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Lobbying Behavior: Evidence from Proposed Changes in Lease Accounting

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Lobbying Behavior: Evidence from Proposed Changes in Lease Accounting

by

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Prof. Patricia Dechow, Chair
Prof. Richard Sloan
Prof. Alastair Lawrence
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Abstract

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This dissertation examines the motivations that lead some firms to lobby against the proposed change in accounting for leases. There are at least three distinct motivations for a company to lobby against the proposed change: a high perceived cost of implementation, a belief that the change will increase the cost of capital, and the management's desire to avoid incurring any personal costs associated with the change (i.e. an increase in workload). My research suggests that companies that engage in lobbying are concerned with the costs of implementing such changes (renegotiation of debt covenants, an increase in auditor fees, the replacement of IT systems, etc.), but companies also seem to be motivated by the desire of accounting managers to avoid any additional effort that the change would require.

Dedication

For my parents, Maria Cristina and Jaime Henrique, for their endless love and support over the years. For my brother, Henrique, who always kept me on my toes. For my love, Natalia.

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Chapter 1

Introduction

I examine the motivations that lead companies to lobby the Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB) against the proposed changes in accounting for leases. This study is motivated by the fact that, although the proposed change is not expected to have a major economic impact, it has generated a strong push-back from companies. With more than 1,400 comment letters sent to FASB, the proposed change is one of the most contentious projects in the past few decades. The current proposed change in accounting for leases provides a unique setting in the sense that there are two distinct types of firms that would be affected by the proposed change: lessees and lessors. These distinct types of firms are very likely to be affected differently by the capitalization of leases so their motivations to engage in lobbying are expected to differ from each other.

In 2009 FASB/IASB started a joint project to revisit lease accounting. The aim was to address concerns that the current standard (SFAS 13) does not meet the needs of investors. The new standard was first proposed in 2010 and is expected to take effect in 2017. The main effect of the proposed change would be to end the use of operating leases, instead requiring the capitalization of all leases. The objective of the joint project is to increase the comparability of firms by avoiding similar transactions being reported differently on firms' financial statements. This occurs due to the bright-line rules of SFAS 13[1] that differentiate between operating

[1] The Financial Accounting Standards Board has ruled that a lease should be treated as a capital lease if it meets any one of the following four conditions: (a) the lease life exceeds 75% of the life of the asset; (b) there is a transfer of ownership to the lessee at the end of the lease term; (c) there is an option to purchase the asset at a "bargain price" at the end of the lease term; (d) if the present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

and capital leases.

Ex-ante it is not clear why firms would lobby in favor of or against the proposed changes. If stakeholders understand the implications of off-balance-sheet leases the change should have minor effects. However, if a certain group of stakeholders is not correctly adjusting for operating leases it is possible that the proposed change would increase the perceived risk of the company for this group. Even if the proposed change has no economic effect due to efficient markets, it is still possible for management to dislike it due to their belief that stakeholders are not properly adjusting for operating leases. It is evident form the comment letters that most companies lobby against the proposed change. The main arguments they use for the opposition are the implementation cost (predominantly related to changing debt covenant contracts and implementing new IT systems) and the failure to increase comparability between firms due to the number of assumptions required by the proposed change to capitalize leases. The question that this dissertation addresses is whether companies are opposed to the proposed lease changes because they perceive that this would increase their operational costs, they believe the new rule will increase their cost of capital, or simply because the management of the accounting departments would like to avoid incurring any personal cost (i.e. increase in workload, complexity of financials) that would accompany the adoption of the new rules.

To test my hypothesis I use a sample of more than 1,400 comment letters sent to the FASB/IASB. Of the 1,454 comment letters, I was able to identify 300 unique lobbying firms traded in the U.S. and covered by Compustat. In addition, I have identified numerous associations lobbying against the change and, where possible, their members. This second sample includes 465 unique firms. A limitation of this sample is the inability to identify which members have exerted pressured on the association to lobby.

The main results are based on a logistic regression that tries to identify firms' characteristics that are expected to predict an increased likelihood of the firm lobbying against the proposed change. Lobbying firms are larger, have more debt covenants related to leverage and interest coverage, as well as a higher proportion of stock being held by institutional investors, and a higher level of abnormal leases and litigation risk. In addition, I find no evidence of lower accounting quality for lobbying firms when compared to non-lobbying firms. This indicates that firms do not seem to use operating leases to mislead investors or, if they do, this is not reflected in other areas of their financial statements. The proposed changes will very likely have an impact on remuneration contracts since some financial measures are going to be affected (e.g.

EBITDA). In addition it is possible that the workload of the accounting department of firms will rise. This can be an indication that although few real economic effects are expected, management is against the change due to its desire to maintain the status quo, thus avoiding the need to expend effort adjusting to this new reality.

This dissertation contributes to the current literature by investigating if lobbying firms, and those more likely to use operating leases, have any unique characteristics that could raise red flags for investors. Some researchers have argued that firms engage in operating leases more than is predicted by theory (Imhoff and Thomas (1988), Cornaggia, Franzen, and Simin (2012)). They conjecture that this is due, at least in part, to the off-balance-sheet property of operating leases. This dissertation also complements the current lobbying literature by analyzing the behavior of firms even when management compensation is not expected to be strongly negatively affected. Literature in lobbying behavior (Dechow, Hutton, and Sloan (1996), Ramanna (2008)) has shown that firms are more likely to engage in lobbying with FASB when the proposed change is more likely to affect management self-interest (e.g. compensation). In the proposed change in accounting for leases the main effect is expected to be on the balance sheet rather that the income statement.

The remainder of the dissertation is organized as follows. Chapter 2 reviews existing literature. Chapter 3 describes the data and the research design used in this dissertation. Chapter 4 presents results, Chapter 5 presents robustness tests results, and Chapter 6 concludes.

Chapter 2

Hypothesis Development

2.1 Related Literature

The term "comment letter" has two different meanings in the financial reporting field. The one used in this study refers to letters written by the public to the FASB or the Securities Exchange Commission (SEC) in response to requests for public comment on proposed accounting and reporting standards. The second use of the term "comment letter" refers to correspondence between SEC staff and SEC filers.

In response to FASB/IASB Exposure Draft ASC 840/842, numerous firms sent comment letters claiming that changing accounting for leases would be so costly that the project should not be pursued at this time. One such example is the report published by Chang and Adams Consulting in February of 2012. It claims that in a best case scenario the change in the rules would cost the U.S. economy 190,000 jobs and reduce U.S. Gross Domestic Product (GDP) by $27.5 billion annually. These results are derived from the assumption that historical data would still be valid under the new rules and that companies would forgo projects rather than renegotiating debt covenants and adjust themselves to new leverage ratios.

A line of research that supports the FASB/IASB view of the necessity of the capitalization of operating leases is the disclosure research that investigates whether market participants react differently to recognition than to disclosure on financial statements. A number of papers (e.g. Aboody (1996), Ahmed, Emre, and Lobo (2006)) find that investors react more strongly to recognition than disclosure in footnotes. One possible explanation is the limited attention hypothesis (Hirshleifer and Teoh (2003)).

Current literature has shown that the proposed change in accounting for leases proposed by FASB on Exposure Draft ASC 840/842 will impact the financial ratios of leasing firms. Cornaggia, Franzen, and Simin (2013) argue that debt ratios and Z-scores are going to change after the capitalization of leases on the balance sheet and that not only will levels change but also the relative rankings of firms based on Z-score or debt ratios. Singh (2012) shows that the impact on leverage and profitability ratios for the restaurant and retail industries will be significant. Corroborating Singh (2012), Wicker and Young (2011) find that the leverage ratio is going to increase significantly for the S&P 500 firms, especially those in the wholesale/retail industry. The authors conjecture that if financial analysts do not adjust properly for such obligations, the capitalization of them will cause a steep increase in the cost of capital of such firms.

Some authors investigate specific parts of the proposed change in lease accounting, showing their respective conclusions and possibly serving as guidance for the FASB/IASB final draft. Hales, Venkataraman, and Wilks (2012) perform an experimental analysis and conclude that the inclusion of a renewal period can make it harder for firms to raise capital unless they separately disclose the minimum obligation period and the renewal period. Another common argument against the capitalization of leases as proposed in ASC 840 (and now ASC 842) is the fact that lease expenses would be front loaded, which does not represent the true economics of the lease. Looking over the amortization effect, Jennings and Marques (2013) find no evidence that straight-line amortization, as proposed by FASB/IASB, works better than the present value approach and, in fact, find some evidence to the contrary.

At the same time there are a number of papers that present evidence that companies structure their leases so as to keep those assets off-balance-sheet and that some market participants do not fully adjust for information available in the footnotes. Imhoff and Thomas (1988) show that capital leases decrease after SFAS 13, and provide evidence that firms want to keep leases off-balance-sheet. The results of Cornaggia, Franzen, and Simin (2012) also support this theory by documenting high levels of excessive leasing among firms investigated by the SEC (or Department of Justice) for accounting misrepresentation (or fraud) and find that the propensity toward excessive leasing is curtailed by the scrutiny of institutional investors. Ge (2006) presents evidence that off-balance-sheet is negatively related to future earnings and stock performance and that investors seem to value them as if they were positively related to future performance. On the other hand, Altamuro et al. (2012) present results consistent with bond investors using off-balance-sheet information to determine spreads in the absence of a credit rating by Standard and Poor's. It is

clear that there is no consensus regarding how well market participants adjust for operating leases. For example Dhaliwal, Lee, and Neamtiu (2011) find that investors do adjust for operating leases but less so than for capital leases. Corroborating these results, Callahan, Smith, and Spencer (2013) find that the market places greater weight on synthetic lease obligations recognized after FIN 46, which required recognition of certain leases instead of disclosure. On the other hand, Bratten, Choudhary, and Schipper (2013) find that there is no statistical difference between recognition of capital leases and the disclosure of operating leases. The authors regress the standard deviation of returns, loan spreads, cost of equity, and cost of debt on control variables and the leverage attributed to capital leases and to operating leases. They found that the there is no difference between the coefficients when the operating lease information is reliable (short lived leases). The authors conclude that this is evidence that capitalizing leases is not necessary since the markets already adjust for it. One caveat of this study is that it cannot differentiate between more and less sophisticated investors. Also the results hold only for short-lived leases.

