

July 8, 2011

The Honorable Hans Hoogervorst
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Delivered Electronically

**Re: Reference: No. 1850-100, Exposure Draft: *Leases* and
Exposure Draft, *Leases*, ED/2010/9**

Dear Chairmen Hoogervorst and Seidman:

Our organizations represent all sectors of the global economy, representing businesses that employ tens of millions of workers world-wide. As such, we recognize that accurate and transparent financial reporting is a cornerstone of global and domestic capital markets.

Some of us have collectively written to you several times to provide our input and assessments regarding the *Proposed Accounting Standards Update on Leases* (“lease accounting proposal”), most recently on May 26, 2011.¹ Having taken the opportunity to fully analyze the recent May decisions of the Financial Accounting

¹ See October 21, 2010 letter to G-20 Finance Ministers, December 8, 2010 comment letter to FASB and IASB and May 26, 2011 letter to FASB and IASB. While these were collective letters signed by over 30 trade associations, these associations have filed many individual comment letters as well.

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Standards Board (“FASB”) and International Accounting Standards Board (“IASB”), we have serious substantive and procedural concerns regarding these decisions.

Accordingly, we respectfully request that FASB and IASB reverse the May decisions and fully re-expose the final proposed leasing standard for comprehensive public input and comment.

Our concerns and rationale for this request are discussed in more detail below.

I. Substantive Concerns

We have been following and commenting on the lease accounting proposals and were initially pleased to see that FASB and IASB conducted an extensive outreach program, generating more than 780 comment letters to the lease accounting proposal. Furthermore, we welcomed the Boards’ response to the feedback of the majority of preparers and users when they made their decisions in April to:

- Recognize the appropriateness of maintaining the existing allocation and presentation of lease costs for the former operating leases;
- Simplify the accounting for short term leases; and
- Limit the accounting definition for renewals and variable rents to include payments that more closely meet the definition of a liability.

These April decisions reduced some of the complexity and cost of compliance, made the proposed rules more practical, operational and were a step closer to giving the majority of users the information they said was useful to make lending and investing decisions. Preparers have stated their belief that the proposed changes better represented the economics of former operating leases and provided them with the most relevant information to manage their business and to reflect the results of operations to shareholders and creditors. In our view, these critical decisions would have resulted in a much-improved leasing standard.

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We, therefore, were very disappointed to learn of the Boards' decisions in May to reverse some of these crucial decisions, specifically the decision on lessee's accounting for costs of leases formerly classified as operating leases (rental contracts).

It is our understanding that this specific reversal was done solely because the FASB and IASB decided that there was no basis in the lease accounting proposal to support an amortization method of the right of use asset necessary to achieve a straight line expense pattern. We do not accept this conclusion as appropriate because the lease accounting proposal and other standards have not addressed capitalized executory contracts where the rights and obligations are inextricably linked. As we have stated in our previous letters, these rights and obligations are linked and a failure to address them properly will have adverse impacts upon businesses and their investors within and outside of the area of financial reporting.

Since the issue FASB and IASB are addressing is one of cost allocation, we do not believe that it is appropriate to default to an existing accounting for amortizable assets for consistency purposes when such application would misallocate lease cost and create distortive deferred tax assets. To then assert that, if the straight line amortization approach does not meet the needs of investors, then investors should make their own adjustments is not reasonable. As the stated purpose of the lease accounting proposal was to meet the needs of investors with regards to the balance sheet, it is not proper to ignore their concerns about severing the relationship between the reported lease asset and obligation and reflecting a pattern of expense recognition inconsistent with lease economics.²

II. Procedural Concerns

As mentioned earlier, we believe that the outreach sought by both FASB and IASB is an important part of the process for the development of a final lease accounting standard. Nevertheless, in the May 26, 2011 letter, a series of process

² In the letter of May 26, 2011 on lease accounting, the signatories raised process concerns regarding the failure to transparently disclose the investors consulted, or the investor interests FASB and IASB are attempting to address in pursuing the lease accounting proposal.

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concerns were raised to ensure that the lease accounting proposal goes through an appropriate vetting process. In reviewing the May decisions, our process concerns have grown and if they are not addressed the legitimacy of finalizing the proposals may be called into question.

In April, FASB and IASB made a series of revisions to the lease accounting proposals, as stated earlier, reflecting the majority view points of the comments of preparers and users who supported these changes in order to reduce the cost and complexity in the proposals.

