December 15, 2010

Leslie Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Submitted via electronic mail to director@fasb.org

Re: File Reference: No. 1850-100, Exposure Draft: *Leases*

Dear Madam and Sir:

We have been following the Financial Accounting Standards Board and the International Accounting Standards Board discussion of lease accounting with great interest, and our organizations are evaluating the proposals for lessor accounting contained in the Exposure Draft *Leases*. Based upon the discussion to date and our reading of the Exposure Draft, we have noted certain matters that deserve the attention of the Boards.

While the primary purpose of the leasing project is the development of an accounting model that results in the lessee recognizing an asset and an obligation arising from a lease contract, the Boards have also chosen to consider matters related to lessor accounting. While we are pleased the proposed models for lessor accounting recognize that not all lease transactions are the same, we are concerned the proposed approach to lessor accounting is not robust enough to consider the full range of transactions and does not represent an improvement over the lessor accounting models that exist today. In particular, we are concerned the proposed models will:

- Move significant portions of lessor accounting away from the economic model associated with leasing,
- Create operational difficulties for operating lease transactions that are simple and easy to understand today,

- Lead, in the case of the performance obligation approach, to the double counting of assets and an overstatement of revenues and expenses in lessor financial statements,
- Fail to reflect in either model the lessor's position when leases are modified or restructured, and
- May hinder manufacturers seeking to use lease financing in connection with product sales.

We believe the existing lessor accounting models presented in ASC 840 and IAS No. 17, *Leases,* are well understood by preparers, users and auditors and are considered to provide appropriate financial information to users of financial statements and investors. These models reflect the underlying economic substance of transactions. Any changes to the lessor accounting model should be carefully considered in that context.

We are open to improvements in lessor accounting, but we also believe changes to accounting standards should be judged on whether they represent an improvement over the existing standards. If a proposed model is not clearly superior to the existing standards, change should not be adopted merely for the sake of change. If a proposed model fails to reflect the economic framework underlying a whole class of transactions, it should be reconsidered.

In the case of lessee accounting, we acknowledge the desire of the Boards to have in place a model that leads to the capitalization by lessees of a leased asset and a lease obligation. We believe, however, this model should be:

- Straight forward and easy for lessees to apply,
- Easily understood by users of financial statements,
- Not be driven by measures to prevent possible mischaracterization of leases, and
- Reflect the economic cost of the lease contract and not mere accounting conventions.

These concerns are based upon the aspects of the proposal that will add complexity in the initial and subsequent measurement of lease contracts and by the proposed artificial allocation of amortization and interest expense to the lessee profit and loss statement.

The measurement of lease term using the longest possible lease term that is more likely than not to occur and the use of best estimates to recognize contingent and conditional rents appears to arise from a desire to prevent abusive lease structuring. We do not believe this is a necessary or desirable goal, as the existing reporting environment should work against this situation. The Boards need to appreciate the practices they are attempting to legislate against, principally short term leases with renewal options or wholly contingent rent structures, represent substantially differing risk profiles from leases of medium to long terms with fixed rents. If companies use these structures, they should advise investors of the additional risks they have taken on, rather than creating compliance difficulties for the majority of lease transactions.

We appreciate your consideration of the matters presented in this letter. Please contact Lorraine Malonza at 973.765.1047 or lmalonza@financialexecutives.org with any questions you may have.

Sincerely,

Marie N. Hollein

Marie N. Hollein
President and Chief Executive Officer
Financial Executives International

Organizations Co-signing:
Equipment Leasing & Finance Association
Finance & Leasing Association
Japan Leasing Association
The US Chamber of Commerce