



May 22, 2013

Hans Hoogervorst, Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC 4M 6XH  
United Kingdom

Leslie Seidman, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856

**Proposed ASU, Leases (File Reference No. 2013-270)**

Dear Mr. Hoogervorst and Ms. Seidman:

Financial Executives International ("FEI") is writing to share its thoughts on the evaluation of costs and benefits associated with the proposed ASU on lease accounting. We believe that it is very important for the Boards to take time over the coming months to carefully and specifically assess how the proposed changes will improve financial reporting for all investors. Similarly, we believe that field testing of the proposal should be conducted to ensure that the costs and operability of the revised principles can be realistically determined. Our Committee on Corporate Reporting plans to provide the Boards with a more detailed comment letter on the specific issues we see with the principles in the proposed ASU at a later date.

We wish to preface our comments by observing that recognition of an executory contract in the statement of financial position poses unique and difficult challenges when seeking to develop a high quality standard that will demonstrably improve financial reporting. Listed below are some of the more important considerations that we think are relevant to this project:

- Leasing encompasses a very broad spectrum of transactions, embracing a varied range of contractual terms and conditions, leading many experts to

conclude that economically there is more than one type of lease arrangement. Investors appear to agree but are not of one view as to what the accounting models should look like and where to draw the lines.

- Determining the appropriate measurement of the right of use asset is a critical judgment the Boards have had to make in this project and it represents the selection of a single point from a very wide range of potential values. We understand that investor views on what is the most appropriate measure are fragmented, with no dominant view emerging.
- To have economic relevance, the initial and subsequent accounting for the newly-created asset (right of use) and liability (lease obligation) must recognize that they are directly related and inextricably linked from an economic standpoint.
- There currently is extensive information available to investors through existing disclosure requirements. It would therefore be important and relevant to consider how the proposal's recognition and measurement provisions incrementally improve comparability, forecasts of cash flows, the quality of information for economic decision makers, or reduce the cost for investors of extracting leasing data.

While the Boards endeavor to assess benefits of all proposed accounting standards, the considerations described above make this analysis for leases far more challenging than it would be for most standards. We do not believe that the benefit of this change can be described simply as the recognition of a lessee's obligations under leasing arrangements in the balance sheet. The final determination of whether, and if so, how much benefit there is should be based on how the proposal affects all aspects of the financial information provided to investors through recognition and measurement in the financial statements, including: how the lease asset and liability are measured initially and subsequently, how the elements of the lease costs and payments are segmented and classified in the statement of earnings and statement of cash flows, how lease contracts are segmented into each type of lease, and how changes in the lease arrangements are accounted for. We believe that achieving insight into these questions requires going into more depth with investors. It is our hope and expectation that this is the level at which such analysis will be performed.

When one considers the broad array of alternative models that have been considered to account for leases, it is understandable why there appears to be no consensus among investors on the proposed model. It seems the financial reporting needs of investors are quite diverse, with each having a different view on a preferred model depending upon the nature of the lease contracts and many having different purposes for the financial model adjustments they factor into their financial statement analysis. It also appears that the extensive additional disclosures proposed for leasing are necessary because the ASU's recognition and measurement principles can convey only one picture of the financial statement

implications of a particular lease transaction, despite the fact that many other views exist.

For preparers, the proposals raise important questions with regard to assessing the costs of the standard. The reporting environment in the United States is very demanding and requires the development of high quality, repeatable and sustainable processes and controls. The environment also requires a thorough and transparent approach for related disclosures that enables investors to fully understand the nature and effect of the required changes. When one considers the tens of thousands of lease contracts this will apply to at each reporting company and the fact that the unit of accounting is at the individual contract level, meeting all of these expectations will cause companies to incur very significant compliance costs for internal and external technical accounting resources, information systems, controls and audit-related support. These costs are likely to be proportionately greater for leases of low value items, which comprise the largest volume, but not the largest monetary value, of lease contracts. The need to compensate for lack of investor consensus on the recognition and measurement conclusions through additional disclosures will be another source of added costs. We also note that the choice of accounting models will have significant implications on costs of transition to the new standard. How those costs are factored into the analysis should be an important consideration in the Boards' discussions.

FEI therefore believes that it would be prudent and appropriate for the Boards to conduct a limited scope field test to better understand implementation costs and other resource burdens that will be imposed by the proposed ASU. Given the pervasive impact of this new standard, such work would help the Boards' achieve a more thorough understanding of the full costs of implementation and could identify potential changes in the requirements that could significantly lessen the costs while still broadly achieving the goals of the project.

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We hope that in sharing these views at the outset of redeliberations, the Boards will be able to plan specific activities, such as outreach meetings and field visits that will enable robust research to be conducted in these areas prior to issuance of a final standard.

We appreciate the opportunity to provide these views to the Boards and would be pleased to meet to discuss ways in which we can facilitate this work effort.

Sincerely,



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