Some of these decisions were reversed a month later. It may seem that FASB and IASB appear to have subjectively and impulsively reversed themselves. This harms the credibility of the FASB and IASB standard development process and the final product that may be produced. We value the increased transparency and due process for FASB and IASB and believe that these advances should be continued. Particularly our concerns are heightened because the majority of comment letters by preparers and users of financial statements supported changes to reduce cost and complexity.

As stated earlier, the May 26, 2011 letter summarizes a series of process concerns and requirements that need to be fulfilled for the lease accounting proposal to be finalized. We continue to stand by those concerns and recommended process improvements. In reviewing the May decisions, we feel even more strongly that FASB and IASB need to bolster their due process and transparency by re-exposing the entire lease accounting proposal.

III. Additional Steps Needed Before Proposal Finalized

Leases account for hundreds of billions of dollars in transactions annually throughout the global economy. The impacts of financial reporting requirements that may have unintended consequences on business decisions and activities could have adverse impacts upon the economy and cast doubt upon future standard setting activities. A commitment to undertake and publish an economic impact study should be taken before any final action is taken on the proposal. Obviously an economic

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impact study can identify potential unintended consequences, as well as adverse impacts upon investors.

Similarly, such a comprehensive rewriting of a major accounting standard requires comprehensive field testing to identify any potential unintended consequences. Field-testing should be undertaken before the proposal is finalized, as well as in the pre and post implementation phases of a final standard.

It should be noted that these suggestions are not new and have been proposed before by the Securities and Exchange Commission's Advisory Committee on Improvements to Financial Reporting ("CIFiR"). The SEC chartered CIFiR to examine the United States financial reporting system in order to make recommendations intended to increase the usefulness of financial information to investors, while reducing the complexity of the financial reporting system to investors, preparers, and auditors.

CIFiR also recommended reforms to the accounting standards setting development, governance processes, the testing of real world implications of standards before they are implemented, as well as the effectiveness of accounting standards post-implementation. Clearly, the tools envisioned by CIFiR should be used on such a controversial and comprehensive standard revision in order to understand the economic impacts and minimize unintended consequences.

Finally, we have also followed the joint public meeting of the European Financial Reporting Advisory Group (EFRAG) and the IASB held on June 14, 2011. We agree with EFRAG that the FASB and IASB still need to explain what leases are and why some types of contracts they currently refer to as leases require capitalization. We share the view that the current proposals do not represent a sufficient improvement over the existing leases standard; consequently, we agree with EFRAG that the FASB and IASB must carry out a "fundamental rethink" of the Leases project. Moreover, like CIFiR, we note that EFRAG has been repeatedly calling for field-testing and further consultation as necessary steps in this project.

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IV. Conclusion

We appreciate the efforts undertaken by FASB and IASB, but are concerned that the failure to weigh public comment and inconsistent decision-making reflects a weakening of due process and a shunting of the substance and merits of the matter at hand. Accordingly, our suggestions for an economic impact study, extensive field testing and full re-exposure of the lease accounting proposal are intended to create a standard that will meet the tests of the marketplace and fulfill the needs of all stakeholders. We appreciate the previous efforts to engage with the Boards and hope to do so again to restore balance in the deliberations and proposals themselves.

Sincerely,

American Council of Life Insurers
American Financial Services Association
American Trucking Associations, Inc.
Australian Equipment Lessors Association
Boeing
Border States Electric (BSE)
British Vehicle Rental and Leasing Association
Building Owners and Managers Association International
Canadian Finance and Leasing Association
CCIM Institute
China Leasing Business Association
CRE Finance Council
Equipment Leasing and Finance Association
Food Marketing Institute
Group of North American Insurance Enterprises
Institute of Real Estate Management (IREM)
International Council of Shopping Centers
Japanese Leasing Association
Mortgage Bankers Association
NAIOP, Commercial Real Estate Development Association
National Association of Real Estate Investment Trusts
National Association of Realtors
National Multi Housing Council

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National Parking Association
National Restaurant Association
Property Casualty Insurers Association of America
Real Estate Board of New York
The Financial Services Roundtable
The Inland Real Estate Group
The Real Estate Roundtable
Truck Renting and Leasing Association
U.S. Chamber of Commerce

CC: SEC, EFRAG