A possible explanation for the choice of operating leases over debt is that firms that are financially constrained may be unable to raise debt and hence use leases to finance their operations. There is a vast literature investigating the effects of financial health, costs of bankruptcy and access to external funds to explain the decision to lease or buy assets (Krishman and Moyer (1994), Barclay and Smith (1995), Sharpe and Nguyen (1995), Graham, Lemmon, and Schallheim (1998), Eisfeldt and Rampini (2009), Beatty, Liao, and Weber (2010), Zechman (2010)).

Previous research (e.g. Beatty and Weber (2006), Ramanna (2008)) has shown that firms engage in lobbying to avoid a negative impact on their reported earnings. Lease accounting, in contrast, is more likely to have a greater effect on balance sheets than income statements. Ramanna (2008) analyzes the motivations behind lobbying with FASB in regards to SFAS 142 (accounting for goodwill). His results indicate that firms/managers' incentives explain the direction and decision to engage in lobbying. These results also suggest that the change in SFAS 142 from its original Exposure Draft is due in part to lobbying from firms. The paper suggests that to a certain extent lobbying with the FASB can change proposed rules and that firms make the decision to lobby based on their own incentives. Christensen and Nikolaev (2012) present evidence that different types of covenants (capital vs. performance) are positively associated with the financial constraints of the borrower, and the extent to which accounting information reflects credit risk and the likelihood of contract renegotiation. Finally, anecdotal evidence from the media and comment letters note that the larger concern of firms seems to be the high cost of implementing the rule

changes (e.g. increase in auditor fees, change in IT systems to track leases) and the economic effects associated with the proposed change (e.g. higher borrowing costs) but seems to be silent about the differential effect for firms with different incentives.

This study makes four contributions. First, it provides evidence of the proposed arguments behind the lobbying against the Exposure Draft ASC 840/842. Second, while current literature has presented some evidence of the effects of capitalizing leases, the motivation for the decision to be more vocal against the proposed change in the rules of accounting for leases has not been previously addressed. Third, this dissertation explores the apparent motivations that drive companies to lobby against a change in rules that is more likely to affect the balance sheet than the income statement and the perceived risk of the firm. Finally, this study complements previous studies in the lobbying literature by analyzing what drives companies to lobby when managers' incentives, and possibly also their compensation, are negatively affected by the change in accounting rules.

2.2 Background on proposed change on accounting for leases

In 2009, the FASB and IASB established a joint project to reevaluate the accounting for leases. The objective of the project was to respond to concerns about balance sheet distortion caused by off-balance-sheet activities. The new accounting for leases is expected to "develop a new approach to lease accounting that would ensure that assets and liabilities arising under leases are recognized in the statement of financial position". The FASB and IASB released the exposure draft (ASC 840) proposing the new rules for lease accounting in August of 2010. The major change would be the capitalization of assets and liabilities of all leases for lessees. They received 786 comment letters in response to the exposure draft in the year 2010 and 10 (11) unsolicited comment letters in 2011 (2012). The combined boards released a revised exposure draft (ASC 842) in the first quarter of 2013, with a 120-day comment period. The revised version received 641 comment letters in 2013. The high volume of comment letters is a clear indication that this is one of the most contentious projects proposed by the FASB. It is expected that the final standard will be issued in 2014 and will not become effective before 2017.

Under US GAAP standards operating leases do not appear on the balance sheet either as an asset or a liability. The expense pattern of operating leases mirrors its cash flow effects and is classified as rental expenses. The Financial Accounting

Standards Board has ruled that a lease should be treated as a capital lease if it meets any one of the following four conditions:

(a) The lease life exceeds 75% of the life of the asset;

(b) There is a transfer of ownership to the lessee at the end of the lease term;

(c) There is an option to purchase the asset at a "bargain price" at the end of the lease term;

(d) If the present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

Under the proposed changes the bright-line distinction between operating and financial leases would cease to exist. All leases would be treated in a similar way to the treatment of financial leases currently employed under SFAS 13. In Table 1, I present an example of how a lease would be treated under the proposed standard. It is possible to observe that, although both methods have the same total expenses over the life of the lease, they have different expense patterns; under Type A expenses would be front ended while under Type B one would have a straight-line expense. Companies are required to use Type A when they use more than an insignificant part of the asset and the asset is not real estate, while Type B is reserved for real estate assets or when the lessee will not use more than an insignificant portion of the leased asset. Short-term leases, with a maximum period of 12 months including any renewal option, would be exempt from the new requirements and would still be kept off-balance-sheet.

2.3 Lessees' motivations to lobby

There are several motivations that can lead some firms to be more likely than others to engage in lobbying against the proposed rule change. The main three areas investigated in this dissertation are: (1) a possible increases in a firms' cost of capital, (2) the costs incurred to implement the proposed changes (for example renegotiation of debt covenants) and, (3) the personal cost imposed on management through to the increase effort and possible litigation risk that comes with adhering to the new standard. I hypothesize that companies with debt covenants that are based on leverage ratios are more likely to lobby against the proposed change. The main reason is that the proposed changes will directly affect debt ratios for firms with operating leases. Although I hypothesize that most lenders will adjust their debt covenants and firms will avoid being in technical default, the cost incurred by firms to renegotiate debt covenants can be non-negligible. In addition to the existence of debt covenants, I predict that the tightness of the covenants is another factor that influences the de-

cision to lobby. I believe that the tighter the debt covenant, the higher the cost for the firms (i.e. the higher the chance of technical default in case of no renegotiation, the higher the cost to renegotiate).

Another factor that can influence firms to lobby is the firm's desire to conceal its leverage. In that sense I expect firms that have more leases relative to their reported assets to have a higher incentive to lobby. With the change in the rules many firms would exhibit and increase in their debt ratio and bankruptcy proximity levels (i.e. Z-score level). This may prompt less sophisticated investors to realize the true risk of these companies. Not only are the levels of ratios going to change but also their relative rankings (between industries and within industries). Firms that engage in operating leases to avoid balance sheet effects are more likely to suffer bigger changes in rankings than their peers. This should result in a higher cost of capital for these firms if leases have to be capitalized.

Anecdotal evidence from comment letters and media coverage shows that firms are highly concerned with the transition costs to implement the proposed changes (e.g. change in auditor fees, change in IT). Although these costs can be significant, I believe they are short lived and are directly related to the size of the firm and the level of operating leases.

Additionally it is possible that the decision to lobby is a result of the pressure exerted by the directors of the accounting departments of the lobbying firms. They may seek to avoid incurring the personal cost that may occur with the change. The personal cost can be an increase in workload due to the necessity of tracking leases and a higher exposure to lawsuits and job instability given the great number of assumptions a manager would have to make when capitalizing operating leases.

2.4 Lessors' motivations to lobby

The firms sending comment letters to FASB can be divided into lessees and lessors (some companies identify themselves as both). The incentives for lessors seem to be radically different than those of lessees. The predictions described above are more relevant to lessees than to lessors. A possible implication for lessors is that once leases have to be recorded on the lessees' books, they will lose a competitive advantage over other types of financing; thus, their price is likely to decrease. While I would like to address the implications for both lessors and lessees, it is difficult to develop a test that captures ex-ante the effects that the rule change will have on lessors. I provide

the relative importance of leases for the lessor companies lobbying with the FASB and show that it is significant for most of those firms.

A possible alternative explanation for lessors to lobby with the FASB is due to the tax benefit of leases. This does not seem to be a relevant concern since the only modification is going to be on the financial statements of lessors and lessees but will have no change on how the IRS treats leases and so will not affect the tax benefit of leases. Additionally it is possible that lessors prefer to have the assets on their balance sheets to use as collateral. The proposed change in accounting for leases will affect lessors by derecognizing the underlying asset and recognizing a lease receivable. This change will not significantly affect lessors' debt ratios and assets since a decrease in the lease asset will be balanced by an increase in the lease receivable. Also the change in the reported financial statement is not going to change the ownership structure of leases so lessors will still be able to use leased assets as collateral.

2.5 Hypothesis

It would appear that there are two opposing theories that could explain firms' strong response to the proposed change in accounting for leases. Judging from the comment letters sent to the FASB and anecdotal evidence from the media, many companies argue that the costs (e.g. increase in audit fees, change in IT systems to keep track of personnel, increase in borrowing costs due to higher leverage ratios, renegotiation of debt covenants) of the implementation outweigh the benefits of the project. The opposing view says that firms structure leases to take advantage of its off-balance-sheet properties and that often the choice for leases cannot be explained if not for the intent of keeping obligations off balance sheet and hiding their true risk. This dissertation addresses these theories and tries to identify the motivation behind firms lobbying against the proposed change in accounting for leases. My hypotheses are as follows:

H1: Those firms that have more leases relative to their reported assets have the greatest likelihood to lobby against the proposed changes.

