



December 14, 2010

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

File Reference No. 1850-100

Re: Exposure Draft, *Proposed Accounting Standard Update – Leases (Topic 840)*

The Assurance Services Section of the Georgia Society of CPAs appreciates the opportunity to comment on the IASB and the FASB (the Boards) exposure draft on leases (the Exposure Draft or Proposed Standard).

In general, we support the overall *recognition objective* of applying the right-of-use model to lease accounting; however, we believe that further improvements, guidance and clarification needs to be added in regards to the *measurement principles* noted in the Exposure Draft. We do believe the current model is flawed and requires substantial improvement and believe that lease transactions, in general, give rise to assets and liabilities that currently may not be recognized and measured in the financial statements of lessees. Therefore, we agree with the FASB and IASB's statement in the Exposure Draft that notes "*However, those models have been criticized for failing to meet the needs of users of financial statements because they do not provide a faithful representation of leasing transactions. In particular they omit relevant information about rights and obligations that meet the definitions of assets and liabilities in the boards' conceptual framework. The models also lead to a lack of comparability and undue complexity because of the sharp 'bright-line' distinction between finance leases and operating leases. As a result, many users of financial statements adjust the amounts presented in the statement of financial position to reflect the assets and liabilities arising from operating leases.*"

In regards to the *measurement principles* in the Proposed Standard, we have concerns related to the model that the Boards have proposed. We believe the Boards have set the threshold in evaluating a lease term too low as the Boards have proposed the lease term to be the longest possible term that is more likely than not to occur (i.e. greater than a 50% probability of occurrence). In addition, we struggle to understand how certain variable lease payments (i.e. contingent rentals) meet the definition of a liability. Furthermore, we believe the current

measurement model does not contain appropriate simplifications for private companies and would like a better understanding as to how information provided by certain aspects of the model is useful to the users of private company financial statements. It is also evident to us that the cost of measuring these assets and liabilities under the proposed model may outweigh the benefits to users of financial statements and do not believe the Boards have properly considered the potential significant increase in the cost of compliance for private companies.

Accordingly, our suggestions for such additional improvements and guidance, as well as our responses to the Boards' questions for respondents noted in the Exposure Draft, are included in the following pages. We believe the ability for all preparers, users, and auditors to comment to the Boards are vital to effect continuous improvements in accounting and reporting. We especially appreciate this opportunity to comment on lease accounting.

Members of our *Ad Hoc* Committee who have assisted us in preparing these comments include Sean Lager, Emily McKinstry, and Mariana Thielen. If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Gregory Kordecki at 678-466-4705.

Very truly,



Ben P. Lee, Chair
Assurance Services Section of the GSCPA



Gregory S. Kordecki, Vice Chair
Assurance Services Section of the GSCPA

Question 1: Lessees

- (a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**
- (b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We agree that a lessee should recognize a right-of-use asset and a liability to make lease payments at the commencement of a lease (as the term “lease” is defined in the Exposure Draft). The Exposure Draft defines a right-of-use asset as “an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term”. A lease agreement conveys to a lessee the right to use or control an asset over a specified term for which the lessee will receive future economic benefits. Therefore, we believe that the lease gives rise to an asset and meets the underlying definition of an asset as it “is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity [lessee].” As a result, it is appropriate for the lessee to recognize a right-of-use asset.

In executing the lease agreement, the lessee has incurred a present obligation to pay a specified amount in the future, thus incurring a liability as the arrangement is a “present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits”. However, as noted below in our response to other questions, we believe that certain measurement attributes that the Boards have included in the model do not meet the definition of a liability.

We also agree that recording amortization of the right-of-use asset is appropriate and provides for the entity to recognize the economic benefits of the use of the asset over a period of time. We also believe it to be appropriate that the amortization period and method is the life of the underlying asset or the lease term, whichever is shorter. We believe this appropriately measures the lessee’s use of the asset over the period in which the lessee would benefit. Recording interest on the liability to make lease payments is appropriate given that the lessee is recording the present value of the lease payments.

