April 26, 2012

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board
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Ms. Leslie F. Seidman
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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 and that as preparers and users of financial statements rely on the accuracy of financial reporting by companies globally. As such, we recognize that accurate and transparent financial reporting based on high-quality accounting standards is a cornerstone of global and domestic capital markets.

Throughout the consideration of the *Proposed Accounting Standards Update on Leases* ("lease accounting proposal"), we have written collectively and individually to provide our input, assessments and proposed changes to improve the lease accounting

proposal.[1] We appreciate the technical difficulties and the differences between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") in considering this standard. We believe, however, that FASB and IASB should review and resolve differences on important issues such as the recognition of expenses. This review and reconsideration of the lease accounting proposal should be undertaken with appropriate due process and public input.

Accordingly, we respectfully request that FASB and IASB follow through with the stated intention to fully re-expose the final proposed leasing standard for comprehensive public input and comment.

Our concerns 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 that 800 initial comment letters to the lease accounting proposal.

This high level of interest and feedback were an important signal that developing an accounting standard that could withstand the rigors of time and the marketplace would not be easy. Unfortunately, following the initial expression of interest in public input, which was beginning to be reflected in tentative decisions reached by FASB and IASB, there was an abrupt departure from this iterative approach. In our May 26, 2011 and July 8, 2011 letters we expressed serious concerns regarding a reversal of decisions to:

- Recognize the appropriateness of maintaining the existing allocation and presentation of lease costs for the former operating leases;

[1] See October 21, 2010 letter to G-20 Finance Ministers, December 8, 2010 comment letter to FASB and IASB, May 26, 2011 letter to FASB and IASB and July 8, 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.

- Simplify the accounting for short term leases; and

- Limit the accounting definition for renewals and variable/contingent rents to include payments that more closely meet the definition of a liability.

These positions had been strongly supported by the comment letters presented to FASB and IASB and reduced somewhat the complexity and compliance costs of the lease accounting proposal. Preparers have stated their belief that these positions 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. Users of financial statements have said that these improvements would help them better understand the real-world financial effects on cash flows and operations. In our view, these critical decisions would have resulted in a much-improved leasing standard.

While progress has been made with respect to the treatment of renewal options and variable rents, we were very disappointed to learn of subsequent decisions to reverse the crucial decision on lessees' accounting for costs of leases formerly classified as operating leases (rental contracts).

It is our understanding that this specific reversal occurred solely because the FASB and IASB decided that there should be a single accounting approach for all leases. By this logic there could be no 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 and subject to continued performance under the contract. As we have stated in our previous letters, in many cases these rights and obligations are linked and a failure of financial reporting to address them properly will have adverse impacts upon businesses and their investors.

Since the issue FASB and IASB are addressing is one of cost allocation, we do not believe it is appropriate to default to an existing accounting methodology for amortizable assets for consistency purposes when such application would misallocate lease costs and create distortive deferred tax assets. It is also inappropriate to then

assert that, if the straight-line amortization approach does not meet the needs of investors, investors should make their own adjustments. As the stated purpose of the lease accounting proposal was to meet the needs of investors with regards to the balance sheet, it is improper 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] As the FASB and IASB continue consideration of the lease accounting proposals, we request that these issues be revisited and they be the subject of a public roundtable.

II. Procedural Concerns

As mentioned earlier, we believe the outreach sought by both FASB and IASB is an important part of the process for the development of a final lease accounting standard. We have advocated for a rigorous due process in standards development as in our May 26, 2011 and July 8, 2011 letters, which raised a series of process concerns to ensure that the lease accounting proposal goes through an appropriate vetting process.

We were seriously concerned last year when the FASB and IASB reversed, without public input, decisions that had been supported by a majority of comment letters by preparers and users of financial statements.

We believe that FASB and IASB should continue to revisit the expensing issues in a public forum to insure appropriate dialogue takes place and allows all stakeholders an opportunity to express opinions on how to improve the lease accounting proposals. This builds upon the outreach process undertaken by FASB and IASB and should in our minds culminate in a re-exposure of the entire lease accounting proposal.

We value the increased transparency and due process for FASB and IASB and believe these advances should be continued.

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[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.

III. Additional Steps Needed Before Proposal is Finalized

Leases account for hundreds of billions of dollars in transactions annually throughout the global economy. The impact of a change in financial reporting requirements may have unintended consequences on business decisions and adversely impact 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. While FASB and IASB have not published a cost-benefit analysis subject to public scrutiny and comment, several signers of this letter have submitted to FASB and IASB an economic analysis of the proposals outlining adverse economic impacts including the loss of thousands of jobs and billions of dollars of economic activity.[3]

Obviously an economic impact study can identify potential unintended consequences, as well as any adverse impact to investors.

Similarly, such a comprehensive rewriting of a major accounting standard requires comprehensive field testing to identify any potential unintended consequences. Given the bimodal distribution of the lease population, with its significant population of small value assets, it is critical the final standard is operational on a cost effective basis at the transaction level. 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

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[3] See a study by the Equipment Leasing and Finance Foundation study: *Economic Impacts of the Proposed Changes to the Lease Accounting Standards*, released on December 12, 2011; see also a study by the U.S. Chamber of Commerce, The Real Estate Roundtable, NAIOP, Commercial Real Estate Development Association, NAIOP Inland Empire Chapter, NAIOP Southern California Chapter, the National Association of Realtors and the Building Owners and Managers Association International: *The Economic Impact of the Current FASB and IASB Exposure Draft on Leases*, released on February 15, 2012.

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, and 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. Moreover, like CIFiR, we note that European Financial Reporting Advisory Group (EFRAG) has been repeatedly calling for field-testing and further consultation as necessary steps in this project.

IV. Conclusion

We appreciate the efforts undertaken by FASB and IASB; however, we believe more input is required as it is the Boards' responsibility to ensure an effective system of due process takes place to identify and resolve issues in the critical marketplace of leases. Our suggestions for an economic impact study, extensive field testing, and full re-exposure of the entire 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
Association for Financial Professionals
American Financial Services Association
American Trucking Associations
Building Owners and Managers Association (BOMA)
CCIM Institute
Equipment Leasing and Finance Association (ELFA)
Food Marketing Institute
GNAIE

International Council of Shopping Centers
Institute of Real Estate Management
Mortgage Bankers Association
NAIOP, Commercial Real Estate Development Association
National Association of Home Builders
National Association of Real Estate Investment Trusts
National Association of Realtors
National Parking Association
National Restaurant Association
National Retail Federation
Property Casualty Insurance Association of America
Real Estate Board of New York
Real Estate Information Standards
Realtors Land Institute
Society of Industrial and Office Realtors
The Clearing House Association L.L.C.
The Real Estate Roundtable
Truck Renting and Leasing Association
U.S. Chamber of Commerce

cc: James Kroeker, U.S. Securities and Exchange Commission
Francoise Flores, EFRAG Technical Expert Group