

December 8, 2010

Ms. Leslie Seidman
Acting 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.

While our organizations understand the desire to revise lease accounting standards, we believe that the current Exposure Draft, *Proposed Accounting Standards Update on Leases*, to revise lease accounting standards (“lease accounting proposal”) contains revisions that will not accurately reflect true economic activity, thereby adversely impacting users and preparers of financial information. Accordingly, we request that the lease accounting proposal be reconsidered in light of the issues and principles enumerated in this letter. Moreover, such reconsideration should take place under more realistic time horizons to allow for an improved standard that will not suffer from adverse consequences. We respectfully request that the Financial

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Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) extend the June, 2011 deadline for final consideration and make the changes necessary to create an accounting standard that is truly reflective of lease transactions.

Our specific concerns and principles are discussed in further specificity below.

Discussion of Issues and Adverse Consequences

At the outset, we would like to thank FASB and IASB for their work in developing the lease accounting proposals and our concerns are not a reflection on those efforts. However, we believe that the issues we have raised are a reflection of the broad implications and ramifications of a standard that will impact many different industries and business models. Simply put, the subject is too vast to be soundly completed within the time and resources that FASB and IASB have been able to devote to it, as a number of other complex convergence projects are moving forward on a similar time line and pace.

Since accounting changes can impact lending and other investment decisions, we believe that the rush to complete accounting projects, particularly the lease accounting proposal, according to artificial deadlines, is troubling because of the far ranging unintended consequences that may result from the hasty implementation of those standards. It is our belief that the impact of the lease accounting proposal will be significant, may have not been thoroughly vetted, and that the rush to complete this standard will not allow for the thoughtful consideration and input needed to change financial reporting in an area that is crucial to the economy. In fact, our organizations wrote to the G-20 Finance Ministers requesting the removal of the June, 2011 deadline to ensure that the lease accounting project be completed in a thoughtful and deliberative manner.

Leases are the fundamental building block for many different sectors of the global economy including income-producing commercial real estate, construction, aerospace, transportation, office equipment, retail, and restaurants, to name a few. Altering the accounting treatment for this essential economic element has widespread implications for property owners, public and private companies, investors, and lenders

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alike and could have broad systemic impact on the banking system and credit and capital markets. The new rules, as currently drafted, could promote market instability for lessors and lessees and the financial services sectors that provide support for these transactions.

In our opinion, since these rules will impact the ability of businesses to borrow and raise capital, it is more important to ensure that the lease accounting proposals are designed and implemented appropriately, than to rush to achieve a self-imposed deadline. Among the several issues and unintended consequences that have not been fully explored and vetted include:

- 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;
- 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;

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- 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.

A failure to address these issues in an attentive and deliberative manner will create uncertainty and may harm 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. This uncertainty will have short-term and long-term adverse consequences, as described earlier, which have the potential to undermine efforts towards economic recovery. Moreover, these unintended consequences and flaws stem from the proposed requirements to provide investors and businesses with information that does not reflect the true nature of a financial transaction and, therefore, deprive all users with the information needed to facilitate rational and reasonable decision making.

Principles for an Effective Lease Accounting Standard

As a general rule, we support reducing complexity in financial reporting to enhance transparency and allow the dissemination and analysis of information by all stakeholders in the capital markets. As described above, we believe that the leasing proposal will increase complexity, drive up compliance costs and obscure the reflection of economic activity.

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In developing an effective lease accounting standard, we believe that the following basic principles must be followed:

- 1) New lease accounting standards must reflect economic activity, not drive it;
- 2) New lease accounting standards must permit the financial statements to represent the true effect of lease transactions;
- 3) New lease accounting standards should not raise the cost of capital or unnecessarily create adverse impacts upon financial statements;
- 4) FASB and IASB should ensure that the benefits of revised rules outweigh the costs;
- 5) 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;
- 6) To ensure accuracy, lease accounting standards should be consistent for the lessor and lessee; and
- 7) Standard-setters should transparently identify the investor interests and needs they seek to address.

Application of these principles will achieve the goal of a new lease accounting standard that is less complex, accurately reflects economic activity and will avoid the adverse unintended consequences that can flow from a flawed revision.

Conclusion

We appreciate the work done by the staffs of the FASB and IASB in developing the lease accounting proposal. However, we have serious concerns regarding the direction of this project.

Because of the current schedule and the rush to complete the lease accounting project to meet an arbitrary deadline, we are concerned that such an accelerated due

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process effort on the part of the standards-setters will unnecessarily adversely impact the quality of these new rules. We believe that issuing sound and thoroughly vetted lease accounting standards outweighs the need for issuing a flawed set of rules merely to complete the project.

Thank you for your consideration. We stand ready to assist the Boards and staff in these efforts to revise the current lease accounting standard.

Sincerely,

American Automotive Leasing Association
American Chamber of Commerce Executives
American Council of Life Insurers
American Financial Services Association
American Trucking Associations, Inc.
Associated Equipment Distributors
Associated Builders and Contractors, Inc.
Association for Financial Professionals
Building Owners and Managers Association International
Business Roundtable
CCIM Institute
CRE Finance Council
De Lage Landen Financial Services
Equipment Leasing & Finance Association of America
Financial Executives International
Food Marketing Institute
Institute of Real Estate Management
International Council of Shopping Centers
Knoxville Chamber of Commerce
Mortgage Bankers Association
NAIOP, Commercial Real Estate Development Association
National Association of Home Builders
National Association of Realtors
National Association of Real Estate Investment Managers

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National Electrical Contractors Association
National Parking Association
National Restaurant Association
National Roofing Contractors Association
Property Casualty Insurers Association of America
Real Estate Board of New York
The Financial Services Roundtable
The Real Estate Roundtable
Truck Renting and Leasing Association
Truckload Carriers Association
The U.S. Chamber of Commerce