Exhibit A

Suggested filters to improve the benefits in the ED

ED Issue	Substance	What preparers need	What users want
Lessee accounting	• Classify by legal/economic nature • Tangible vs. intangible asset • True debt vs. a going concern ***only*** liability	• Information for tax return preparation • Information to give potential lenders	Information re: treatment of lease assets and lease liabilities in bankruptcy
Lessor accounting	Finance vs. operating business model – Finance lessors view and price each lease as a discrete investment with the assumption they will sell the leased asset when returned. Their leases should all be finance leases -Operating lessors buy assets on spec, lease them over and over again, maintain the assets and the pricing is market rates (biggest factor is supply and demand not the time value of money). The equipment is considered their stock-in-trade. Their leases should all be operating leases. -Symmetry does not reflect that the lessee's view is "do I own the leased asset or am I renting it", while the lessor may be viewing the same lease as a discrete investment or an operating lease – the lessee does not care what the lessor business model but rather only cares about the right to use the asset.	Internal management accounting uses business model info to manage the business	Finance leases (DFL method) for financial lessors/operating leases for operating lessors – meshes with ratios & measures employed by users to evaluate lessors. For evidence re: key measures applied by analysts to financial lessors see: http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Banking-2012-Revenue-Growth-Innovation.pdf - it shows 2 key measures that would be adversely affected by the ED's accounting methods as: Asset Turnover on earning assets: Net Operating Income / Interest Earning Assets; The amount of income generated per asset value (unit currency). This measures how efficiently the company uses its assets. Cost Income Ratio: Operating Costs / Net Operating Income; measures a company's cost efficiency.

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Revenue Recognition re: tax credits and deferrals	• A tax cash flow is as valuable as rent & residual proceeds • Pricing reflects all cash flows • Tax credits are revenue equivalents • Amortization methods/yield rates should reflect a constant yield benefit for all revenue components	Management accounting includes tax benefits in revenue	Gives analysts the right view of timing and true nature of revenue Finance lessor (bank and finance companies) analysts want to see all lease revenue including tax credits in the revenue line and they do not want depreciation of leased assets mixed with depreciation of assets used in the business as the prime measure is net operating income divided by earning assets also they look at operating efficiency ratios that view the ratio of revenue to expenses (tax expense – where a tax credit would be booked under the ED - is ignored)
Leveraged Lease accounting	• Reflects economic reality • The agreement is a 3 party agreement where the intent of the parties is to offset debt with rent	Management accounting views leveraged leases as today's accounting does for risks and revenue recognition	Users want clear picture of assts that survive bankruptcy (the true at risk assets) and a clear presentation of revenue as to nature and timing
S/LB with EBO	It is legally a sale under a risks and rewards analysis which is line with the tax view	Need only "owned" assets for all types of tax compliance and to provide information for potential lenders	Users want clear picture of assts that survive bankruptcy (the true at-risk assets)

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Exhibit B – Cost/Benefit Grid – suggestions to improve the benefits and reduce the costs

benefit	comment	recommendation
Accurate calculation of the operating lease liability's value capitalized on the face of the balance sheet	• We question whether on balance sheet recognition is a major issue considering the AAA study regarding how users process operating lease disclosures • Grading the ED in terms of whether it provides a benefit vs. current GAAP should be either an "incomplete" or a "fail" • True, the value of operating lease obligations has been put on the balance sheet ***BUT*** the important breakdown of operating lease vs. capital lease assets and liabilities is no longer available for users – primarily potential lenders and credit analysts who are concerned with the impact of a bankruptcy. • **Is it really a benefit as analysts will still have to adjust AND won't have the information needed to adjust the numbers to get what they need?????** • SMEs and NIGs are the heaviest users of leases and they are most prone to bankruptcy hence the need for separate operating vs. capital lease assets & liabilities amounts reported on the balance sheet • This is not to say we are accounting for a bankruptcy – rather we are providing basic information on the true nature of lease assets and liabilities to users on a going concern basis – note that operating lease assets and liabilities only exist in a going concern	Keep lessee classification tests as is or use IAS 17 as -that is in line with the US legal and tax regimes - it will result in separate reporting of capital and operating lease assets and liabilities which is what lenders and credit analysts need – they do not need combined numbers