Question 2: Lessors

- (a) **Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the de-recognition approach otherwise? Why or why not? If not, what alternative model would you propose and why?**
- (b) **Do you agree with the boards' proposal for the recognition of assets, liabilities, income and expenses for the performance obligation and de-recognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?**
- (c) **Do you agree that there should be no separate approach for lessors with leveraged leases, as if currently provided under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?**

We disagree with the Boards proposal for lessor accounting under the proposed hybrid accounting model. While we think the Boards intent is to provide for a consistent and comparable model for lease accounting, we struggle to understand how the hybrid model is symmetrical and consistent with the lessee accounting model.

Under the performance obligation approach, the Boards have recommended a model that requires the measurement of payments under a term that is the longest possible term that is more likely than not to occur. We do note that this is consistent with the Boards proposal for lessees; however, we believe that the threshold should be much higher and virtually certain. We do not believe that the proposed measurement model would include payments (under renewal options) would not meet the definition of a liability unless those payments are virtually certain to occur at the date of measurement. In addition, the proposed model would lead to a significant amount of subjectivity and would lack comparability. We also believe that it would be extremely difficult to audit such subjective measures.

We have noted that the Boards proposes that an entity generally would apply the de-recognition approach if it has been determined that the lessor has transferred a significant amount of the risks and benefit of the underlying asset to the lessee. This would appear to be inconsistent with the Boards proposal on revenue which has moved away from a risks and rewards model and towards a control model. We believe the Boards should remain consistent with the proposed revenue recognition model and move away from a risks and rewards approach to determine whether or not an asset has been transferred to the lessee.

Given the guidance provided, it seems that it may be difficult to determine whether to apply the de-recognition model or the performance obligation model. We believe the Boards should consider providing a model that is consistent for lessees and lessors and reconcile the model with the Boards proposal on revenue recognition and, consider spending more time on the lessor model to provide for a model that is more operational and consistent. We also believe this would provide a substantial amount of relief for private companies in the shorter term, especially real

estate entities as the Proposed Standard will have a significant impact on lessors and would create a significant amount of controversy and confusion in the marketplace. We also believe that private companies should continue under the current model and have a hard time understanding how the information provided under the hybrid model is beneficial to users of private company financial statements. Although the current model may not be consistent with the proposed lessee accounting model, we do believe that the current lessor model is more relevant to users of private company financial statements and is operational in its current form.

Question 3: Short-term leases

This Exposure Draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

(See also paragraphs BC41-BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We agree with the proposed simplified accounting for lessors, which allows for the lessor of a short-term lease to elect on a lease-by-lease basis not to recognize assets and liabilities related to the lease in the statement of financial position, nor to derecognize any portion of the underlying asset. Additionally, we agree that the lessor would continue to recognize the underlying asset in accordance with the Proposed Guidance and recognize lease payments over the lease term. We do recommend that the Boards provide guidance on how the lease payments should be recognized in the income statement, on a cash basis, straight-line basis, etc. or refer to the appropriate guidance. This treatment is appropriate given that most users of the financial statements would not include short-term leases when determining the leverage of an entity.

We do not agree with the treatment in the Exposure Draft of short-term leases for the lessee. Under the Exposure Draft, the lessee is allowed to elect on a lease-by-lease basis at the inception of the lease to measure the liability at the undiscounted amount of the lease payments and the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. We recommend allowing the lessee the same treatment that is available to the lessor. We believe that the proposed relief is in no way a simplification for financial statement preparers. We would support the current operating lease model for short term leases and believe this would be relevant and reliable information for users of private company financial statements.

Question 4

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?**
- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?**
- (c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?**

Yes, we agree with the definition provided in the Exposure Draft that a lease is “a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration” which appears to carry forward the current guidance. However, we believe the Boards should provide additional guidance in applying the principle.

Appendix B, Paragraphs B9 and B10 provide guidance on distinguishing between a lease and a purchase or sale. We do not agree with the criteria that the Boards have outlined in the aforementioned paragraphs, including that if at the end of the contract period, the entity transfers control of the entire underlying asset and all but “trivial” risks and benefits associated with the underlying asset as a whole to another entity, that the contract shall be considered a purchase or sale and not a lease. We do not believe this is consistent with the guidance provided in the revenue recognition proposal which appears to be based on control and not risks and rewards. We also wish to point out that it is not clear as to what constitutes “trivial” when determining if risks and benefits have been transferred. It would appear in applying this guidance that this threshold would leave one to believe that if a warranty is attached to a product, the existence of a warranty may exclude purchase/sale accounting even though the substance of the transaction is a purchase/sale. We do agree with the conditions provided by the Boards in determining if a transfer of control of an underlying asset has occurred at the end of the contract. The conditions include that title of the underlying asset is automatically transferred to the other entity at the end of the contract term; or, a bargain purchase option exists in the contract. We do believe the Boards should give more guidance as to what constitutes a “bargain” to the extent it is virtually certain that the asset will be purchased by the lessee.