H2: Those firms that are expected to incur the highest cost of implementation have the greatest likelihood to lobby against the proposed changes.

H3: Those firms whose perceived risk, and consequently their cost of capital, are expected to increase the most following the rule change will have the greatest likelihood to lobby against the proposed changes.

In contrast to the previous hypotheses, personal, as opposed to firm-level considerations, motivate my final hypothesis.

H4: Firms engage in lobbying against the capitalization of operating leases due to the desire of management to avoid exposing themselves to any personal cost (an increase in workload and litigation risk) that may be associated with the rule change.

Hypothesis 1 is tested by comparing the level of capitalized operating leases (further discussed in Section 3.2) relative to the reported total assets of lobbying and non-lobbying firms. I expect that firms with more operating leases will have a higher incentive to lobby the FASB/IASB against the proposed change in lease accounting.

It is difficult to estimate ex-ante costs of the possible adoption of the proposed change that is the focus on Hypothesis 2. To proxy for those costs I use the existence of a debt covenant based on either leverage or the coverage ratio. These are the two most common debt covenants and also the ones that are expected to be more heavily affected. The existence of debt covenants can indicate a concern with the possibility of having to renegotiate debt covenants with the capitalization of operating leases and the costs associated with such renegotiation. I also consider if those companies would be in violation of debt covenants and how close they would be to violating those covenants in the case of no renegotiation. I further analyze the firm litigation risk since I expect that firms with a higher risk would expect a higher possible cost associated with lawsuits being driven by investors' better understanding of the firm leverage. I follow Kim and Skinner (2012) to compute litigation risk using their model and the variables available on Compustat and CRSP.

$$\begin{aligned} LitRisk_t = -7..718 + 0.18 * FPS_t + 0.463 * \ln Assets_{t-1} + 0.553 * SalesGrowth_{t-1} \\ - 0.498 * Return_t - 0.359 * ReturnSkewness_t + 14.437 * ReturnStdDev_t \\ + 0.004 * Turnover_t \end{aligned} \quad (2.1)$$

$$LitigationRisk = \frac{\exp LitRisk_t}{1 + \exp(LitRisk_t)} \quad (2.2)$$

The idea is that firms with higher litigation risk do not want higher earnings volatility as this can trigger litigation. Also, even in the absence of an increase in earnings volatility I hypothesize that firms with higher risk of litigation are more

likely to oppose the proposed change since this will expose more of their financial risk, possibly increasing the likelihood of being sued.

A low number of firms give a specific figure for the expected cost of implementation of the change. This cost is 3.5% of their net income. I use this value as a proxy of expected cost of implementation. In addition to this I use lease duration as a proxy of the administrative burden that the proposed change would impose on companies. This variable is interesting because it can proxy for two different effects. Firms with short leases will have to add and remove leases from their books with higher frequency, so the operational time spent on this can be costly to those firms. This variable is interesting because it can proxy for two different effects. Firms with short leases will have to add and remove leases from their books with higher frequency, so the operational time spent on this can be costly to those firms. On the other hand, if the lease is longer the renewal option period is further away and uncertainty is higher. This uncertainty can be costly due to the required review of this assumption each period and because the changes in the probability of renewal options can affect income volatility. So while short leasing periods can be a signal of operational costs, it is hard to argue that long periods are not also a proxy for possible cost. In order to address the possibility that earnings volatility is a major concern, I also focus on the ERC and litigation risk.

The cost of capital hypothesis (H3) is tested by analyzing different variables that proxy for the change in the company's perceived risk by investors. Variables associated with perceived risk that will be directly affected are: change in leverage, change in ROA, and change in the Z-Score. Variables that are not directly related to risk but proxy for the excessive use of operating leases due to their off-balance-sheet properties are : abnormal leases developed in Graham, Lemmon, and Schallheim (1998) and opacity measures developed in Zechman (2010). Finally, I expected the firms that have less information being analyzed by more sophisticated investors would be the ones where their cost of capital would be most affected. To proxy for the information available to investors I analyze the existence of a rating, the number of analysts following the company, and the average number of headlines the company has per week.

I use different proxies for Hypothesis 4. First, I look over how representative is stock based compensation as a percentage of CEOs' total compensation. If CEOs believe that the change will be costly, and thus will be reflected in the stock price at some point, they are more likely to be involved in the lobbying process. This will be even more pronounced for the CEOs with a higher proportion of their compensation

is comprised of equity issuances. Second I look over CEOs age. The older the CEO is, the lower their incentive to learn new skills and to adapt given their shorter horizon to retirement. Finally, if top management believes this will be costly to the company I believe they will be more engaged to in the lobbying process with the FASB/IASB. To test for this I compare top level management involvement in the current lobbying process with the lobbying behavior seen in the proposed changes for stock option compensation (SFAS 123) and goodwill (SFAS 141/142). Similar to the accounting leases project, the other two projects have generated considerable push-back from companies. Therefore, they are used as a comparison group to examine management involvement in the lobbying process.

Chapter 3

Data and Research Design

3.1 Data and Research Design

I begin the data collection by reviewing the 807 (647) unique comment letters sent to FASB/IASB in response to FASB Exposure Draft ASC 840 (ASC 842). From those 1,454 comment letters I can identify 449 firms covered by North America Compustat. Of those firms, 300 have total assets, stock price and shares outstanding for the year 2010. Of this total, 73 are financial firms that are not included in the main analysis. I have excluded financial institutions due to the fact that this industry is regulated and highly concerned with capital requirements and leverage ratio. In contrast to other industries, where investors' perception and industry practice determine the maximum leverage, the financial sector has to abide by the limits that were determined by regulators. This aspect makes it a unique industry where not only the capitalization of leases would affect investors perception and debt covenants but also their profitability by limiting their ability to do business.

Lobbying firms are those companies that have sent a comment letter to FASB Exposure Draft (ASC 840/842) for leases. To be included in the sample, I additionally require that firms have data available to compute market-to-book, leverage ratio, Altman's Z-score, litigation risk, leverage and abnormal lessees. Finally, I match lobbying firms with non-lobbying firms in size (total assets plus capitalized leases), 3-digit-SIC code (when not possible I use 2-digit-SIC code) and year. This gives a final sample of 96 matched lobbying firms. I exclude financial institutions from the main analysis because many of the variables used are not available for financial institutions (litigation risk, Z-score, unexplained operating leases, etc.). The analysis of this dissertation focuses on fiscal year 2010, the year in which the exposure draft

was released.[1]

In Table 2 I present the distribution of comment letters sent to the FASB/IASB by the different entities. By far the most common entity are companies which are responsible for sending 831 of the 1454 comment letters. After that we have associations with 297 comment letters, professional associations with 114 comment letters, and individuals with 87 comment letters. This reinforces the use of comment letters as a lobbying activity since the firms that will be affected by the changes are responsible, directly or indirectly (i.e. through associations), for more than 75% of all comment letters. I further breakdown the sample of comment letters between ASC 840 (the original proposed new standard released in 2010) and ASC 842 (the revised version released in 2013). Table 3 presents this result and confirms that the changes proposed by the FASB/IASB on the revised draft have not significantly affected the composition of the sample.

In the comment letters it is possible to identify industry associations lobbying in addition to individual firms. I collect membership information from those associations lobbying against the change and add those firms to a second sample that includes firms lobbying directly with the FASB as well as members of associations lobbying with the FASB. I realize that this sample adds noise since it is not possible to know which members of those associations are encouraging the association to lobby. However, it is possible that firms are not willing to lobby directly so they choose to remain incognito by taking advantage of the anonymity that lobbying through an association provides. For this sample I end up with 148 matched lobbying firms.

After I identify lobbying firms that are available on Compustat and can be used in the study, I review the comment letters of those firms (associations) a second time to identify how they position themselves in regard to the project (in favor, neutral, against, strongly against)[2] and the reasons why they oppose the project, or at least the technicalities they wish to comment on. In Figure 1, I present the distribution of tones. The figure shows that 50% of the companies are generally against the proposed change in accounting for leases, between 25% and 30% are strongly against, and 20% are neutral. These firms are not opposed but do have some concerns over the proposed changes and would like those points to be addressed by FASB/IASB

[1]I would like to thank Michal R. Roberts for providing me the link table between Compustat and DealScan, and John Graham for providing me with his measure of marginal tax rate (MTR).

[2]Due to the unstructured way that companies wrote the comment letters it was not possible to use machine scripts to identify comment letters' tones. The data is available upon request to the author.

before the final standard is completed. Lobbying firms in Figure 1 are all lessee and lessor firms that have sent comment letters to FASB/IASB, excluding financial institutions (i.e. SIC code between 6000 to 6999). Figure 2 shows that regardless of the type of firm (lessees or lessors) and the granularity of lobbying firms (companies or associations), around 80% of comment letters oppose the change. Since I exclude financial institutions from the main analysis, I have decided to separate them from the descriptive data as well and report the characteristics of the financial institutions only as a robustness check. Figure 3 presents the same analysis for financial institutions. It is worth noting that financial institutions seem to have a greater propensity to oppose the proposed change. Only 9% of them are neutral and none are in favor. One possible explanation is that the proposed change will impose even higher constraints on financial firms due to their capital requirements. Another explanation is that a higher proportion of the financial institutions are engaged in real estate investments, so financial institutions are more likely to have their business affected if companies move away from leases when the off-balance-sheet property of operating leases is taken away.

