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To: FASB Technical Director

Subject: File Ref. No. 1850-100

To the Director:

Thank you very much for the opportunity to comment on the changes described in the exposure draft. My comments below are a reflection of my personal opinions only.

Question 1: Leases

A.)

I sternly disagree with the proposal that a lessee should recognize a right of use asset and a liability to make lease payments. The current GAAP method of accounting for leases is more flexible and allows for 2 options. FAS 13 allows companies have the ability to classify their lease as a capital lease or an operating lease depending on the lease circumstances. If any of four separate requirements are met, the company must classify the transaction as a capital lease instead of the more favorable operating lease. This new proposal suggests using a right of use model to account for all types of leases. The effects of enacting these changes would adversely affect thousands of companies nationwide during an economic time of duress. According to ELFA, the impact in the United States alone, where 80% of businesses spend a total of about \$650 billion annually on equipment leases, could be significant. Smaller organizations would be hurt even more. Many times, a small company has entered into a lease simply because it needs to rent and not buy a particular machine. This should not be treated the same as a larger company's

lease agreement that is entered into due to financing purposes. Ralph Petta, who serves as Chief Operating Officer for the Equipment Leasing and Finance Association states “they see a one-size-fits-all approach, and that’s what they’re intent on establishing with this new rule.” The simplifying effects, while making comparisons of companies much easier, would be catastrophic for the organizations that currently use operating leases. The amount of debt that would suddenly be reflected by these changes would strain both large and small companies alike by ballooning the amount of liabilities on their balance sheets. These accounting changes will also adversely affect many debt covenants or agreements that must be maintained in order to conduct business operations appropriately. As an alternative to these proposed changes, I will suggest an alteration to the rules we use today to classify and account for leases. The rules should be different for a small business than for a corporation. This matters because a publically traded corporation’s management may have different intentions leaning towards pleasing shareholders rather than focusing on accounting accuracy and honesty.

B.)

I also disagree that a lessee should recognize amortization of the right of use asset and the interest on the liability to make the lease payments. I do however agree that if these changes did take place, the use of the straight line method would simplify the current method considerably. Although it isn’t matched precisely matched with the use of the asset each period, it would make the financial statements easier to follow and understand. The expenses related to renting equipment are an operational decision and should not be treated as a financial decision by recognizing the interest expense. I believe that whatever model is chosen to abide by, it must not be implemented too quickly. There

must be a slow and consistent change to minimize the negative affects and transition costs associated with serious accounting changes such as these. I recommend introducing rules gradually over a few years rather than all at once, which is overwhelming to firms both large and small.

Question 3: Short Term Leases

A.)

I believe that the standards being proposed will be more complicated and confusing than the accounting model we currently abide by. I don't believe that short and long term leases should be treated differently. Doing this will not have a benefit that is worth the cost, time, and effort it will take to track and record the leases. The result of this rule would add more short term debt to companies using short term leases, and this could cause some firms to default on their loan covenants. This would also be detrimental to the current ratio. The lessee should be able to recognize lease payments on the income statement for short term leases, but there should not be a requirement to set up an asset and liability for this. This simply would not make sense. Additionally, I disagree that a lessor should have the option to capitalize or not capitalize their lease obligations relating to short term leases. According to NAI Global, a network of independent commercial real estate firms, the following would result.

1. Tenants may be incented to sign shorter leases;
2. Tenants will be less likely to sign renewal and expansion options into their leases; and

3. Corporate users may find it more favorable to buy than to rent properties they wholly occupy.

This is why it is in my opinion that operating leases of today should not be capitalized at all, regardless of their duration.

Question 8: Lease Term

I do not agree that a lessee or lessor should determine the lease term as the longest possible term that is more likely than not to occur including the options that may exist. The reason why is simple. This requires estimation, and there is a large chance of error with estimating terms of any kind. There are simply too many variables to consider such as the economic climate, and changes in technology that may occur during a lease. Business demands may also change within a period, requiring different equipment altogether. New training and oversight would also be required to analyze and make lease term decisions. Therefore, options should not be included at all in the lease term. Most certainly, if this change does take place, private companies should not be required to do this due to the significant distinction between a private company's financial goals and that of a public company. Once again, this proposed method will potentially be very costly with little benefit to show for it.