We also disagree with the further criteria provided in Appendix B, Paragraphs B1 through B4, in which the Boards has expanded upon the term “specified asset” to include discussion around implicitly or explicitly identified assets. Although, we understand this framework is consistent with the framework included in EITF Issue No. 01-8, we have found that the criteria can be difficult to apply in practice. Under current guidance and in current practice, if a lease was determined to be an operating lease, the differentiation between service and lease contracts generally did not impact financial statements. However, under the proposed model, the determination may have a significant impact on reporting entities, including real estate companies. As a result, we find it difficult to determine the difference between a service and

lease contract. We believe that the Boards should provide much more guidance in making this determination.

Question 5: Scope exclusions

This Exposure Draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

We do agree with the scope exclusions proposed by the Boards. Leases of intangible assets should not be included in the proposed guidance if it is the Boards intent to include only leases of property, plant, and equipment.

Question 6: Contracts that contain service components and lease components

This Exposure Draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraph 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:

- (a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.**
- (b) The IASB proposes that:**
 - (i) A lessee should apply the lease accounting requirements to the combined contract.**
 - (ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.**
 - (iii) A lessor that applies the de-recognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.**

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We agree with the Boards proposal to account for distinct service components in accordance with the revenue recognition exposure draft. We are unclear as to the current definition of “distinct services” as it would appear that certain executory costs that are common in real estate leases may be included as a lease payment, which is inconsistent with what appears to be the Boards intent. Generally, these types of costs are not considered lease payments as the nature of the payments are services provided to the lessee and would not be logical to include as lease payments under the proposed guidance. We believe that the Boards need to clarify this issue as we do not believe that executory costs should be expensed as incurred.

Question 7: Purchase options

This Exposure Draft proposes that a lease contract should be considered terminated when an option to purchase the underlying assets is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We do agree purchase options should only be accounted for when they are exercised and no longer meet the definition of a lease. We agree with the Boards determination that a purchase option is a way of terminating the lease, and should not be accounted for as an option to extend the term of the lease. Once the lessor releases control of the underlying asset, the asset meets the definition of a sale/purchase, and the definition of a lease is no longer applicable. Again, we do point to our previous comment stating that sale/purchase accounting should be consistent with the Boards proposal on revenue recognition.

For bargain-purchase options, the current guidance requires the determination to be done at inception of the contract, and reassessment is not allowed. We believe the Board should provide additional guidance in how to determine whether or not a payment to purchase an asset and the expiration of a lease is considered a lease payment (bargain purchase option). We believe there needs to be a high degree of certainty that the option will be exercised at the inception of the contract, and, in fact, the option is a lease payment and not a price to purchase an asset in a separate transaction to qualify the payment to be a “bargain purchase option”. We believe there needs to be a high degree of certainty that the option will be significantly less than the fair value of the asset at the expiration of the lease, but it is so low that it is virtually certain that the option will be exercised to be considered a “bargain purchase option”.

Measurement

This Exposure Draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

- (a) Assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16-B20 and BC114-BC120).**
- (b) Includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121-BC131). Lessor should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be reliably measured.**
- (c) Is updated when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 29, 56 and BC132-BC135).**

Question 8: lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We strongly disagree with the Boards proposal regarding the determination of a lease term. We believe the threshold when determining the longest possible term is too low and requires a significant amount of judgment and effort which could lead to a manipulation of financial results. This can be onerous for private companies and cause significant volatility in the financial statements; thus, providing misleading information. We believe evaluating the threshold should be more consistent with U.S. GAAP in terms of where options that are “reasonably assured” are considered. This change to the “reasonably assured” determination will lead to a higher degree of comparability and transparency of the term of lease as presented in the financial statements. Furthermore, we struggle to understand how payments under renewal terms would meet the definition of a liability under this approach. We believe the proposed model would include a significant amount of uncertainty surrounding the lease payments under renewal terms. In practice, it is generally difficult to determine whether or not a lessee is going to renew a lease and would not lead to the outflow of economic resources at the inception of the lease. The lessee is not committed to make lease payments to the lessor under renewal options until the option is actually exercised or is virtually certain of being exercised.