In Figure 4, I present the main concerns and oppositions being raised by lobbying firms. It is very common to start the letter by stating that, while they agree with the FASB/IASB goal and the capitalization of leases, they do have some concerns about the proposed change. More than 25% of the entire sample claim they are in favor of capitalization. This is interesting when we compare 75% of the sample in Figure 1 that is against or strongly against the proposed change. It is possible that this is a boiler plate response used to hide the company's intention or to avoid arousing investors' concerns. By far the biggest opposition is in regard to the inclusion of the renewal option on the lease term and contingent payments. More than 60% of lobbying firms oppose this inclusion. Another typical comment is that immaterial and/or short term leases should be excluded from the capitalization requirement. The biggest question here is if lobbying firms are opposed to the change because it will make it harder to engineer contracts that avoid showing the true risk of liabilities and assets on the books or because this requires a greater amount of discretion and uncertainty. It is also possible to see that most firms claim that the proposed change will be costly. They seem to identify the biggest cost as the change in their IT systems to keep track of leases. An increase in auditor fees is mentioned as a possible cost in only 6% of the cases. Other popular responses include the cost to renegotiate debt covenants (8%); a major part of the cost of the proposed change is due to the difficulty in determining the probability of renewal options and contingent payments (5%), ratios will be affected (6%), the proposed change raises the complexity for final users and/or makes firms less comparable (25%), the proposed change will

affect earnings due to its front ended nature (16%), and that firms would like a better definition of what is a lease and what is a service (36%). Firms do not usually give a figure of the estimated cost to implement the proposed change (as evidenced in Figure 4 where only 2% of the firms give such a figure) but when they do the mentioned cost is on average less than 1.5% of net income for year 2010 and in no instance is it more than 3.5% of net income.

Figure 5 shows that the same pattern is present independently if the company is a lessee or lessor with a noticeable change that lessees are clearly more concerned with the inclusion of a renewal period option to determine the total asset/liability to be capitalized. Although financial institutions are excluded from the main sample, it is quite evident that their concerns are quite different from those companies in the main sample. From Figure 6 it is evident that financial institutions are much more concerned with the effects of the proposed changes (i.e. expenses being front ended) than with technical issues (i.e. definition of a lease). This stands in marked contrast to the results presented in the main sample. Figure 7 shows that lobbying firms that are against the proposed change seem to be more concerned with the possible costs of the new standard (45%) and that these firms are the ones more concerned with the inclusion of a renewal option for leases capitalization (70%). Figures 8 and 9 present the same analyses, separating firms into lessees and lessors. It is very clear from the figures that for both lessees and lessors when the tone of the letter is more favorable (or at least neutral) to the proposed change, the points being raised are more technical. On the other hand, when companies are against it they express more concerns regarding the effects of such capitalization. Figure 10 demonstrates that financial firms feel more strongly against the inclusion of renewal options independently of the tone of the letters in contrast to the main sample firms. They do not seem to be particularly concerned with what will be considered a lease under the new standard.

In Appendix A, I present definitions of the variables used in the study. I perform a cross-sectional test of my main hypothesis that firms engage in lobbying due to their unique incentives. If the common belief that firms structure leases to avoid their recognition is true, then I predict that lobbying firms are going to have lower earnings quality and weaker corporate governance than their counterparts. The reason is that lobbying firms are those that potentially engage in operating leases simply to take advantage of their off balance sheet effect. Therefore, they are more likely to show a greater misalignment between investors' and managers' objectives.

I run a logistic regression, controlling for firm incentive variables to identify which factors lead firms to lobby against the proposed change in the accounting for leases.

The logistic model presented in this study is computed using backward elimination and the computational algorithm of Lawless and Singhal (1978) to compute a first-order approximation of the remaining slope estimate to subsequent variable estimations. The variables that are excluded in the backward elimination are done so based on these approximations. The significance level for elimination used in this dissertation is 15 percent.

Finally, I check who has signed the comment letters for the companies and compare this to the distribution of two other proposed changes in accounting rules (SFAS123 (Stock Options) and SFAS141/142 (Goodwill)). Following the same procedure I use on the current proposed change in accounting rules, I collect the comment letters from the FASB and identify the signatory and their position (whenever it is possible) for all the public companies listed in the US. The objective here is to test the personal cost hypothesis (H4).

3.2 Lease Capitalization

In this section I describe the methodology used in this dissertation to capitalize leases. The capitalization will affect the balance sheet, since operating leases are now going to appear as an asset and a liability, as well as the income statement due to the front ended nature of proposed expenses.

I follow Graham, Lemmon, and Schallheim (1998) to estimate the equivalent liabilities of off-balance-sheet operating leases. This is calculated as the present value of non-cancellable minimum lease payments. I also follow Graham, Lemmon, and Schallheim (1998) to compute the explained portion of leases by their theoretical model. The model regresses capitalized operating leases on marginal tax rate (MTR), economic cost (Ecost), modified Z-Score (Z Mod), an indicator variable if the company has negative equity (Oeneg), market-to-book (MTB), collateral (Col), size, and industry fixed factors. All variables are defined in Appendix A.

$$OpLease_0 = RentExp_0 + \sum_{\tau=1}^{5} \left(\frac{MLP_\tau}{(1+K_d)^\tau} \right) + \sum_{\tau=6}^{6+Addyrs} \left(\frac{EMLP_\tau}{(1+K_d)^\tau} \right) \tag{3.1}$$

Where MLP - Minimum Lease Payments, Addyrs - (Thereafter minimum lease payments)/MLP_5, EMLP - (Thereafter minimum lease payments)/Addyrs, $RentExp_0$ - is current rent expense, K_d - is cost of debt capital which is set to 10%.

$$OpLease/TV_{it} = \alpha_1 + \beta_1 MTR + \beta_2 Ecost + \beta_3 ZMod + \beta_4 Oeneg + \beta_5 MTB + \beta_6 Col + \beta_7 Size + \beta_8 d1000 + \beta_9 d2000 + \beta_{10} d3000 + \beta_{11} d4000 + \beta_{12} d5000 + \beta_{13} d7000 + \beta_{14} d8000 + \beta_{15} d9000 + \varepsilon \tag{3.2}$$

The model has a R^2 of 0.26.

To test if lobbying firms use abnormally large amounts of operating leases, I create a variable abnormal lease which is the residual from the model divided by the total level of operating leases. The variable captures if a firm engages in leasing even in the absence of a theoretical explanation for it.

Chapter 4

Empirical Results

In Appendix D, I present the distribution of companies by industry and the relevant representation for each industry. It is worth noting that while no industry represents more than 13% of the sample, some industries have a larger proportion of their members lobbying. For example, Railroad Transportation shows 60% of its firms available on Compustat engaging in lobbying activities. The same behavior is valid when I include firms that are members of associations that lobby with the FASB for the proposed change of accounting for leases. The number of lessor firms is roughly one third the number of lessee firms. It is worth mentioning that there are 15 firms in the sample that identify themselves in comment letters as lessee and lessor.

One concern I had was that an industry would not only dominate my sample but would also be so homogeneous that it would have no variance to identify the motivations to lobby. While not a single industry seems to have an over-representation of lessors when considering direct lobbying, this changes drastically when I include members of associations. The real estate investment sector has a representation of more than 40% of the lessors' sample and represents more than 42% of the available companies for that industry in Compustat. Since I am using a matched sample this would not significantly affect my results but it is important to validate that comment letters seem to reflect firms own beliefs rather than an industry wide perception.

It seems clear that the incentives to engage in lobbying can be very different for lessees and lessors. As noted previously, if the cost of implementation of the proposed new rule is the main concern then lessee and lessors motivations are similar, although the effects can be different since lessors are less likely to violate debt covenants due to the change in the accounting for leases. However, if the real motivation for lessees to lease is to keep liabilities off-balance-sheet so they seem less risky and

more profitable than they really are, it is very likely that lessees consider the off-balance-sheet property of leases particularly desirable and would be willing to pay less for leases in case this competitive advantage is taken away. If this is truly the case then lessees would require a lower payment for leases and/or would change the way they finance their assets (e.g. buying or using loans instead of leasing). This would directly affect the profitability of lessors. In Table 4, I present the importance of leases for the lessors as the percentage of revenues that comes from leases. Firms that identify themselves as lessors engaging in lobbying efforts have a large proportion of their revenue coming from leases. On average 68% of their revenue comes from leases but the percentage varies by industry. For example, for the Holding and Other Investment Offices industry, lease revenue represents around 91% of its revenue while for Transportation Equipment, it represents 5% of their revenue.

Table 5 presents the descriptive statistics. The first group of variables are basic firm characteristics to check if: (1) the matching sample is working as specified; and (2) there are any fundamental differences between the matching and non matching samples that could be driving the results and so should be controlled for. Additionally, I look over two different variables to proxy for the impact of the proposed change on the company financial statements. The major effect of the proposed changes are expected to be on the balance sheet. However, in addition to this the changes will also have an income statement effect. In the early periods of the lease financial profitability will be adversely affected by the front loaded nature of the proposed lease expenses. Table 5, Panel A, shows that the matching process is working given that lobbying firms have a mean (median) of Log(Assets) of 9.47 (9.66), while non-lobbying firms have a mean (median) of 9.47 (9.62). These differences are not statistically significant at the 10% level. Lobbying firms have a higher market-to-book than non-lobbying firms (mean (median) of 1.741 (1.528) versus 1.563 (1.377)). These differences are statistically significant at the 10% level. The mean (median) Z-Score for lobbying firms is 3.252 (2.64) versus 2.619 (2.507) and the difference between them is significant at the 5% (10%) level. The median decrease in ROA for lobbying firms is 2%, while that for the control group is 1%, the difference in median is significant at the 5% level and the difference in means is not significant. Lobbying firms also increase their leverage more than non-lobbying firms. The median increase is 15% against 10% for the control group. The difference is significant at the 10% level.

