

May 26 2011

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Chairman
Financial Accounting Standards Board
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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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Submitted via electronic mail

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

Dear Chairman Seidman and Sir David:

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 our world-wide and domestic capital markets.

We appreciate the efforts of the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) to revise the Exposure Draft, *Proposed Accounting Standards Update on Leases* (“lease accounting proposal”) and to delay the deadline for final promulgation. In addition, we appreciate that FASB agreed to meet with us on April 19, 2011 to discuss progress on the lease accounting proposal and to solicit our input.

While we stated at the April 19, 2011 meeting that we were encouraged by progress on the lease accounting proposal, it is our belief that recent decisions by FASB and IASB have reversed these positive changes the Boards made in response to the comments received during the outreach process. These reversals by the Boards

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 2

have injected complexity into the model and will likely negatively impact and not reflect economic activity. Accordingly, many of the concerns that we had expressed last year are back on the table.

Therefore, we believe that more work and further discussions are needed before the lease accounting project can be finalized. In addition to the changes to the proposal, we believe there are issues regarding the process that must be addressed. Our specific concerns and solutions are discussed in further specificity below.

Discussion of Issues with the Proposal

Our organizations collectively wrote to the G-20 leaders on October 21, 2010, requesting a removal of the June 30, 2011 deadline to finalize the lease accounting project, as well as a joint comment letter to FASB and IASB on December 8, 2010. In these communications, we outlined a set of concerns and flaws that needed to be addressed in the lease accounting proposals:

- The potential breach of loan covenants and contractual arrangements and loss of cost reimbursement for rent in contractual arrangements that are based on current U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) as well as overall changes to credit underwriting requirements;
- Complicated recognition and presentation requirements that mask true economic activity and do not reflect the value of a contract;
- Adverse impact to capital of banks, during the ongoing financial crisis, due to both lessee and lessor accounting changes;
- Adverse impact on the ability of businesses to borrow, the cost of leases, and capital formation;
- Adverse impact on equipment and real property valuations, with consequential impact on lenders, especially the already fragile banking sector;
- Front-ended lessee cost patterns that do not reflect true economic activity;

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 3

- Differing recognition of assets and liabilities creating mismatches that do not reflect the value of a contract for lessors;
- Rules that are not consistent for lessors and lessees;
- Inequitable treatment of executory costs for lessors and lessees;
- Requirements to forecast and record future events and contingencies that are unique to leases, dependent upon unpredictable changes in the economic environment, and not aligned with existing U.S. GAAP requirements;
- Unknown implementation costs, including the need for costly implementation of new accounting systems, as well as ongoing compliance costs; and
- Changes in behavioral actions that will depress commercial real estate values, as well as a de facto prohibition of accepted business activities including permissible allowable cost reimbursements allowed under contractual obligations and government regulations.

To address these concerns we outlined a set of principles for an effective leasing standard:

- New lease accounting standards must reflect economic activity, not drive it;
- New lease accounting standards must permit financial statements to represent the true effect of lease transactions;
- New lease accounting standards should not raise the cost of capital or unnecessarily create adverse impacts upon financial statements;
- FASB and IASB should ensure that the benefits of revised rules outweigh the costs;
- New lease accounting standards must take into account non-accounting issues, such as contractual obligations, industry related practices, and potential regulatory environments, to truly represent lease transactions;

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 4

- To ensure accuracy, lease accounting standards should be consistent for the lessor and lessee; and
- Standard-setters should transparently identify the investor interests and needs they seek to address.

We believed that changes that FASB and IASB had made to the proposal over the past several months went a long way to remove complexity and reorient the standard away from driving economic activity. However, recent changes announced last week seems to have swung the pendulum back towards the formation of an unworkable proposal.

For instance, FASB and IASB have reversed themselves and will require lessee cost patterns to be front loaded and not “straight-lined”. This will not allow for costs to be truly reflected, rather artificial numbers will be placed on financial reports and users will have to reverse engineer data to truly understand the costs involved with a lease. Similarly, we also believe that complexity has been re-introduced in a variety of issues including the determination of the borrowing rate, the lease term, short term leases and reassessments.

We believe these recent decisions will increase complexity, drive economic activity rather than reflect it, and will create adverse unintended consequences and pressures upon financial reporting systems. Accordingly, we request that FASB and IASB re-examine these decisions.

Discussion of Concerns with the Process

We would like to thank FASB and IASB for their work in amending the lease accounting proposals, and our concerns are not a reflection on those efforts. In fact, many of the revisions made by FASB and IASB since the comment period closed in December, 2010 have brought the lease accounting project closer in line with the principles we expressed in our letter of December 8, 2010.

