April 30, 2012

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Dear Sir and Madam,

The Committee on Corporate Reporting of Financial Executives International appreciates the opportunity to participate in the preparer outreach being conducted by the FASB and IASB Staff with respect to lessee cost allocation alternatives. Several of our Committee members have already provided their views in outreach meetings related to this effort. The purpose of this letter is to formally provide CCR's views on the alternatives under consideration. For reasons discussed further below, we believe that the Boards need to develop a simple approach to cost allocation that preserves the existing expense recognition pattern.

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We have commented previously on the cost and complexity associated with applying a capital lease cost allocation model (Alternative A) to the full spectrum of leases. We view Alternative C as a more complex and less operational version of Alternative A. The implementation and ongoing costs of Alternative C will be significantly more than the other alternatives under consideration by the Boards due to the additional data requirements and judgment required to evaluate each lease.

Alternatives A and C do not resolve the expense pattern issue raised by constituents. They ignore the legal and economic linkage between the right to use asset and lease obligation and, as a result, they distort the cost allocation pattern and cause the reported amounts to diverge from the pattern of future cash outflows related to the lease contract. The reported expense will either overstate or understate cash outflows, depending upon where in the lease term the contract is. As these models cause the asset to amortize more quickly than the obligation, they

also have the effect of misstating a lessee's net position in the lease contract. A lease entered into at market will always have zero value at lease commencement and will have minimal value over the term of the lease, absent changes in market conditions. The proposed presentation under Alternatives A and C will, however, present nearly all leases as if they were off market contracts in a net loss position after initial recognition until the lease term ends. In addition, by parsing and re-segmenting the economic components of the lease contract, treating some components as operating cash flows and others as financing, investors will have to make their own adjustments to get back to the financial statement presentation provided under existing GAAP, which a majority of them expressly prefer.

CCR therefore believes that the Boards should pursue Alternative D, which largely preserves the existing presentation of operating leases in the lessee's Statement of Earnings and Statement of Cash Flows, while accomplishing the goal of reflecting the present value of the lessee's future payments to the lessor in the Statement of Financial Position. In the Statement of Financial Position, we would expect that the lease obligation would be presented as a non-debt liability. We believe this approach is simple, operational, and understandable to all constituents. As this approach is operationally easier to apply to immaterial leases, we also believe that implementation costs associated with this will be significantly less than for any of the other alternatives under consideration by the Boards.

CCR believes that the Boards need to take a pragmatic approach in moving the deliberations forward. It is readily evident that the cost allocation issue poses significant risks to the successful completion of this project. We are not aware of any major constituent that has raised concerns over the pattern of expense recognition or the presentation of the lease payments in the income statement and cash flow statement under existing lease accounting standards. Furthermore, these changes were not among the specific goals for the project when it was initiated. We therefore believe that Alternative D makes sense as a compromise approach that accomplishes the primary objectives for undertaking this project and avoiding changes in reporting that are not helpful to investors and significantly complicate the work of preparers.

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Members of FEI would be pleased to assist the Board in answering any questions related to this letter. Please feel free to contact Lorraine Malonza at (973) 765-1047 if you have any questions regarding the views expressed in this letter.

Sincerely,

Loretta V. Cangialosi
Chair, Committee on Corporate Reporting
Financial Executives International