

Lessee Lease Accounting Project Comment Letter Guidance

Issues that may be included in a letter to the FASB and IASB are listed below. They accept unsolicited comments. The project is at a critical stage – they are re-deliberating the issues in preparation to issue an Exposure Draft of the new rule.

Approach to standard setting

Too much focus on anti-abuse = overly complex implementation (e.g. capitalizing contingent rents to “catch” a few leases affects many where contingent rents are a minor element)

Fail to test the market = 99% of leases are small ticket and short term so lots of work for no material consequences

Rules too theoretical/not practical = rent is an operating expense and leave expense SL

No cost benefit study done up front = overly burdensome

Rules must be simple

No objection to capitalizing operating leases but leave expense straight line – matches economic nature of right of use lease – rent is an operating expense

Principles/Decisions must be consistent

The unit of account is the contract yet the asset and liability are de-linked in subsequent accounting

The best estimate of fair value at inception is the PV of the rents yet subsequent accounting causes the values to diverge

Definition of a liability does not support conclusion that contingent rents should be capitalized at inception

LESSEE ISSUES

- Cost/Benefit
 - 99% of leases are of assets < \$5 million in cost
 - Most lessees are small/medium companies with unsophisticated personnel and systems
 - Consider a de minimus exception
 - Proposed rules too complex
 - Continuous remeasurement – consider only rebooking when material event occurs
 - Deferred taxes for every lease – consider using implicit rate for former capital leases and incremental borrowing rate for right of use leases
 - Only benefit to clarity in reporting is capitalizing the liability while asset value and P&L do not match economics

- Straight line expense for right of use leases
 - Suggest retaining notion that rent as an operating expense – the view held by most business people
 - Saying that rent has a finance component is a very theoretical position that creates complexity in the consequences as you play out the resulting accounting
 - Proposed method front ends rent expense
 - Matches the cash expended
 - Matches the tax and legal view of rent being the expense
 - Avoids deferred tax accounting

- Amortizing right-to-use lease asset same as the liability
 - Best approximation of fair value of the asset at inception and throughout the lease term
 - Asset and liability are linked in the same contract
 - Asset and liability cannot be settled independently

- Capitalizing Contingent Rents
 - Use based contingent rents do not meet the definition of a liability
 - Lessee estimates will mean lack of consistency
 - Continuous adjustment is burdensome

- Remeasurement
 - Continuous remeasurement is burdensome with little benefit
 - Suggest you book and only adjust when there is a material change