September 11, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

**Re: Proposed Accounting Standards Update (Revised) –
Leases (Topic 842):** ***a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)***

(File Reference No. 2013-270)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Robert M. Rollmann, Chair of the Financial Accounting Standards Committee at (914) 421-5605, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

J. Michael Kirkland
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE (REVISED) – LEASES (TOPIC 842): ***A REVISION OF THE 2010 PROPOSED FASB ACCOUNTING STANDARDS UPDATE, LEASES (TOPIC 840)***

(FILE REFERENCE NO. 2013-270)

September 11, 2013

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New York State Society of Certified Public Accountants

Comments on

Re: Proposed Accounting Standards Update (Revised) –
Leases (Topic 842): *a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)*

General Comments

We welcome the opportunity to comment on the Financial Accounting Standards Board's (the Board's) Proposed Accounting Standards Update (Revised) – Leases (Topic 842): *a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)* (the Update).

Our responses set forth below are for those questions with which we disagree, and for those we which we agree but feel some additional comment is needed. We are in agreement with all other questions for respondents.

Responses to Questions

Question 4: Classification of Leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Response:
We are not in agreement with this approach whereby Type A and B leases are expensed differently. We would ask the Board to reconsider this rationale and ascertain if there really is any justification as to why Type A and Type B leases should not be expensed in the same manner. We agree that Type A and B assets are needed for lessor accounting. We also agree that lessees should record an asset and liability at the present value of the future payments required pursuant to the lease. We think lessees should record an expense and reduce their asset in the same manner for both Type A and B leases. We think leases should use the proposed Type A manner for both the amount and presentation of the expense and the reduction of the asset. Because the liability is recorded at the present value of the future payments required pursuant the lease, there is the implication that there will be interest expense. The Exposure Draft does not provide for interest expense to be presented on statement of income of lessees leasing Type B assets. This results in two entities: one leasing a piece of equipment for 60 months at $5,000 per month and the other leasing an office suite for the same time period and same amount reporting two different statements of income. These two entities would also have differing amounts of assets at any point in time. We think that these two entities should have the same statements of income and the same amount of assets because they are both obligated under

leases having the same terms and cash flows. This would also eliminate the potential for disagreements when 1) Type A assets are leased for what some would believe is an insignificant portion of the economic life of the asset or the present value of the lease payments are insignificant relative to the fair value of the asset or 2) Type B assets are leased for what some would believe is for the major part of the economic life of the asset or the present value of the lease payments are for substantially all of the fair value of the asset.

We realize that calling for the avoidance of a method for recognizing the overall effect on net income to be recognized on a straight-line basis creates an apparent contradiction to our December 15, 2010 comments on the earlier proposed Accounting Standards Update on leases. We do not believe that there is a contradiction. While in that earlier comment letter we did assert that a straight-line net income effect was a more representationally faithful presentation, the basis of that assertion incorporated the belief that the liability should accounted for as an interest bearing instrument as described above.

The difference is that in the December 15, 2010 response, we called for the asset to be amortized on an increasing basis to recognize the imputed interest inherent in the purchase of a long-term asset. We also recognized that such a change to the amortization of the asset requires a far-reaching change to the methods of amortizing and depreciating long-lived assets and deferred costs. In particular, ASC 360-10-35-10 would need to be changed so as to allow annuity methods of depreciation.

Barring such a wide-spread change to the current general model for depreciation and amortization, comparability would require that lessees use only Type A as we argue above.

Question 6: Variable Lease Payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Response:
We disagree with the proposal because it is our belief that all variable lease payment including adjustments to the index rate governing the amounts of future lease payments should not be included in the calculation of a right of use asset (ROU) and its related liability. The index rate adjustment is just another variable lease payment, and the rationale to apply recognition of the index rate as a continuous adjustment is not cost justified as stated in paragraph BC 155 of the Exposure Draft. Continuous readjustment of the ROU and a related liability to reflect changes in the index rate will result inevitably in misleading the user of the financial statements as to the actual amount to be paid ultimately to the lessor. Actually, the amount that will be presented as a liability to the lessor determined in accordance with this Exposure Draft will not be the amount of money that is actually paid to the lessor because it is obscured by discounting those amounts and the exclusion of future variable lease payments which are not readily determinable. We prefer the procedure currently in use which entails determining the index rate at the commencement date and applying that rate continuously.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Response:
We agree with the proposal. We assume that the current requirements to disclose the range of the terms of the leases and the interest rates of the leases would continue to apply.

Question 9: Nonpublic Entities (FASB Only)

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

1. **To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.**
2. **To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.**

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

Response:
We agree with the proposal. We also think the Private Company Council should review the Exposure Draft and provide its thoughts on it specifically should there be any other relief for nonpublic entities. The purpose of the Private Company Council is to identify parts of GAAP that may be improved if an alternative accounting treatment is available for private companies. The entire process would be more effective if the Private Company Council evaluated proposed changes to GAAP during the Exposure Draft stage so that the actual change to GAAP would incorporate any relief for nonpublic entities upon the issuance of the new standard rather than as a change to a recently issued standard. It would be helpful for prepares, auditors and users if this was done early in the process because preparers and others may need to start to gather data needed to comply with the new standard as soon as it is approved.