

September 9, 2013

Mr. Russ Golden
Chairman
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

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

Re: Leases (FASB Project 2013-270, Accounting Standards Update Topic 842)

Dear Chairmen Golden and Hoogervorst:

Our organizations represent all sectors of the global economy and speak for 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.

First, we would like to thank both the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) for the continuous dialogue during the development of the proposed exposure draft on leases, **Leases (FASB Project 2013-270, Accounting Standards Update Topic 842)**, (“proposed leasing standard”). In addition to this letter, many of the signatories will also individually submit comments with the FASB and IASB on the proposed leasing standard.

While we appreciate the opportunity to have shared our collective concerns with the proposed leasing standard, we must formally submit them for the record so that they be addressed and corrected before the proposed leasing standard is finalized. To briefly summarize our concerns, we believe that the proposed leasing standard may increase financial reporting complexity, impose substantial costs on businesses,

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lack any benefits for investors and drive economic activity rather than reflect it. Specifically these issues are:

- 1. Balance sheet capitalization or increased footnote disclosure;**
- 2. Straight line expensing for equipment and real estate;**
- 3. Driving economic activity rather than reflecting it; and**
- 4. Due process and transition issues.**

Our concerns are discussed in more detail below.

Discussion

Collectively, we have written to FASB and IASB, to raise our concerns on the proposed leasing standard, on December 8, 2010, May 26, 2011, July 8, 2011, April 26, 2012, September 10, 2012, and June 26, 2013. Over the course of that time we have also met numerous times with both FASB and IASB, as well as with the Securities and Exchange Commission, and corresponded with the G-20 Finance Ministers.

I. Balance sheet capitalization or increased footnote disclosure

The proposed leasing standard has been one of the accounting convergence projects recommended by the G-20 with the goal of capitalizing off balance sheet items. However, some investors have publicly questioned the need for capitalizing leases onto the balance sheet and instead have requested increased footnote disclosure. A recent study, *Evidence that Market Participants Assess Recognized and Disclosed Items Similarly when Reliability is Not an Issue*,¹ which specifically focused on lease accounting, put forth that footnote disclosure is as effective as balance sheet capitalization when recognizing payments required through contractual obligations.

¹ The study was authored by Professor Brian Bratten, University of Kentucky, Professor Preeti Choudhary, Georgetown University and Professor and former FASB member Katherine Schipper, Duke University. The study was published in the July, 2013 edition of the *Accounting Review*, Volume 88, and No. 4.

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Very similar concerns were raised during the recent August 27, 2013 meeting of FASB's Investor Advisory Committee ("IAC"). During the meeting IAC members raised concerns that the lease accounting proposal is too complex, fails to provide more decision useful information than currently exists and recommended increased footnote disclosure rather than a completely revised standard that capitalizes leases. This builds on criticisms of the proposed lease accounting standard by IAC members during their July 24, 2012 meeting.

Also, several of the signatories to this letter have submitted economic analysis² of the lease accounting proposals showing potential adverse impacts upon companies, limitations on capital formation for those companies harming investors and changes in economic behavior.

II. Straight line expensing for equipment and real estate

We believe that straight line expensing should be used for both real estate and equipment leases. Currently the lease accounting proposal has straight line expensing for real estate but not equipment leases. The accelerated recognition of expenses for equipment does not reflect the true financial costs incurred by a business in the appropriate time frame. This will skew profit and losses, imposing costs on businesses and ultimately harming investors. Through the current bi-furcated proposal companies will have to encounter complexity by recognizing expenses in two different manners. Further, investors will be saddled with additional complexity in analyzing financial information. As proposed the system will not show investors a true recognition of expenses obfuscating financial reporting.

