



December 14, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File No. 1850-100

On behalf of the American Council of Engineering Companies (ACEC) – the national voice of America’s engineering industry – I am writing to provide our comments on the joint Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) exposure draft entitled *Leases*. We appreciate the opportunity to highlight our concerns about how the proposal would impact the engineering industry.

ACEC members – numbering more than 5,000 firms representing hundreds of thousands of engineers and other specialists throughout the country – are engaged in a wide range of engineering works that propel the nation’s economy, and enhance and safeguard America’s quality of life. Changes to accounting standards for leases would have a particular impact on engineering firms that receive government contracts subject to the provisions of the Federal Acquisition Regulation (FAR).

As you know, under current accounting standards, leases can be structured as operating leases or capital leases. One of the most significant changes proposed by the exposure draft would be to treat all leases as capital leases.

Under the FAR, the costs associated with operating leases are generally allowable. However, the costs of a capital lease must be divided between amortization expense and interest. Interest expense is expressly unallowable under the FAR and, therefore, cannot be reimbursed. We recognize that approximately 60% of the incremental interest expense associated with the adoption of the exposure draft would be recoverable via the Facilities Capital Cost of Money (FCCM) if established in accordance with Cost Accounting Standard (CAS) 414. However, if adopted the new FASB/IASB rules would create a situation where approximately 40% of the interest expenses from affected leases would be unrecoverable, imposing a significant financial burden on engineering firms.

Our analysis is predicated on the assumption that the “right-of-use” assets discussed in the exposure draft would appropriately be classified as “tangible” assets and included in the computation of the FCCM factors. The FCCM factors are developed based on the published Secretary of the Treasury’s interest rate. The true interest cost to the

contractor, however, is the commercial borrowing rate. Therefore, the 40% non-recoverable interest amount represents the difference between the FAR-acceptable Treasury interest rate and the commercial borrowing rate.

In light of the apparent conflict with the FAR and the resulting impact this change would have on many engineering firms, we would respectfully urge FASB and IASB to reconsider this change or consider further modifications that would reduce the financial consequences for affected firms.

An additional issue that would arise from the change from operating to capital leases is the impact on net worth as a result of the assets and liabilities that would have to be recorded. This could affect bank covenants for many ACEC member companies, jeopardizing their ability to secure a line of credit, or increasing their borrowing costs because the lending institution may consider the client to be a higher credit risk.

We also have questions about the issue of personal property taxes. It is unclear whether capitalizing an operating lease would cause these capitalized leases to be considered personal property of the lessor and subsequently give rise to a personal property tax obligation. ACEC requests that FASB and IASB clarify this point.

The exposure draft also proposes a number of significant disclosure requirements. Financial statements would have to detail the nature of lease contracts, the nature and amount of subleases, information about short-term leases, maturity analyses, and significant assumptions and judgments, among other information. While these details may be useful to the users of financial statement, we should not lose sight of the fact that these requirements would add substantially to the administrative burden associated with implementation of the new standards.

Further, if these changes are adopted, ACEC strongly recommends a lengthy implementation period in order to allow engineering firms sufficient time to comply. Implementing the kind of changes FASB and IASB have envisioned would require modifications to IT and accounting systems, as well as additional staff training. It would be challenging to allocate scarce resources to this accounting change without significant lead time.

ACEC respectfully requests that FASB and IASB consider not only the significant administrative burden associated with these proposed accounting changes, but also the substantial financial consequences to those firms that are parties to government FAR-based contracts if all leases are treated as capital leases.

Sincerely,



Katharine Mottley
Director of Tax & Regulatory Affairs