One common argument against the current rules of SFAS 13 is that companies structure leases to avoid its recognition and use operating leases more than they purely for their off-balance-sheet properties. I expect that if firms are really struc-

turing leases to avoid recognition, they also would exhibit worse financial performance than their peers. I try to capture this effect by applying proxies for earnings quality measures. None of the variables (ERC, return volatility and institutional ownership) have a statistically significant difference between the two groups. Of these variables the ERC is the one that has the bigger disparity between the two groups with the mean (median) of lobbying firms being 3.48 (0.98) while the mean (median) for their peers is 2.48 (0.76).

The third set of proxies has the objective of measuring the possible costs that firms would incur with the proposed change. The major costs identified would be: renegotiation of debt covenants, operational costs to track operating leases and litigation costs. These proxies are directly related to Hypothesis 2. The proxies used here are: indicator variable if the company has debt covenants on leverage or interest coverage ratio, indicator variable if the company would violate those covenants in the case they have to capitalize operating leases, how close they are to violating those covenants, the average life of the leases, the company litigation risk and the expected implementation cost (3.5% of net income). None of these variables have a statistically significant difference between the lobbying and non-lobbying firms. Lobbying firms have debt covenants in 51% of the cases and 14% of lobbying firms would violate their covenants based on interest coverage. On the other hand, non-lobbying firms have debt covenants 48% of the time and 10% of the control group would violate their interest coverage covenants. Finally, the proxies related to Hypothesis 3 are the last set of variables presented in Table 5. These variables proxy for a possible increase in the cost of capital for firms having to recognize operating leases on their balance sheets. Of these variables, the ones that have a statistically significant difference between the two groups are: change in Z-Score and abnormal leases. Lobbying firms have a median decrease in Z-Score of -0.05, while non-lobbying firms have median decrease of -0.04. The difference is statistically significant at the 10% level. Furthermore, lobbying firms have a median abnormal lease of 12% while non-lobbying firms have 0%. This difference is statistically significant at the 5% level.

Lobbying firms are larger, have a higher ratio of operating leases to assets, and are more leveraged than the average Compustat firm.[1] In fact, lobbying firms will increase their leverage ratio slightly more than non-lobbying firms if operating leases are capitalized. The median increase for lobbying firms is 15.1%, while for non-lobbying firms it is 9.9%. Lobbying firms have a high market-to-book and Altman's Z-score; their perceived risk and profitability will be affected more than non-lobbying

[1]This is based on an unmatched sample. Table 13

firms as evidenced by the change in return on assets (ROA) and change in Altman's Z-score. Interesting enough it is not possible find support for H1 since I do not find a statistical difference in the level of leases for lobbying and non-lobbying firms. In addition to this the level of operating leases level does not load in the logistic regression shown in Table 6. The variable institutional ownership, which proxies for corporate governance, indicates that lobbying firms seem to have a good corporate governance level. Lobbying firms have more debt covenants than other companies and this can signal that the cost of renegotiating debt covenants is one possible explanation for why firms engage in lobbying. Lobbying firms have leases with an average life of 8.64 years, while non-lobbying firms have an average life of 7.92 years.

Lobbying firms also have a higher proportion of their leases unexplained by the theoretical model developed by Graham, Lemmon, and Schallheim (1998). Table 5, Panel B, presents the same set of variables but adds the members of associations lobbying the FASB/IASB. Now the market-to-book for lobbying firms is lower than that for non-lobbying firms but the difference is no longer statistically significant. On the other hand, the level of leases divided by assets is statistically significant, at the 5% level, with the median for lobbying firms being 5% and for non-lobbying firms being 3%. Also the difference in debt covenants and implementation costs are now statistically significant. Finally, lobbying firms have more abnormal leases and higher opacity than the control group. However, managers seem to have a lower incentive to lobby given that they have a lower proportion of their compensation coming from stock options. For lobbying firms, stock compensation represents 36% of their total compensation on average, while for the non-lobbying group it represents 40%. All other variables do not have significant differences.

In Table 6 I present the results of running a logistic regression where lobbying firms have an indicator variable equal to one if the company sent a comment letter to FASB/IASB, zero otherwise. The model performs backward elimination; to be kept in the model I require a 15% significance level. Lobbying firms have more debt covenants and would have higher tightness on debt covenants based on maximum leverage and minimum interest coverage. It seems that lobbying firms would incur a higher cost than non-lobbying firms to renegotiate debt covenants since those are more common and tighter for lobbying firms. Also lobbying firms and non-lobbying firms seem to have less leverage when measured by current methodology and its beta seems to be lower which would indicate lower stock volatility. For firms lobbying directly we have the following coefficients (p-value): -2.72 (0.04) on leverage, -0.07 (0.1) on tightness of interest coverage covenant, and -6.07 (0.02) on change in Z-Score. When we move to the sample that includes members of associations none of

these variables are present in the final model. In this model the coefficients on level of leases, debt covenants and beta are 2.65, 0.83, -0.69 respectively. The $pseudo - R^2$ for the first model is 0.15 versus 0.11 for the latter model.

All in all, the results in Table 6 reinforce the idea that there is no clear difference in accounting quality between lobbying and non-lobbying firms. Lobbying firms clearly have a higher incentive to lobby due to debt covenants. The results are consistent with the cost of implementation hypothesis and have no support for the increase in cost of capital hypothesis.

Finally, a firm may choose to lobby due to push-back from its accounting departments. This is driven by an aversion to a possible increase in workload as opposed to any real economic effects. In Table 7 , I present the distribution of the company officer that signed the comment letter sent to the FASB/IASB. The vast majority of the comment letters (76%) were signed by the company controllers. The second largest group of signatories are CFOs. Only 4 comment letters (1.2%) of the sample are signed by CEOs themselves. To test if this is a common distribution, I perform the same analysis on two other projects that generated considerable lobbying with FASB - SFAS 123 (Stock Options) and SFAS141/142 (Goodwill). It is evident that the lease project has a much smaller proportion of CEOs being involved in the lobbying process and a much larger proportion of controllers. These differences are significant at the 1% level. Although it is rational for controllers and account experts to be involved in the lobbying process with the FASB/IASB, the lack of involvement from top management seems to signal that companies do not consider the costs involved with the proposed change to be very significant. This would suggest that the economic impact is perceived to be minor. This evidence supports the personal cost hypothesis. It seems that accounting managers are more concerned with the increase in their workload and exposure to litigation risk resulting from the change.

In Table 8, I check to see if there was a change in firms' behavior between ASC 840 and ASC 842. One possibility was that the changes proposed by the FASB/IASB in the revised draft (ASC 842) could affect the preferences of a specific group of managers (i.e CEO, CFO, controllers). It is not possible to notice any statistically significant different between the samples that reinforces the idea that companies lobbying against in the proposed change in accounting for leases have a more fundamental concerns than specific regulation issues.

One interesting question is to see how companies changed their perception of the proposed change with the revised exposure draft released in 2013. In Table 9 I present the results of companies that have lobbied with the FASB in 2010 (ASC 840)

and again in 2013 (ASC 842). It is possible to see that the tone of companies is very sticky with the majority not changing their tone. However, it is not possible to see any trend on the data of companies becoming clearly more tolerant with the changes after the new draft. This is evidenced by the fact that on average more than 50% of the comment letters retain the tone from the previous comment letter. This result is even more pronounced for comment letters that are against or strongly against the proposed project. Of course a caveat is that it is possible that firms that were concerned with the original draft and now are satisfied had not sent a second letter to the FASB, so there is clearly a bias in the data. Table 10 shows that the person in charge of the comment letters is even stickier than the tone. Very few companies change the signatory.

Table 11 presents the distribution of who signs the letters by different industries. These does not seem to be a clear industry effect where the majority of industries have the same patterns. However, the Oil and Gas Extraction and Business Services industries appear to have a larger participation of CFOs (around 40%) than other industries (average of 25%). This may be an indication that firms in those industries believe this would be a more costly change for their sectors. Corroborating these results, Table 12 shows that when the top managers (CEO, CFO) of the company are involved, the comment letters are more often against the proposed change, indicating that this could be a possible proxy for the cost of implementation.

Chapter 5

Robustness Check

In the main analysis I rely on a matched sample to better control for industry effects and to guarantee that there is no industry bias being introduced in the results. In Tables 13 and 14 I present the analysis used in the main results on an unmatched sample, controlling for industry fixed effects.

Table 13 presents the results for the univariate analysis. Lobbying firms are larger, have a higher ratio of operating leases to assets, and are more leveraged than the average Compustat firms. In fact, lobbying firms will increase their leverage ratio less than non-lobbying firms if operating leases are capitalized. The median increase for lobbying firms is 17%, while for other firms it is 34%. Lobbying firms have a lower return volatility than other firms; this goes against the risk theory but seems to be highly correlated to size, so it is difficult to make any final conclusion. Lobbying firms also have lower market-to-book but higher earnings response coefficient (ERC) indicating that any change in their financials is more likely to have a higher impact on their stock prices.

The variable institutional ownership, which proxies for corporate governance, indicates that lobbying firms seem to have a good corporate governance level. On the other hand, Altman Z-scores are lower and will be more affected than those of non-lobbying firms, which indicates that these firms may use operating leases to fool less sophisticated investors. Lobbying firms have more debt covenants than other companies and this can signal that the cost of renegotiating debt covenants is one possible explanation why firms engage in lobbying.

