



March 6, 2015

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Preliminary Views (PV), *Leases*.

We generally agree with the provisions of the PV. However, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

Chapter 2

Paragraph 4

We request that the term *nonfinancial asset* be clearly defined and explained so that users and preparers will properly understand and apply the scope of leases. Examples of what are, and are not nonfinancial assets subject to lease contracts would be helpful.

Paragraph 9

The PV states that leases that contain a bargain purchase option should be reported as a financed purchase of an asset. We request that the Board carefully describe and explain what constitutes a bargain and what constitutes an option in a *bargain purchase option*.

Paragraphs 10 & 11

We are concerned about the practicability of separating and accounting for each component of a multiple component lease. We wonder if the Board's proposed process for allocating such contracts into will negatively impact the comparability and consistency of financial statements. Additionally, we are concerned about the cost to break out the separate components of hundreds of leases, as we see this as a significant undertaking for reporting entities. Accordingly, we ask the Board to carefully and thoroughly consider these concerns as they move forward into drafting an exposure draft.

In addition, in the PV's example regarding splitting a contract for an asset's use (lease contract) and a service/maintenance portion of the lease (service contract), the Board introduces the notion that splitting contracts can result in one or more lease contracts, but may also result in a combination of lease and service contracts. The service contract accounting would presumably not fall under this future proposed standard, and we believe that distinction should be made more clearly than is expressed in the PV.

Chapter 4

Paragraph 10

The Board believes the future lease payments would be discounted using the rate the lessor charges the lessee since it is the rate at which the transaction is made. We ask the Board



to reconsider this position as we believe multiple questions and concerns exist. Our primary concern is that the rate the lessor charges the lessee often does not reflect the time value of money, because, in most cases, the rate of return charged by the lessor is not stated in the contract, or is a rate the lessor uses to control credit risk or extent of profit. We also note concerns that the lessor's rates may vary for leases of similar assets across a government or other governments. Consequently, we wonder why a government's short term investment rate of return is not a better measure of the time value of money because it represents the amount of funds needed by the lessee to cover future lease obligations.

Paragraph 12.f.

Please clarify if the change in the rate the lessor charges the lessee means the interest rate, the principal amount or both.

Paragraph 21

We request that the Board provide additional clarification regarding the use of a *capitalization threshold*. The placement of this paragraph under the section covering 'Lease Assets' without mention to how materiality may be applied to corresponding lease liabilities caused us to wonder about the Board's views on applying materiality to the lease liability.

For example, we believe practitioners in most cases would apply materiality to lease assets and corresponding liabilities consistently, but it is not clear in the PV. As a result, we ask that the Board clarify whether a lease liability should be reported when the corresponding asset does not meet the entity's capitalization threshold. If the capitalization threshold is, essentially, applicable to both the asset and the liability, we recommend such decisions and descriptions be clearly included in the exposure draft.

Paragraph 22

There is some confusion about whether the disclosures described in this paragraph are considered to be lease disclosures or commitment disclosures. As the Board moves forward to an exposure draft, we ask that these disclosures be more clearly labeled as disclosures in a leases section versus a commitment section.

Chapter 7

The preliminary views on lease terminations and modifications are quite complex. We request that examples of these from both the lessee and lessor perspective be included.

Chapter 9

Paragraph 4

The proposed guidance does not indicate whether preparers should follow guidance for existing intra-entity activity disclosures, including leases with blended component units. We request clarification regarding whether existing guidance would require a preparer to consider including such activity disclosures (if material).

General Comments

We appreciate that the Board is closely following FASB and IASB projects on this subject. We encourage the Board to continue this practice throughout this leases project to avoid or minimize differences from FASB standards to the extent possible.



We also suggest the Board consider language related to leases already in existence as of the effective date of this plan. We strongly encourage the GASB to not require retroactive reporting when implementing the leases standard. We believe the standard should be applied going forward in the year of implementation with new leases and existing leases with over 12 months remaining.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (217) 782-3536.

Sincerely,

A handwritten signature in blue ink, appearing to read 'William G. Holland', with a large blue bracket-like flourish extending upwards and to the right.

William G. Holland
President, NASACT
Auditor General, Illinois