



October 3, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email to director@fasb.org

Re: File Reference No. 2013-270

Dear Technical Director:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update, *Leases (Topic 842) a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

Although our Committee supports the Board's efforts to determine the need for improvements to the existing lease accounting model, we would like to share the following thoughts and concerns with you.

- We believe that the proposed leasing model should be consistent with the proposed revenue recognition model, and should therefore treat the lease contract as a single unit of account rather than treating the right-of-use asset and the lease liability as separate units of account. This way the proposed leasing model could likewise avoid the issue of recognizing on a gross basis an executory contract (the right-of-use asset) on the balance sheet, because the net amount assigned to the lease contract would reflect the performance of both parties to the contract through the reporting date. We also suggest the Board include a definition of the right-of-use asset as a tangible or intangible asset in the final standard. Absent a definition, there likely will be inconsistency in the treatment of this asset in measurements by lenders, regulators and other financial statement users
- We agree with the two model approach for lessees. One type that is a sale because control of the underlying asset has passed to the lessee and therefore a financing arrangement (i.e. Type A) and another type that is not a sale and therefore should be accounted for like a performance obligation satisfied over time (i.e. more or less straight-line) but without the complexity of the proposed Type B model.
- Having to reassess and adjust the lease liability at each reporting period for changes in variable lease payments would place a significant burden on lessees with leases that have variable payments. We propose that such a reassessment only be required when there has been a "significant" or "material" change in the rate or index to which lease payments are based.
- Consistent with the proposed revenue recognition standard, we believe that entities should be allowed to recognize the cumulative effect of initially adopting the proposed amendments as an adjustment to the opening balance of retained earnings in the year of initial adoption. At a minimum, we believe this option should be allowed to be applied by nonpublic entities.

- We believe the proposed guidance regarding related party leases is appropriate. The various elements of a related party lease arrangement would be difficult to determine without reference to contractual terms.
- We do not believe the existing accounting model for lessors requires changes to the extent being proposed. We suggest that the Board focus its efforts on developing an appropriate accounting model for lessees and postpone consideration of any substantive changes to the existing lessor accounting model to a later date.

In closing, we believe the current proposal fails to provide an improvement over existing lease accounting rules and ask the FASB to further consider dissenting views provided by its board members, especially those of Mr. Linsmeier, input from the FASB's Investor Advisory Council (IAC), which has gone on record to indicate that it will not support the Exposure Draft as proposed, as well as responses from stakeholders. In the interim, the FASB could consider a project to determine whether any enhancements could be made to existing lease disclosure rules that would provide more relevant information to financial statement stakeholders.

We appreciate the opportunity to offer our comments.

Sincerely,

Scott G. Lehman, CPA
Chair, Accounting Principles Committee

Amanda M. Rzepka, CPA
Vice-chair, Accounting Principles Committee

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013-2014

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

| | |
|---------------------------|---------------------------------|
| Ryan Brady, CPA | Grant Thornton LLP |
| Todd Briggs, CPA | McGladrey LLP |
| Brian Chmiel, CPA | Crowe Horwath LLP |
| Frank Dery, CPA | PricewaterhouseCoopers LLP |
| John Hepp, CPA | Grant Thornton LLP |
| David Jamiolkowski, CPA | Baker Tilly Virchow Krause, LLP |
| Scott Lehman, CPA (Chair) | Crowe Horwath LLP |
| Elizabeth Prossnitz, CPA | BDO USA LLP |
| Robert Sledge, CPA | KPMG LLP |

Medium: (more than 40 professionals)

| | |
|--------------------------|----------------------------------|
| Timothy Bellazzini, CPA | Sikich LLP |
| Christopher Cameron, CPA | Kutchins Robbins & Diamond Ltd |
| Michael Kidd, CPA | Mowery & Schoenfeld LLC |
| Gary Mills, CPA | Frost, Rutterberg & Rothblatt PC |
| Tad Render, CPA | Miller Cooper & Company Ltd |
| Steven Roiland, CPA | FGMK, LLC |
| Jeffery Watson, CPA | Miller Cooper & Company Ltd |

Small: (less than 40 professionals)

| | |
|------------------|----------------------|
| Peggy Brady, CPA | Selden Fox, Ltd. |
| Brian Kot, CPA | Cray Kaiser Ltd CPAs |

Industry:

| | |
|---------------------------------|------------------------------------|
| Rose Cammarata, CPA | CME Group Inc. |
| Farah Hollenbeck, CPA | Abbott Laboratories |
| Joshua Lance, CPA | N Pritzker Capital Management LLC |
| Marianne Lorenz, CPA | AGL Resources Inc. |
| Michael Maffei, CPA | GATX Corporation |
| Anthony Peters, CPA | McDonald's Corporation |
| Amanda Rzepka, CPA (Vice Chair) | Jet Support Services, Inc. |
| Richard Tarapchak, CPA | Navistar International Corporation |

Educators:

| | |
|----------------------------|-----------------------------|
| Martin Coe, CPA | Western Illinois University |
| James Fuehrmeyer, Jr., CPA | University of Notre Dame |

Staff Representative:

| | |
|---------------------|----------------------|
| Gayle Floresca, CPA | Illinois CPA Society |
|---------------------|----------------------|