Lobbying firms have, on average, longer leases. This variable is interesting because it can proxy for two different effects. Firms with short leases will have to put on and take off leases from their books at a higher frequency, so the operational

time spent on this can be costly to those firms. On the other hand, if the lease is longer the renewal option period is far away and thus the uncertainty of it is higher. This uncertainty can be costly due to the review of this assumption each period and because the changes in the probability of renewal options can affect income volatility. So while short leasing periods can be a signal of operational costs it is hard to argue that long periods are not also a proxy for possible cost.

In order to address the possibility that earnings volatility is a major concern I also focus on the ERC and litigation risk. The idea is that firms with higher litigation risk do not want higher earnings volatility because this can trigger litigation. Also, even in the absence of increase in earnings volatility I hypothesize that firms with higher risk of litigation are more likely to oppose the proposed change since this will expose more of their true risk and so increase the likelihood of being sued. Lobbying firms also have a higher proportion of their leases unexplained by the theoretical model developed by Graham, Lemmon, and Schallheim 1998.

Table 14 presents the results of running a logistic regression where lobbying firms are an indicator variable equal to one, and zero otherwise. The results indicate that bigger firms are more likely to lobby, as evidenced by the coefficient on size being 1.35 for firms lobbying directly and 0.86 when I include association members. Lobbying firms have more debt covenants and would have higher tightness on their debt covenants based on maximum leverage and minimum interest coverage. It seems that lobbying firms would incur a higher cost than non-lobbying firms to renegotiate debt covenants since those are more common and tighter for lobbying firms. Lobbying firms seem to have a higher level of unexplained operating leases which indicates that firms that lobby are not only concerned with possible implementation costs of the proposed change but also with the loss of the off-balance-sheet property of the operating leases. This result is only present in the association sample and can be driven by the noise in this sample since I cannot identify which members of an association are actually in favor of the decision to lobby by their respective association.

All in all, the results of the unmatched sample corroborate the results using the main analysis. It is clear that the possible costs of renegotiating debt covenants is a concern and may motivate companies to lobby. This was not a very common argument on the comment letters but it was very common on press articles, and also common on associations' comment letters. The results of cost of capital hypothesis is mixed but lends some support to the idea that firms are also concerned with being perceived as more risky after the adoption of the proposed change. Finally, there is no indication of lower accounting quality for lobbying firms. These results weaken

the idea that firms engage in operating leases mainly due to its off-balance-sheet properties.

As robustness tests, I analyze additional variables. These include: discretionary accruals following the modified Jones model, bankruptcy probability based on the Black-Scholes-Merton option-pricing model developed by Hillegeist et al. (2004), auditor fees deflated by total assets (as a possible proxy for costs of implementation) and the change in the relative ranking of leverage ratios and Z-score. Table 15 presents the results from these additional variables. The results indicate that only the change leverage and Z-Score rankings are marginally significant but even those variables do not have any explanatory power on the decision to lobby the FASB.

Since none of these variables have any explanatory power, and their inclusion would decrease the sample size considerably, I choose to omit them from the main analysis. I have also performed the main analysis on an unmatched sample controlling for size and industry, with similar results.

I perform a further robustness check by excluding firms that are in favor or neutral to the proposed change. The rationale behind this is that these firms are not actually lobbying against the proposed change. Rather they simply desire to expose their opinions or clarify some points. Another possible explanation for the lobbying behavior of public firms is the fact that all of them have established accounting departments so one possibility is that due to the low cost of sending comments letters to the FASB/IASB these companies lobby against any and all proposed changes. In order to take this into account I collect the companies that have lobbied in two previous controversial projects of FASB (SFAS 123 - Accounting for Stock-Based Compensation and SFAS 141/142 - Goodwill and Other Intangible Assets) and exclude these firms from my sample. Only 14 sent comment letters in all three projects. Of those 14, only six are on my final matched sample. Table 16 and Table 17 present the results of this subsample. After the exclusion of these firms the results are unchanged. This shows that although the cost of sending a comment letter is minimal, firms do so only when they believe they will be impacted by the proposed change.

Table 18 presents relevant dates regarding the proposed change in accounting for leases. To identify the dates I review the FASB website and check the announcement dates listed. I also check the Lexis Nexis database to confirm these dates. I identify four major dates: 3/19/2009, when the FASB/IASB released the preliminary view of lease accounting; 8/17/2010, when the FASB/IASB published the exposure draft of lease accounting (ASC 840), 6/13/2012, when they announced revision of the

exposure draft; and 5/16/2013 when FASB/IASB publish the revised exposure draft (ASC 842).

In Table 19, I present the results of the event study analysis I run to see whether the market perceives the change as costly. I compute abnormal returns using the market model and value-weighted returns without dividends for market returns. I estimate the model for 120 days prior to Day -30 (where the dates above are Day 0), and I require at least ten days of returns in the estimation window to be included in the sample. Since the event dates are clustered I use the methodology developed in Brown and Warner (1985) to analyze the abnormal returns significance. The results don't seem to indicate a strong negative market reaction around those dates. This could be an indication that the true cost of changing the accounting for leases is minimal. Additionally, analysis of the Nexis Lexis database indicates that news reports are not clustered around the event dates. Rather they are widely dispersed in time. There appears to be significant information leakage prior to the event. Overall, the event study does not indicate that the market perceives this change as especially costly, or at the very least investors are not closely following the proposed change.

Finally, I divide my samples into two groups depending on the level of institutional ownership of lobbying firms. Table 20 presents the results of the event study analysis for these samples using the same methodology described above. The results are not discernibly different from the previous event study. This reinforces the idea that the lack of results does not seem to be driven by investors' inattention.

Chapter 6

Conclusions

Any change in accounting rules is followed by some controversy and opponents claiming that its costs outweigh the benefits. The case of the proposed change in accounting for leases is no different, and many firms strongly oppose it. I identify opponents as those firms that send comment letters to FASB raising their concerns about the change. From the 1,454 comment letters that I investigated only a very small number were clearly in favor of the proposed change. The vast majority of comment letters submitted to FASB/IASB were either opposed, or highlighted major concerns, with the proposed rule change. This in itself is not surprising given that companies that have more to lose are the ones with the higher incentive to lobby against the proposed change. So there is clearly a bias on the tone of comment letters.

The results presented in this dissertation represent an interesting setting for at least two reasons. There are strong opposing views of the proposed change. Some claim that the change is overdue as firms structure leases to avoid recognizing debt on their balance sheet, thus attempting to mask their true risk. Others claim that these manipulations are not as prevalent and that the costs of the change (e.g. increase in audit fees, change of IT systems to keep track of leases, renegotiation of debt covenants) clearly outweigh any benefit. It has been argued that any change could cost the U.S. economy billions of dollars. In addition, previous research has shown that managers lobby against the proposed changes not only to avoid costs for the company, but also when this aligns with their personal interests (e.g. changes that affect compensation plans). In this setting, it is not clear how the change will affect those managers' incentives since the primary effect should be reflected on the balance sheet instead of the income statement. Some common ratios used in remuneration contracts (i.e EBITDA) will be positively affected by the proposed change. This is clearly a different situation from SFAS 123 and SFAS 141 where management

compensation was negatively affected. However, if the change is costly to the firm due to implementation costs and/or an increase in the company cost of capital it is possible that these costs will outweigh any ratio effect on management compensation.

Not surprisingly, the results clearly indicate that those companies that have the greatest interest in the proposed change are those most actively lobbying. Firms subject to debt covenants, and especially those subject to the tightest debt covenants, have the highest likelihood of lobbying. The fact that debt covenants help explain the decision to engage in lobbying reinforces the firms' claims in their comment letters that they believe the cost to renegotiate debt covenants will be significant. The results support the firms' argument that they will be subject to high implementation costs. I find no support whatsoever for the increase in cost of capital hypothesis. Lobbying firms show no indication of having worse accounting quality or corporate governance than their peers.

Additional to the costs of implementation concern, the results indicate that another motivation for lobbying is the desire of controllers to avoid any costs that they may bear personally. This personal cost can be an increase in workload due to the necessity to track leases more closely, personal effort to learn and adopt the new requirements, or the concern that the new rules may increase the individual's exposure to litigation due to the increased subjectivity present in the proposed rules. It is evident the lack of participation of C-suite management (i.e. CEO, CFO, Chairman) when companies lobby with the FASB/IASB on the proposed change in accounting for leases. This is a clear indication of at least two factors: first, management does not see the current proposed change as extremely costly; second, whenever accounting changes are not expected to have a major impact on their compensation, they do not get involved in the lobbying process with FASB.

These results, taken together with the findings of Altamuro et al. (2012) and Bratten, Choudhary, and Schipper (2013), raise a strong concern that the proposed change in accounting for leases comes with a cost that will outweigh any possible benefit. Although both papers do not directly address the FASB concern that individual investors do not adjust properly for leases they do provide some evidence that at least some stakeholders - particularly debt holders - seem to adjust correctly for operating leases. Of course the findings in Bratten, Choudhary, and Schipper (2013) that stakeholders do not seem to adjust for operating leases and capital leases by the same extent when leases are longer could be seen as evidence that in more complex cases the current adjustments do not seem to work so well. My dissertation results show no evidence that lobbying firms have worse accounting, performance or

governance quality than their peers and so the argument that many firms structure leases to avoid its recognition finds no support in the data. On the other hand, the findings presented here point to the fact that firms are not trying to pull the wool over the eyes of debt and equity investors - the controller simply does not want to incur the extra costs associated with implementing the new rules. All in all, these results make firms sound not as conniving as one may have originally thought.

