

## COMMERCIAL REAL ESTATE SERVICES

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Director Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-9714

RE: Proposed Changes to Standards for Lease Accounting

Board Members.

Thank you for the opportunity to comment on the proposed changes to lease accounting represented in your August 17, 2010 Exposure Draft. This letter will comment on the compliance requirements placed on the Lessee.

While the goal of greater transparency and comparability between entities may be well conceived, a number of elements of the proposed standard could create greater opportunity for manipulation, variability and re-statement. This uncertainty will make true analysis of the lessee's business more difficult, rather than more transparent

Specifically, accounting for the "longest term more likely to occur than not", including renewal options, in a real estate lease is a complete fabrication of value placed on the balance sheet. A renewal option is most often a unilateral right of the lessee that does not create any financial obligation until exercised. Currently, many major leases may have three or more options to renew. Under the proposed standard, a business would need to determine whether or not they might exercise an option ten, fifteen or twenty years from now. Those difficult decisions are complicated by the formula proposed in Section B17 of the Exposure Draft. We have worked with some of the largest companies in the world, and few people can accurately make that forecast. Those options may not ever become obligations, and to value them as a future liability and/or asset is to misrepresent the true financial position of the company to users of financial statements.

Because the financing model is used to calculate the annual interest expense, as more options are considered likely to exercise, the reported upfront expense will increase significantly. The resulting re-statement or adjustments required for guessing wrong will impact future earnings on a quarterly basis. For companies with hundreds or thousands of leased locations, the constant adjustment would make every quarterly report an exercise in manipulation. We recommend that the Board consider including only term certain obligations in the final standard.

The second area of the proposed standard where there could be significant restatement is in the calculation of variable rents. The requirement to forecast CPI or future sales ten to twenty years in advance will yield, at best, a wild guess. The need to constantly adjust those forecasts each reporting period will again create tremendous variability from period to period. It might be worthwhile to create a standard of using current indexes or sales, in setting up the amortization

schedule, and only doing adjustments in the year they occur. Since these amounts might involve only a small percentage of the obligation, any variance should be minimal. The larger area of unpredictability would involve projecting fair market rental value. However, most FMV rate adjustments in commercial leases revolve around renewal options, and if our renewal option recommendation is adopted, it would eliminate most, if not all requirements to project FMV rental rates.

Our final recommendation to the Board is to develop some materiality standard, either for individual leases or for the cumulative value of certain lease categories. While compliance considerations may not be grounds for altering standards, common sense cost/benefit reasoning suggests that tracking, adjusting and reporting on every piece of leased equipment, property or machinery would warrant a materiality threshold. In particular, large multi-location operations that currently delegate contracting responsibilities throughout the organization will incur huge expenses to create the necessary tracking processes.

Thank you for your time and consideration.

Sincerely

Łouis J. Battaglie≰e ∕Jr., SIOR

Partner