March 2, 2015

Mr. David Bean  
Director of Research and Technical Activities  
Project No. 3-24P  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

The Maryland State Comptroller’s General Accounting Division is pleased to have the opportunity to comment on the Governmental Accounting Standards Board (GASB) Preliminary Views (PV), Leases.

Chapter 2 - Applicability and Scope. - Definition of a lease.

Paragraph 4. We agree with the PV that a lease would be defined as a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction.

Comment: Paragraph 9. Leases that transfer ownership of the underlying asset, do not contain a termination option, or contain a bargain purchase option, should be reported as financed purchases of that asset and not subject to these preliminary views. Under GASB No. 62, Paragraph 213, leases that met one of the four criteria were treated like financed purchases and a fixed asset was recognized. Will these leases need to be reexamined if they do not transfer ownership or contain a bargain purchase option? Will their assets be derecognized if their lease term is equal to 75% or more of the estimated economic life of the leased property, or the present value at the minimum lease payments, equals or exceeds 90% of the fair value of the leased property?

Chapter 4 - Lessee accounting.

Paragraph 10-12. We agree future minimum payments should be discounted using the rate the lessor charges and that the liability should be remeasured if this rate changes.

Paragraph 16. We agree the leased asset generally should be amortized in a systematic and rational manner and reported as amortization expense, which may be combined with depreciation expense related to other capital assets for financial reporting purposes. Our fixed asset system subsidiary ledger currently records capital leases and other intangible assets which is reconciled to the State’s R*STARS Accounting System.
Paragraph 22. We agree with the Board's disclosure requirements for leases. The State has a large number of lease contracts and we anticipate no problems reporting these requirements.

**Chapter 5 - Lessor accounting.**

Paragraph 14. The Board's preliminary view is that a lessor should not derecognize the underlying asset in the lease. This would be a change from existing guidance for sales-type and direct financing leases, which require derecognition.

Comment: If lessors with current sales type and direct financing leases need to recognize the underlying asset now because ownership does not transfer, does this subject the lessee which previously recorded a capital asset to now account for the leases under these preliminary views rather than as a financed purchase?

**Chapter 6 – Short Term Lease Exception**

Paragraph 3-5. We agree with the short-term lease exception. The maximum possible term of 12 months or less would be the noncancellable period, including any notice periods. We report this rental expense and revenue in our Notes currently.

We appreciate this opportunity to comment. If you have any questions or need to clarify our comments please do not hesitate to contact me at 410-260-7821.

Sincerely,

\[Signature\]

Wayne P. Green, CPA
Director

cc: Kim O'Ryan, National Association of State Auditors, Comptrollers and Treasurers