It is my opinion that the FASB/IASB need a stronger objective argument in favor of the change since there is not much support within the current literature that investors do not correctly adjust for operating leases or that leases are used to mislead investors. Many of the arguments the FASB/IASB have provided find no support in the data. On the other hand firms' backlash seems to be driven primarily by implementation costs that are expected to be short lived and easily minimized by a longer transition period. Many of the technical points raised by companies in the comment letters seem to be fair and could be simplified (i.e. renewal period inclusion, immaterial leases) but it is not overwhelmingly clear which side has the stronger arguments. I believe they should be straight forward with the public and give more direct guidance as to which problem they are trying to solve. With this the FASB/IASB would have a better chance of eliminating a great deal of the push-back they are receiving.

Future research should further explore the true risk of the firms to confirm the results presented here and possible motivations (firms' incentives not covered in this study). Additionally, a better understanding of the motivations for lessors to lobby seems relevant as they seem to be different from those of lessee firms. A natural extension is the inclusion of international firms since this is a joint project of FASB/IASB to see how country institutional settings and incentives change firms' behaviors. Finally, once the proposed change has been implemented, it would be interesting to verify the effects of the capitalization of leases and whether it truly levels the playing field, as has been suggested in some quarters.

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Appendix A

Appendix: Variable Definitions

Variables Definitions

Variable	Description	Data Source
Abnormal Lease	Residual from the model developed by Graham, Lemmon, and Schallheim (1998) over the total Oper. Lease.	Compustat
Addyrs	(Thereafter minimum lease payments)/MLP5	
Analysts	Number of Analysts following the company during 2010.	I/B/E/S
Assets	Total Assets (AT)	Compustat
Auditor Fees	Total Auditor Fees/Total Assets	AudiAnalytics
BankruptDiff	Equal to Change Z-score when the change is above the industry median, 0 otherwise	Compustat
Beta	The coefficient on the market return using the market model ($R_{Firm} = \alpha + \beta * R_{Market}$)	CRSP
BSM	Bankruptcy probability based on Black-Scholes-Merton option-pricing model developed by Hillegeist et al. (2004).	CRSP
Change Leverage	(New Leverage - Leverage)/Leverage	Compustat
Change Leverage Rank	The change in the leverage rank of the firm within its industry (2-digit-SIC code) after the capitalization of operating leases.	Compustat
Change Z-score	(New Z-score - Z-score)/Z-score	
Change Z-Score Rank	The change in the Z-Score rank of the firm within its industry (2-digit-SIC code) after the capitalization of operating leases.	Compustat
COGS	log[(cost of goods sold (COGS) - Change in LIFO reserve (LIFR))/Total Assets)]	Compustat
Col	PP&E/Total Assets	Compustat
d1000	Dummy for SIC codes 1000-1999	Compustat
d2000	Dummy for SIC codes 2000-2999	Compustat
d3000	Dummy for SIC codes 3000-3999	Compustat
d4000	Dummy for SIC codes 4000-4999	Compustat
d5000	Dummy for SIC codes 5000-5999	Compustat
d7000	Dummy for SIC codes 7000-7999	Compustat
d8000	Dummy for SIC codes 8000-8999	Compustat
d9000	Dummy for SIC codes 9000-9999	Compustat
Debt Covenant	Indicator Variable equal to 1 if the company has outstanding debt on DealScan with a debt covenant present, 0 otherwise	DealScan
Discretionary Accruals	The residual of the Modified Jones Model developed in Dechow, Sloan, and Sweeney (1995)	Compustat
Ecost	Standard deviation of the first difference in the firm's earnings before depreciation, interest, and taxes divided by the mean level of the book value of total assets multiplied by the sum of research and development and advertising expenses divided by assets.	Compustat
ERC	Beta from the annual regression of returns on Earnings	Compustat/CRSP
Firm Value (FV)	Total Assets - Book Equity + (Price * Shares Outstanding) + Oper. Lease	Compustat
Headlines #	Average weekly number of headlines about the company	Factset

Variables Definitions - Continued

Variable	Description	Data Source
Institutional Ownership	Percentage of Shares owned by Institutional Investors	Thomson Reuters
Labor	1 - (net PPE (PPENT)/Total Assets)	Compustat
Lease Duration	(5 + Thereafter minimum lease payments/MLP5), if MLP5 is equal to 0 then it is (5 + Thereafter minimum lease payments/avg.(MLP)), if thereafter portion equal to 0 then it is the latest MLP.	Compustat
Leverage	Total Debt/Total Assets	Compustat
LeverageDiff	Equal to Change Leverage when the change is above the industry median, 0 otherwise	Compustat
Litigation Risk	The probability that a company will be subject to litigation during year *t*. Based on the model developed by Kim and Skinner (2012).	
Market-to-book(MTB)	(Fiscal Year Closing Price * Shares Outstanding)/(Assets - Liabilities)	Compustat
MLP	Minimum Lease Payments. Compustat MRC1 to MRC5	Compustat
MTR	Marginal tax rate provided by John Graham or computed when missing using parameters in Graham and Mills (2008)	Compustat/John Graham
New Leverage	(Total Debt + Oper. Leases)/(Total Assets + Oper. Leases)	Compustat
New Z-score	Compute the Z-score capitalizing Oper. Leases	Compustat
Oeneg	Indicator Variable equal to 1 if the book value of common equity is negative, 0 otherwise	Compustat
Opacity All	Equal to Opacity SL without LeverageDiff and BankruptDiff. developed in Zechman (2010)	Compustat
Opacity SL	Sum of standardized values of COGS, Labor, Pension, LeverageDiff, and BankruptDiff developed in Zechman (2010).	Compustat
Oper. Lease	See Appendix B. Scaled by total assets	Compustat
Pension	1 if the firm has a defined benefit pension plan (a nonnegative projected pension obligation (PBPRO or PBPRU) or assumed rate of return for pension benefits (PBARR)), 0 otherwise.	Compustat
Rating	Indicator variable equal to 1 if the company has credit rating during 2010, 0 otherwise (Variables SPLITCRM, SPSDRM, SPSTICRM)	Compustat
RentExp	Current rent expense. Compustat XRENT	Compustat
Return Volatility	Standard Deviation of daily return of firm during the fiscal year	CRSP
ROA	Net Income/Total Assets	Compustat
Sales	Sale	Compustat
Size	Natural log of FV	Compustat
Stock Compensation	(Stock Awards + Option Awards)/Total SEC	Execucomp

Variables Definitions - Continued

Variable	Description	Data Source
Thereafter minimum lease payments	Thereafter minimum noncancelable payments lease payments. Compustat MRCTA	Compustat
Tightness Int.	Distance between interested coverage and debt covenant based on leverage covenant. Equal to 0 if violates and equal 10 to if no debt covenant on DealScan.	DealScan
Tightness Lev.	Distance between New Leverage and debt covenant leverage ratio. Equal to 0 if violates and equal to 10 if no debt covenant on DealScan.	DealScan
Violation Int.	Indicator variable equal 1 if the firms would violate the debt covenant based on minimum interest coverage if the company capitalizes operating leases, 0 otherwise	DealScan
Violation Lev.	Indicator variable equal 1 if the firms would violate the debt covenant based on maximum leverage if the company capitalizes operating leases, 0 otherwise	DealScan
Z-score	Bankruptcy score developed in Altman (1968)	Compustat
ZMod	Bankruptcy score developed in Altman(1968) excluding the the ratio of market value of equity to book value of debt.	Compustat

Appendix B

Appendix: Capitalization Example - Intel Corporation, Fiscal Year 2010

Intel Corporation reported on-balance-sheet long term debt of $2,077 million and short term debt of $38 million in 2010 with $63,186 million in total assets. Intel Corp. disclosed in its 10-K notes the information about minimum future lease payments (MLP). I estimate the present value of these minimum lease payments as follow:

$$OpLease_0 = RentExp_0 + \sum_{\tau=1}^{5} \left(\frac{MLP_\tau}{(1+K_d)^\tau} \right) + \sum_{\tau=6}^{6+Addyrs} \left(\frac{EMLP_\tau}{(1+K_d)^\tau} \right) \tag{B.1}$$

Where MLP - Minimum Lease Payments, Addyrs - (Thereafter minimum lease payments)/MLP_5, EMLP - (Thereafter minimum lease payments)/Addyrs, $RentExp_0$ - current rent expense, K_d - cost of debt capital which is set to 10%.

	Reported Rent Expense	Reported MLP	Present Value of MLP in 2010
$RentExp_{2010}$	$124		
MLP_{2011}		$102	$92.73
MLP_{2012}		$86	$71.07
MLP_{2013}		$56	$21.86
MLP_{2014}		$32	$12.42
MLP_{2015}		$20	$11.29
Thereafter		$31	$16.93

Debt value of off-balance-sheet leases: $257.08 million

Conventional LTD + STD / TA = $(2,077 + 38) / $63,186 = 0.033

If we capitalize off-balance-sheet assets, LTD + STD / TA = $(2,077 + 38 + 257.08) / $(63,186 + 257.08) = $2,372.08 / $63,443.08 = 0.037

For the lessor, the impact on their ratios is not expected to be significant since there will be no drastic change in their assets.

Appendix C

Appendix: Comment Letter Examples

Lubrizol:

"Lubrizol supports the FASB's efforts to develop a new approach to lease accounting that would improve the recognition of the rights and obligations under lease agreements within the statement of financial position. Overall, we believe that the new accounting model proposed within the exposure draft improves the reporting of lease agreements and reduces the ability of entities to structure economically similar agreements to gain different accounting treatments. Lease accounting historically has been one of the most complex areas of accounting, resulting in numerous misstatements in its application. The proposed standard simplifies the accounting for leases and provides a more representative presentation of how a company finances its operations."