III. Driving economic activity

Throughout its consideration, we have raised concerns that the lease accounting proposal would not accurately reflect economic activity, but rather, drive

² See *The Economic Impact of the Current IASB and FASB Exposure Draft on Leases*, February, 2012 released by the National Association of Realtors, The Real Estate Roundtable, Business Owners and Managers Association International, NAIOP Commercial Real Estate Development Association and the U.S. Chamber of Commerce Center for Capital Markets Competitiveness; See also *Economic Impacts of the Proposed Changes to Lease Accounting Standards*, December, 2011, released by the Equipment Leasing and Finance Association.

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it. This is in some ways exemplified through the treatment of debt covenants. While some debt covenants will take into account changes in U.S. Generally Accepted Accounting Principles (“US-GAAP”), others will not, either forcing the debt to be called in or to be renegotiated. Thus, the lease accounting proposal will increase costs for companies that have debt financing that doesn’t take into account US-GAAP changes. Also, with the changes in capital standards, leverage ratios and risk tolerance, as mandated in various initiatives including the Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III capital standards, it is unclear how violating debt covenants will affect regulated financial entities adversely impacting capital formation for businesses.

Similarly, some of the signatories of this letter have heard from members that they have already suspended providing long-term leases pending the completion of the proposal. Further, if a certain portion of a building is owned and a certain portion leased, the entire building is being converted to ownership to avoid the complexities of the proposed lease accounting standard.

IV. Due process and transition issues

The broad implications and ramifications of the proposed leasing standard will impact many different industries and business models. As we have written before, this will require a thorough vetting process, specifically the identification of investor interests the proposed lease accounting standard seeks to address, a robust cost-benefit analysis published for review and comment and a comprehensive pre-implementation review through field testing.

These issues go to the core of the lease accounting project and remain unanswered for some industries years into the project. In short, we believe that these process concerns must be met before stakeholders can provide informed commentary on the proposed lease standard, and before it is finalized by the FASB and IASB. Recent statements by investors that the proposed leasing standard does not provide any additional useful information over what exists under current standards highlights the potential lack of understanding of investor needs and the absence of a benefit.

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We respectfully request that FASB and IASB adhere to their own norms by providing the following assurances of adequate due process and cost benefit analysis:

- 1. Clearly identify the specific investor groups and users of financial statements that FASB and IASB believes it is serving in the current lease accounting proposal;**
- 2. Provide the opportunity for investor groups and users of financial statements to participate in at least two rounds of public roundtables devoted to substantive discussion of the recently released Exposure Draft;**
- 3. Conduct and publish a robust cost-benefit analysis of the proposal;**
- 4. Commit to field testing of the proposal prior to its finalization, to ensure that the cost-benefit analysis is rooted in reality.**

Conclusion

Once again, thank you for the work done by the staffs of FASB and IASB, as well as the continuous dialogue both Boards have engaged in with our Associations during the consideration of this project. However, we have substantial concerns regarding the need for the proposed leasing standard, the process used to develop the proposed leasing standard, as well as concerns about the proposal itself.

In order to improve the lease accounting proposal, we believe that increased footnote disclosure rather than capitalization would meet the needs of investors and businesses. If capitalization moves forward, straight line expensing should be the norm for both equipment and real estate leases, issues such as debt covenants must be better understood and resolved to avoid driving economic activity and, as we have stated before, FASB and IASB must address the due process and transition concerns that we have continually raised.

We look forward to discussing our concerns with you further.

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Sincerely,

American Financial Services Association
American Trucking Association
Association for Financial Professionals
Barnert Associates, Inc.
Building Owners and Managers Association International
CCIM Institute
Equipment Leasing and Finance Association
Financial Executives International
Institute of Real Estate Management
International Council of Shopping Centers
NAIOP, the Commercial Real Estate Development Association
National Association of Realtors
National Business Aviation Association
National Parking Association
National Restaurant Association
Real Estate Board of New York
Realtors Land Institute
Society of Industrial and Office Realtors
The Financial Services Roundtable
The Real Estate Roundtable
The Inland Real Estate Group
Truck Renting and Leasing Association
U.S. Chamber of Commerce

Cc: Mr. Paul Beswick, Securities and Exchange Commission