Nonetheless, the broad implications and ramifications of a revised leasing standard will impact many different industries and business models, therefore requiring special attention. We are concerned that the impact of the lease accounting

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 5

proposal will be significant, necessitating a thorough vetting process. We appreciate the FASB's and IASB's apparent determination that the long-slated June 30 timetable for key projects, including leases, will have to be extended. We agree that the June 30 deadline would not allow for the thoughtful consideration and input needed to change financial reporting in an area that is crucial to the economy, particularly in light of the simultaneous consideration of other accounting convergence projects, such as financial instruments, which are equally as complex and controversial.

Specifically, we believe there are issues regarding the process that must be addressed. Those process concerns include:

- 1) Not identifying the complete range of investor interests the FASB and IASB are attempting to address in the lease accounting proposal;
- 2) The need for a robust cost-benefit analysis of the proposals;
- 3) Field testing of the standards before implementation, including a disclosure of the pre and post implementation processes that FASB and IASB will undertake to identify and correct any potential unintended adverse consequences of the lease accounting proposal;
- 4) In the event of re-exposure, FASB and IASB should commit to either releasing the entire lease accounting proposal for further comment, or if done in parts, for the sections of the standard to be released in a sequence that is understandable so that stakeholders can consider how each section will work on an interconnected basis; and
- 5) A commitment by FASB and IASB to only finalize a fully converged standard that encompasses both lessor and lessee accounting.

These concerns go to the core of the lease accounting project and remain unanswered years into the project. In order to answer these questions and develop an orderly process to revise and implement the lease accounting project, we believe that FASB and IASB should commit to the following:

- Ensure that a representative cross-section of investors has been transparently consulted in determining the need for a revised standard;

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 6

- Clear identification of the investor interests and needs that FASB and IASB are attempting to address. This is the touchstone for potentially creating adverse impacts upon a form of transaction that is a fundamental building block for many different sectors of the global economy;
- A commitment to undertake a cost benefit analysis, a clear articulation of how that analysis will be undertaken, and publication of the analysis results once complete, but before any final action is taken on the proposal;
- Committing to a full re-exposure of the lease accounting proposal if it changes substantially from the original proposal, or a sequential release of revised sections that is understandable if the entire standard is not to be re-exposed. FASB and IASB should continue to seek the vigorous input from all stakeholders in developing revisions, as they have throughout the project;
- Development of a robust pre- and post-implementation program to include comprehensive field testing to identify any potential unintended consequences before the standard is implemented and a commitment to undertake a post-implementation review two years after the effective date; and
- A commitment by FASB and IASB to only finalize a fully converged standard that encompasses both lessor and lessee accounting.

We are concerned that a failure to address these issues fully will create uncertainty and may harm businesses across many economic sectors. This includes businesses that lease equipment; the commercial real estate industry, which provides the facilities for all types of businesses; and businesses that offer financial services, which provides the liquidity and credit needed for these transactions to take place. Short-term and long-term adverse consequences, which have the potential to undermine economic recovery, should be avoided. The overarching goal should be to provide investors and businesses with information that reflects the true nature of a financial transaction and, therefore, provides users with the information needed to

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 7

facilitate rational and reasonable decision making. All of this, however, must take into consideration a realistic cost-benefit analysis.

Conclusion

We appreciate the substantial work done by the staffs of the FASB and IASB in developing and revising the lease accounting proposal. However, we continue to have serious concerns that we believe must be addressed before the project is finalized. We believe that issuing sound and thoroughly vetted lease accounting standards outweighs the need to comply with an arbitrary deadline for promulgating a final standard. Again, we applaud FASB's and the IASB's acknowledgement that the June 30 deadline is not realistic.

The identification of issues and proposed solutions that we have put forth in this letter are intended to highlight issues of importance critical for a successful standard revision and to put in a place clearly defined processes to assist with an orderly implementation. While we thought substantive progress had been made over the past several months, decisions by FASB and IASB over the past week have again increased complexity and reintroduced flaws that will drive business decision instead of providing investors with factual decisions.

Thank you for your consideration. We stand ready to assist the Boards and staff in these efforts to revise the current lease accounting standard and look forward to meeting again to review and discuss revisions to the proposal.

Sincerely,

Associated Builders & Contractors
American Council of Life Insurers
American Financial Services Association
American Trucking Associations
Association for Financial Professionals
Building Owners and Managers Association
CCIM Institute
CRE Finance Council
Food Marketing Institute
Group of North American Insurance Enterprises

Ms. Leslie Seidman
Sir David Tweedie
May 26, 2011
Page 8

Equipment Leasing & Finance Association
Institute of Real Estate Management
International Council of Shopping Centers
Mortgage Bankers Association
NAIOP, Commercial Real Estate Development Association
National Association of Real Estate Investment Trusts
National Association of Home Builders
National Association of Realtors
National Multi-Housing Council/National Apartment Association
National Parking Association
National Restaurant Association
Real Estate Board of New York
Realtors Land Institute
Retail Industry Leasers Association (RILA)
SIOR (Society of Industrial and Office Realtors)
The Real Estate Roundtable
Truck Renting and Leasing Association
U.S. Chamber of Commerce