1850-100
Comment Letter No. 169

VAL D'OR
APPAREL LLC

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FASB Technical Director
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Re: Financial Accounting Standards Board "FASB" and International Accounting Standards Board "IASB" proposed accounting standards update, file n#1680-100, Leases.

Technical Director:

Val'Dor Apparel is a US company producing and selling apparel products in the domestic market. Although FASB and IASB objective to make financial presentation more transparent and meaningful to financial statement readers is commendable, we have significant concerns with FASB's and IASB's draft proposal with regard to leases.

Therefore, we urge FASB and IASB to consider the following in developing its final rules concerning leases:

1. The impact on a company's banking and other creditor relationships could be significantly stressed as a result of recording leases as an asset and liability on a company's balance sheet, particularly for smaller companies. Many borrowing covenants require that a company not exceed stated ratios of debt to equity or other meaningful parameters. The recording of the entire cost of a lease as a liability will bloat the balance sheet and will, in all likelihood, cause these ratios to be exceeded. This will put companies, many of whom remain financially stressed due to the recession, at a disadvantage in dealing with banks and other creditors, and will, more importantly, require the restructuring of debt instruments at great cost to our members, particularly smaller AAFA member companies.

2. Many companies, especially those in the retail environment, have hundreds or even thousands of leases. These leases are necessarily complicated, follow many formats, and many provide for contingent rents that cannot be readily predicted. Under FASB/IASB's proposed rules, our members will be subject to significant new costs for software, personnel, training and annual or more frequent lease reviews, at a time when they can least afford it. We urge FASB and IASB to consider these tremendous costs when analyzing the incremental benefit of adopting the proposed Accounting Standards Update.

3. Determining the asset and liability amounts to be recorded requires many far reaching estimates. A lease for a large retail, warehouse or manufacturing or office facility could easily stretch to twenty or thirty years, including extensions. As an example, booking all future costs on a ten year lease with two five year extensions could differ by a factor of over 200% depending on estimates of the most probable lease term alone. Further, current estimates of costs of executing a

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lease extension ten or fifteen years out at market cost or using any future measurement leaves to considerable question the reasonableness of booked costs. By way of example, estimating distant future lease payments for leases written utilizing a percentage of sales as a full or contributing element of a lease payment would require sales projections for say the year 2025 or 2035, which would be pure guesswork. Also, leases stating other usage factors would only create wild guesses of future costs that would require booking an asset and liability that could easily distort the balance sheet with meaningless guesstimates creating potentially damaging information. This would particularly apply to a small company with few leases where booked lease liability could represent a much larger percentage of their balance sheet.

4. Annual amortization costs could change significantly with any adjustment or recognition of changes in assumptions used to create the basis of the asset and liability.

5. The proposed method of accounting of leases will result in front-end loaded expenses compared to accounting as an operating lease even where actual lease payments are level over a period of years. This serves no purpose other than to distort the income statement and distort comparability.

6. There is a disconnect in the requirement that the proposed accounting for leases calls for the booking of an interest expense for the lease obligation where leases do not address the obligation as a debt requiring the payment or recording of interest.

7. Since lease expense would be accounted for as interest expense and amortization expense, many important historical financial ratios, such as EBITDA would not be comparable using past performance data.

As you know, lease information is currently detailed in the notes to the financial statements. To address the concerns regarding transparency by FASB and IASB, AAFA suggests that FASB and IASB instead institute new rules requiring that the lease information contained in the notes section be expanded and consistently prepared. Again, this proposal would achieve the transparency and uniformity desired by FASB and IASB without bloating the balance sheet and stressing a company's relationships with its banks and other creditors.

Based on these extensive concerns, we again strongly urge you to reconsider your proposal on leases. Instead, we recommend that detail of lease accounting remain a footnote in the financial statements, with addition of the suggestions made above, and that leases continue to be reported on the basis of operating leases. Information presented in the footnote should only include certain or near certain lease conditions and not project contingent lease costs.
Thank you for your time and consideration in this matter.

Warmest regards,

Marc Odrobina
Chief Financial Officer

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