We do agree that at each reporting date, the lessee or lessor should reassess the probabilities and lease term due to any new facts or circumstances that indicate there would be a significant change in the recognized right to receive lease payments or liability to make lease payments since the previous reporting period. However, as noted in Question 10 below, there needs to be more guidance on when this reassessment should occur.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

We disagree with the Board's proposal to include contingent rentals, expected payments under term option penalties and residual value guarantees. We struggle to understand how these payments meet the definition of a liability under the conceptual framework. Not only does it appear that the payments do not meet the definition of a liability; we believe estimating the potential obligation requires a significant amount of judgment and would create volatility in the financial statements and a significant amount of effort for financial statement preparers to not only initially estimate future payments streams but would also create issues for auditors in getting comfort with an estimate that is highly subjective. Furthermore, notwithstanding the fact that we do not believe the said payments meet the definition of a liability, the sensitivity of the estimates, the subjectivity involved, and the process of compiling information to make the determination of the liability, we strongly believe that the costs would outweigh the benefits of measurement and reporting. We strongly encourage the Board to reconsider its position.

If the Board continues its support for the proposed measurement principles, we believe that the same threshold of "reliably measured" should be applied to the lessee's measurement to ensure consistency. Further guidance on what the FASB considers to be "reliably measured" would be needed in order to ensure consistent application among financial statement preparers. Paragraph 35(c), which discusses the term option penalties, does not make mention of the "reliably measured" criteria present in the discussion of contingent rents and residual value guarantees in Paragraphs 35(a) and (b). Further guidance is needed on the appropriate threshold for determining when term option penalties are included in the measurement.

Question 10: Reassessment

Do you agree that lessees and lessors should re-measure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We do agree re-measurement of assets and liabilities is needed when changes in facts and circumstances could materially affect the value of the asset and liability recorded. We believe the Boards need to provide additional guidance in regards to this reassessment. Currently there is a lack of guidance as to the frequency of reassessment and how to make the determination. We highlight our comments regarding the measurement of the obligation to make lease payments related to the lease term and variable lease payments (i.e. contingent rentals) and believe the Boards ultimate decision on the proper measurement variables will impact the scope of the guidance that needs to be included within the final standard. With that being noted, we believe the Board should give guidance or require reassessment when certain triggering events occur which would be similar, in theory, to those triggering events when considering impairments of long-lived assets.

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We have previously expressed our concerns regarding sales/purchases of assets included in the Exposure Draft and believe that sale-leaseback accounting should be consistent with the proposal on revenue. Otherwise, we agree with the proposed sale and leaseback model.

Presentation

This Exposure Draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25-27, 42-45, 60-63 and BC142-BC159).

Question 12: Statement of financial position

- (a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143-BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?**
- (b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**
- (c) Do you agree that a lessor applying the de-recognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**
- (d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

We agree that right-of-use assets should be presented in the financial statements as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease. This disclosure would be appropriate either on the face of the statement of financial position or in the notes to the financial statements. We also believe an entity should be required to present separately the liabilities to make lease payments separately from other liabilities.

We disagree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the financial statement position and believe it should be a policy election as to the presentation of the assets

and liabilities; however, if items are not presented gross, the items should be disclosed in the notes to the financial statements.

We also agree that a lessor applying the de-recognition approach should present rights to receive lease payments, net of the underlying obligation, separately from other financial assets and should present residual assets separately within property, plant and equipment. As the residual asset represents the amount of the asset at the end of the lease, it is appropriately included in property, plant and equipment. Due to the subjectivity involved in measuring the related assets, it would be beneficial for the amounts to be separately identified in the financial statements. Additional guidance should be provided on the residual asset and over what period the asset should be depreciated.

We agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position, to ensure that the accounting for all leases is consistent.

