A group of 60 members of Congress, led by two CPAs turned lawmakers, have written a letter to the Financial Accounting Standards Board warning of “disastrous consequences” for American businesses and the real estate industry if FASB’s proposed changes in lease accounting standards are approved.

The letter, from Congressmen Brad Sherman, CPA, D-Calif., and **John Campbell, CPA, R-Calif**., along with 58 other members of the House from both parties, urges a careful rethinking of the proposed rule changes, which FASB has been working on with the International Accounting Standards Board as one of their four remaining priority convergence projects.

“As one of only a few certified public accountants in Congress, and a co-founder of the bipartisan, bicameral Congressional CPA and Accountants Caucus, I have a unique understanding and the utmost respect for FASB’s independent process for developing sound accounting standards,” Sherman said in a statement. “That’s why I helped lead this effort in Congress to make sure that FASB carefully considers the potential consequences of this proposal.”

Under the recent lease accounting proposal from FASB and the IASB, U.S. companies that lease office, industrial, and retail space would be required to capitalize the costs of their leases—just as if they purchased the property—onto their balance sheets. Currently companies record the costs of their leases as a business expense.

An independent study estimated that this change would add over $1.1 trillion in leased real estate assets and liabilities onto businesses’ balance sheets.

A FASB spokesperson said the board would take into account the study before finalizing its standards, which are still a work in progress.

“Investor protection and financial disclosure are always paramount,” said Sherman. “However, forcing companies to capitalize the full value of their leases will explode many companies’ balance sheets overnight, especially small businesses, who already book their leases as an expense on financial statements. Capitalizing these leases will throw off debt-to-capital ratios, ruin credit ratings and force many companies to pay higher interest rates. As a result, most companies will naturally try to reduce the size of their leases by shortening leasing terms, which will increase costs for real estate owners and managers forced to renegotiate complex leases every six or eight months."

The Sherman-**Campbell** letter insists that FASB undertake and publish a comprehensive study of the costs of this proposal before any final action is taken.

They pointed to a study that has already been released by Chang & Adams Consulting that indicated the current lease proposal would negatively impact job creation, the health of the U.S. commercial real estate sector, loan covenant agreements, and liabilities of U.S. publicly traded companies.

"We believe it is imperative that FASB and IASB undertake and publish an all-inclusive economic impact study before any final action is taken on the lease accounting proposal," Sherman and Adams wrote in their letter to FASB chair Leslie Seidman. "The study should examine all potential economic consequences for businesses that own, invest, and rent commercial real estate. This should include, but not be limited to possible effects, such as higher rents, further reduced property values due to shortened lease terms, administrative costs and problems resulting from obscured financial reporting, which were not calculated under the Chang & Adams study. Additionally, the potential increase on borrowing costs for all commercial real estate participants as well as the financial and regulatory impact on lending institutions must be fully examined. Finally, field testing should be undertaken to identify any further potential economic consequences before the proposal is finalized, as well as in the pre and post implementation phases of the final standard."

FASB spokesman Robert Stewart pointed out that the board plans to issue a new exposure draft of the leasing standards to give constituents another opportunity to suggest changes in the standards. "The FASB welcomes the input of members of Congress about our proposals," Stewart said in a statement. "We agree that accurate and transparent financial reporting is the cornerstone of global capital markets. Indeed, the primary purpose for adding the leasing project to the board's agenda was to respond to feedback from investors and other financial statement users about the lack of transparency relating to material lease obligations that today are reported off-balance sheet.

“The FASB and the IASB have been working together to improve and converge the accounting for lease rights and obligations since 2006,” Stewart added. “The SEC staff in 2005 identified leasing as a form of off-balance sheet accounting that needed to be reconsidered. Investors have told us that they routinely adjust the financial statements of companies to add the liabilities relating to operating leases. The Boards’ proposal aims to provide that important information in a consistent, unbiased way to investors—not to influence business activities in any particular manner.

“The boards issued an initial proposal in 2010, and have been working to address a number of issues related to complexity, clarity and certain implications of the proposal, including the change in accounting for rent expense. Because of the extent of changes made in response to the feedback received, the Boards plan to issue a new exposure draft for public comment in the fourth quarter of 2012. The Chang & Adams study will be considered as part of the due process procedures that will inform the FASB’s ongoing deliberations with the IASB on this topic.”