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Cost	Comments	Recommendations to reduce costs/complexity and increase the benefits to users and preparers
Receivable & Residual vs. current Direct Finance Lease method	• Difference is cosmetic except for sales type gross profit deferral associated with the residual risk retained • Why change methods when the net lease asset amounts are the same? • A change will mean high costs to reprogram lessor accounting systems • Reprogramming costs to modify the DFL method for gross profit deferral only are not high	Keep the DFL method with gross profit deferral re: the residual risk retained
Lessee classification	• Need to retain the risks &rewards classification for tax compliance (income tax, property tax and sales tax) • Need risks and rewards classification to give information to users who ask for information on tangible assets vs. intangible assets and debt that survives bankruptcy vs. liabilities that disappear in bankruptcy • Lessees will need to maintain a second set of records	Keep FAS 13/IAS 17-like classification tests which are aligned with the tax and legal regimes in the US – this will save much of the high compliance costs of switching the ED classification tests based on asset type
Rent expense	• Need for tax returns – state tax income allocation formula uses rent expense in the calculation • Avoids complex deferred tax asset accounting • Users need it for analysis	Keep operating lease P&L
Dealing with leases with both a real estate and equipment component	Due to the split classification criteria for real estate and equipment lessees must take extra steps involving analysis and judgment in classifying a lease where both real property and equipment are under one lease	Treat all leases the same (by their legal/economic nature) regardless of the type of asset leased
Accounting for the value of operating leases on balance sheet	A recent study appearing in the American Accounting Association's Accounting Review Vol. 4 July 2013 said that there is evidence that users are just as well served with footnoted information re operating lease obligations as with on balance sheet recognition. The study also points out the calculation of the value of operating leases is a very simple present value calculation.	If evidence says on balance sheet recognition is not necessary, revise the objectives or at least simplify the project by only requiring that lessees put the accurate value of operating lease obligations on balance sheet each reporting period and not change any of the other aspects of lessee accounting that the ED is requiring. Using the correct discount rate as defined by the ED is a benefit as it increases the accuracy.
Lessee systems to deal with Type B SLE accounting	The documented approach requires calculating an imputed interest expense and backing into an amortization of the ROU asset. When there is a change in assessment the calculations are complex to adjust the ROU asset and lease liability and future imputed interest and amortization.	Use a simpler method: Merely put the new value of operating lease obligations on balance sheet each month while leaving the P&L and cash flow treatment as per current GAAP. This would allow keeping existing systems to account for the P&L cost. The only programming necessary would be to calculate the present value of each lease which could even be done via an excel spread sheet.
Renegotiating debt covenants	Failing to label operating lease obligations as non-debt liabilities will cause technical defaults unless lessees renegotiate debt covenants. This will result in legal cats, staff tie and lender fees	Classifying leases by their nature and clearly labeling assets and liabilities will avoid debt limit covenants.

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Exhibit C – Excerpts from:

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COMMENTARY

Evaluation of the Lease Accounting Proposed in G4+1 Special Report

AAA Financial Accounting Standards Committee
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Laureen A. Maines; Krishna G. Palepu; Katherine Schipper; Catherine

M. Schrand; Douglas J. Skinner; Linda Vincent

CHARACTERISTICS OF A CONCEPTUALLY SOUND LEASING STANDARD

The Committee supports development of a single, conceptually sound approach to accounting for all types of leases and believes that such an approach should have the following characteristics:

1. The approach should recognize that *all* leases, regardless of their specific terms and conditions, convey rights and obligations, and so create assets and liabilities. The nature of the property under lease should not affect the accounting, nor should the length of the lease.
2. The approach should recognize that accounting for leases is a special case of accounting for contracts. Accounting for *all* contracts should be placed on a sound conceptual footing, and the principles developed for leases should be both internally consistent and generalizable, in the sense that the principles governing accounting for leases should be suitable for application to accounting for contracts generally.
3. The approach should be robust to shifts in the contractual details of lease contracts when such shifts do not materially alter the economic substance of the arrangements. In particular, the approach should require that substantially similar lease contracts be accounted for similarly and substantially dissimilar lease contracts not be forced into a misleading appearance of comparability.
4. The approach should take account of practiced realities of the leasing market that make measuring lease assets and liabilities difficult. Because lease contracts are frequently tailored to the desires of the parties to the lease, it can be difficult or even infeasible to identify similar lease contracts. Moreover, public information about the specifics of lease contracts is often unavailable. For these reasons, the markets for trading lease assets and liabilities are relatively undeveloped. In addition, the existence of transaction costs associated with relocating and releasing assets under lease may yield incentives that affect the contractual lease provisions.

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While the measurement difficulties discussed in point 4 above must be considered carefully, the Committee believes that the principles governing accounting for lease receivables and liabilities should conform to the accounting for other financial instruments. In this regard, we note that in previous comment letters to the FASB (most recently, to its December 1999 Preliminary Views "Reporting Financial Instruments and Certain Related Assets and Liabilities at Fair Value"), the Committee stated its support for fair value accounting for financial instruments once the conceptual and measurement issues are resolved.

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