Question 13: Income Statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We believe that the presentation of lease income and lease expense should parallel the company's business and should be a policy election disclosed in the notes to the financial statements.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We do believe cash flows from leases should be presented separately in the statement of cash flows based on the nature of these items. We do agree that, different from current U.S.GAAP presentation, a lessee should present cash payments for leases and interest payments arising from leases as a financing activity, separately from other financing cash flows, as these amounts arise from a lease liability, which the entity incurs as part of a financing activity to acquire a right-of-use asset.

A lessor should present cash receipts from lease payments and interest income from leases as operating activity, separately from other operating cash flows, if leasing is not the company's primary business.

Disclosure

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) Identifies and explains the amounts recognized in the financial statements arising from leases; and**
- (b) Describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?**

(paragraphs 70-86 and BC16-BC183). Why or why not? If not, how would you amend the objectives and why?

We do agree on qualitative disclosures proposed in the Exposure Draft; however, there needs to be a simplification, especially for private companies. Currently the Proposed Standard requires extensive detail information on the nature of the leases (paragraph 73). Not only would the required disclosures be extremely onerous; they provide unnecessary information to the users of the financial statements.

We also believe some simplification of quantitative information disclosures need to be considered. For example, the proposed disclosures regarding a reconciliation of opening and closing balances of right-of-use assets and liabilities to make lease payments, disaggregated by class of underlying asset, and a reconciliation of the opening and closing balances for the rights to receive lease payments, lease liabilities arising from leases to which it applied the performance obligation approach and when it applies the de-recognition approach (required in paragraphs 77 and 80) are as well, is extremely onerous and do not provide useful information.

Finally, we agree with the qualitative disclosure requirements included in paragraphs 83, 85 and 86. Disclosures on qualitative information regarding significant assumptions and estimates used on reassessment would provide the user of the financial statements with information about information used to derive significant judgments.

Question 16

- (a) This Exposure Draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?**
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**
- (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

We agree that allowing the lessees and lessors to recognize and measure all outstanding leases as of the date of initial application using the simplified retrospective approach outlined in the Exposure Draft is appropriate. Allowing financial statement preparers to recognize a liability to make lease payments or a right to receive lease payments (performance obligation approach) as of the date of application using the discount rate at the date of adoption, would be less onerous than having to determine the appropriate discount rate for each individual lease based on the lease inception date.

We believe it is extremely onerous for lessees to apply this approach and would lead to little benefit, as a result. We are not opposed to the full retrospective approach being a policy election in the year of adoption; however, we believe the Boards should consider further simplification upon adoption for private companies.

The Boards should realize the amount of time and effort that entities will need to allocate in order to adopt the accounting principles outlined in the Exposure Draft. Many smaller, private companies do not have large accounting departments that can devote significant time and effort to this project and continue to perform their day to day accounting functions. As such, we suggest that the Board allow entities sufficient time to measure and assess their leases.

Benefits and costs

Question 17

Paragraphs BC200-BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We have significant concerns related to the cost of adoption by private companies. We are concerned that the Boards have not considered all significant costs of implementation; therefore, have not properly weighed with costs and benefits of the proposed model. We are uncertain as to the extent of outreach the Boards have made to users of private company financial statements. As a result, we would like to point out additional costs that raise concern as to the adoption and prospective reporting costs of compliance. These costs include, but are not limited to, changes in internal controls and processes, costs of new accounting systems, the cost of gathering information upon adoption and prospective reporting, additional books and records to track GAAP/Tax differences for tax reporting purposes, and the significant impact on a company's debt covenants. We are concerned that lenders will not fully understand the impact of the proposed model as it is highly possible that the preparers will provide information on a specific company's leverage that is far different than the expectations the lender has based on current operating lease disclosures (including lack of disclosure of short term leases).

Other comments

Question 18

Do you have any other comments on the proposals?

The Boards should give appropriate guidance on the accounting for lease incentives, deferred rent that is in place at the date of the adoption, and accounting for “free rent” periods during the term of the lease arrangements.

Non-public entities

Question 19

Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirements(s) and why?

We do believe there should be simplifications for non-public and not-for-profit organizations. As a result, the Boards should consider exclusions for short-term leases and consider maintaining the operating lease model for these types of arrangements. We believe further simplifications of measurement are warranted depending on how the Boards address the issues of the Exposure Draft. We have addressed other private company issues in our above comments.