period of time versus a contract which gives the user substantially all the risks and rewards of ownership. The current rules at least make the attempt to distinguish between the two situations. The proposed lessee accounting rules make no such distinction. In making a bankruptcy risk analysis, it certainly is important to understand whether a party actually owns assets, the excess value of which may be used to satisfy general debts, or whether the asset being used is owned by another party and the associated future rentals may simply be rejected and the asset returned to the lessor. Lumping all transactions into one category simply makes no sense and does not improve the usefulness of the financial statements.

Adding an estimated number to the liabilities section of a balance sheet, with a corresponding balancing entry in the assets section, does not in my view paint a usefully clearer picture of the financial condition of the lessee. For example, when analyzing the financial condition of an entity, it is not sufficient to look at the raw balance sheet numbers for "long term debt"; our analysts need to understand the terms and conditions of such debt, particularly the future dates when the debt must be repaid. We, of course, must look at the footnotes to the financial statements for such disclosure. Today, the footnotes require a statement of future lease payment obligations, yearly for

the next five years and then a lump sum for amounts due beyond five years. I would respectfully submit that more useful information would be provided to our credit analysts (indeed, any credit analyst) if the boards were simply to require additional footnote disclosure regarding these future minimum obligations, including year-by-year commitments for each of the next twenty years, perhaps sub-categorized by the nature of the leased asset (real estate, production machinery, office equipment, furnishings, etc.) and requiring a basic narrative description of contingent events that would materially increase the contractual obligations. Providing such additional disclosure would not impose anywhere near the burden created by the proposed rules, and would provide objective, comparable data, instead of subjective estimates produced by varying methodologies.

I understand that the boards have been working for several years on the complex topic of lease accounting and there has been some pressure to “do something.” However, recent reports by the American Accounting Association and the Investors Technical Advisory Committee really call into question the need for a dramatic overhaul of lease accounting. I would argue that those two reports should remove any pressure that the boards might have felt to come up with a balance sheet solution. Instead, both reports clearly lead to the conclusion that requiring more-detailed footnote disclosures may indeed be the right approach to take. It’s not clear to me who is left asking for an overhaul that requires calculations at least as complex as current GAAP and involves more assumptions just to be able to put a number on the balance sheet. I concur with the AAA and ITAC in the observation that the current proposal results in a lot of costs for no discernable benefit, and should be dropped in favor of addressing the concept of additional footnote information.

Thank you for the opportunity to comment.

Respectfully submitted,

CSI Leasing, Inc.

Stephen G. Hamilton
President & Chief Operating Officer