Deutsche Telekom:

"Deutsche Telekom is generally supportive of the development of a new accounting model that provides solutions to the criticism of today's guidance for leasing contracts and that, as a consequence, ensures comparable, user relevant, and transparent reporting by preparers of financial statements. However, we support such a new leasing standard only when it is indeed an improvement over existing requirements and truly provides solutions to today's shortcomings of IAS 17. Deutsche Telekom does not believe that in many instances the ED Leases is in fact effective in addressing the existing concerns under IAS 17 with regards to reducing the complexity of lease accounting and achieving true comparability of information among preparers of financial statements. Comparability is not enhanced through the ED Leases as a significant amount of judgment will continue to be required leading likely to different

outcomes at different companies for like contracts"

Wells-Fargo:

"We acknowledge that the existing model for leases may not provide users with sufficient transparency related to the assets obtained and obligations assumed under certain leasing arrangements and thus support the effort to develop a comprehensive framework to address the accounting for leases. However, the Proposed ASU employs a "kitchen-sink"' approach in the measurement of lease assets and liabilities which we believe is overly complex, operationally challenging, disconnected from the economic and practical realities of leasing and ultimately may discourage entities from engaging in leasing transactions."

Intel:

"While we support the Boards' objective to establish principles so that lessees and lessors report relevant and representationally faithful information to the users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases, we struggle with the consistency of the proposed guidance with the FASB's Conceptual Framework as well as the complexity and operability of the proposed standard. While we don't anticipate that the proposed standard will have a significant impact to our financial statements, it is expected to result in a considerable increase in resources needed to be able to identify, track and report on the impact of leased assets. The estimated cost of updating our systems infrastructure and processes for the proposed standard is approximately $6 million dollars."

United States Steel Corporation:

"We do not believe that lease accounting should be simplified into one model under which all leases are capitalized, as is proposed for lessees. Our concern is supported by the inability to justify a single model for lessors, which has resulted in the proposal to continue a dual model for lessors. As both a preparer and user of financial statements, we recommend retaining the current lease accounting model which provides for operating and capital leases and believe that the current annual disclosure requirements for operating leases provide sufficient information to assess operating lease commitments."

Appendix D

Appendix: Distribution of Firms by Industry

Distribution of Firms by Industry

Panel A: Firms Lobbying Directly							
2-digit-SIC	Industry	# Lessee[1]	%[2]	% of industry[3]	# Lessor[1]	%[2]	% of industry[3]
60	DEPOSITORY INSTITUTIONS	26	11.98%	3.8%	18	15.3%	2.7%
48	COMMUNICATION	17	7.83%	8.1%	5	4.2%	2.4%
49	ELECTRIC, GAS, AND SANITARY SERVICES	17	7.83%	7.8%	7	5.9%	3.2%
28	CHEMICALS AND ALLIED PRODUCTS	12	5.53%	2.4%	3	2.5%	0.6%
29	PETROLEUM AND COAL PRODUCTS	12	5.53%	27.9%	1	0.8%	2.3%
35	INDUSTRIAL MACHINERY AND EQUIPMENT	8	3.69%	3.3%	4	3.4%	1.6%
62	SECURITY AND COMMODITY BROKERS	8	3.69%	6.8%	2	1.7%	1.7%
73	BUSINESS SERVICES	8	3.69%	1.5%	9	7.6%	1.7%
13	OIL AND GAS EXTRACTION	6	2.76%	1.5%	6	5.1%	1.5%
58	EATING AND DRINKING PLACES	6	2.76%	9.5%	2	1.7%	3.2%
63	INSURANCE CARRIERS	6	2.76%	3.7%	5	4.2%	3.1%
67	HOLDING AND OTHER INVESTMENT OFFICES	6	2.76%	1.9%	20	16.9%	6.3%
20	FOOD AND KINDRED PRODUCTS	5	2.30%	3.8%	1	0.8%	0.8%
36	ELECTRONIC & OTHER ELECTRIC EQUIPMENT	5	2.30%	1.1%	2	1.7%	0.5%
37	TRANSPORTATION EQUIPMENT	5	2.30%	4.1%	8	6.8%	6.5%
40	RAILROAD TRANSPORTATION	5	2.30%	50.0%	3	2.5%	30.0%
45	TRANSPORTATION BY AIR	5	2.30%	10.9%	2	1.7%	4.3%
56	APPAREL AND ACCESSORY STORES	5	2.30%	9.3%	0	0.0%	0.0%
54	FOOD STORES	4	1.84%	13.8%	1	0.8%	3.4%
57	FURNITURE AND HOMEFURNISHINGS STORES	4	1.84%	22.2%	0	0.0%	0.0%
99	NONCLASSIFIABLE ESTABLISHMENTS	4	1.84%	17.4%	2	1.7%	8.7%
10	METAL MINING	3	1.38%	0.7%	1	0.8%	0.2%
38	INSTRUMENTS AND RELATED PRODUCTS	3	1.38%	1.1%	0	0.0%	0.0%
53	GENERAL MERCHANDISE STORES	3	1.38%	11.1%	1	0.8%	3.7%
59	MISCELLANEOUS RETAIL	3	1.38%	3.4%	0	0.0%	0.0%
70	HOTELS AND OTHER LODGING PLACES	3	1.38%	15.8%	0	0.0%	0.0%

Distribution of Firms by Industry - Continued

Panel A: Firms Lobbying Directly - Continued							
2-digit-SIC	Industry	# Lessee[1]	%[2]	% of industry[3]	# Lessor[1]	%[2]	% of industry[3]
23	APPAREL AND OTHER TEXTILE PRODUCTS	2	0.92%	5.0%	0	0.0%	0.0%
26	PAPER AND ALLIED PRODUCTS	2	0.92%	3.8%	0	0.0%	0.0%
51	WHOLESALE TRADE-NONDURABLE GOODS	2	0.92%	3.0%	0	0.0%	0.0%
80	HEALTH SERVICES	2	0.92%	2.5%	0	0.0%	0.0%
87	ENGINEERING & MANAGEMENT SERVICES	2	0.92%	2.4%	0	0.0%	0.0%
14	NONMETALLIC MINERALS, EXCEPT FUELS	1	0.46%	2.9%	0	0.0%	0.0%
16	HEAVY CONSTRUCTION, EX. BUILDING	1	0.46%	4.3%	0	0.0%	0.0%
17	SPECIAL TRADE CONTRACTORS	1	0.46%	6.7%	0	0.0%	0.0%
21	TOBACCO PRODUCTS	1	0.46%	14.3%	1	0.8%	14.3%
25	FURNITURE AND FIXTURES	1	0.46%	4.0%	0	0.0%	0.0%
30	RUBBER AND MISC. PLASTICS PRODUCTS	1	0.46%	2.8%	0	0.0%	0.0%
31	LEATHER AND LEATHER PRODUCTS	1	0.46%	5.3%	0	0.0%	0.0%
32	STONE, CLAY, AND GLASS PRODUCTS	1	0.46%	3.8%	0	0.0%	0.0%
33	PRIMARY METAL INDUSTRIES	1	0.46%	1.2%	1	0.8%	1.2%
34	FABRICATED METAL PRODUCTS	1	0.46%	1.6%	0	0.0%	0.0%
44	WATER TRANSPORTATION	1	0.46%	1.5%	3	2.5%	4.6%
46	PIPELINES, EXCEPT NATURAL GAS	1	0.46%	10.0%	1	0.8%	10.0%
50	WHOLESALE TRADE-DURABLE GOODS	1	0.46%	1.0%	0	0.0%	0.0%
52	BUILDING MATERIALS & GARDEN SUPPLIES	1	0.46%	12.5%	0	0.0%	0.0%
55	AUTOMOTIVE DEALERS & SERVICE STATIONS	1	0.46%	3.6%	1	0.8%	3.6%
65	REAL ESTATE	1	0.46%	1.3%	2	1.7%	2.5%
75	AUTO REPAIR, SERVICES, AND PARKING	1	0.46%	9.1%	2	1.7%	18.2%
82	EDUCATIONAL SERVICES	1	0.46%	2.8%	0	0.0%	0.0%
47	TRANSPORTATION SERVICES	0	0.00%	0.0%	1	0.8%	3.7%
61	NONDEPOSITORY INSTITUTIONS	0	0.00%	0.0%	2	1.7%	1.7%
79	AMUSEMENT & RECREATION SERVICES	0	0.00%	0.0%	1	0.8%	2.1%
Total		217			118		

Distribution of Firms by Industry - Continued

Panel B: Firms Lobbying Directly + Members of Associations Engaging in Lobby							
2-digit-SIC	Industry	# Lessee[1]	%[2]	% of industry[3]	# Lessor[1]	%[2]	% of industry[3]
49	ELECTRIC, GAS, AND SANITARY SERVICES	65	12.6%	30.0%	15	4.6%	6.9%
60	DEPOSITORY INSTITUTIONS	51	9.9%	7.5%	40	12.3%	5.9%
56	APPAREL AND ACCESSORY STORES	28	5.4%	51.9%	0	0.0%	0.0%
36	ELECTRONIC & OTHER ELECTRIC EQUIPMENT	26	5.0%	6.0%	8	2.5%	1.8%
37	TRANSPORTATION EQUIPMENT	25	4.9%	20.3%	10	3.1%	8.1%
48	COMMUNICATION	21	4.1%	10.0%	7	2.2%	3.3%
28	CHEMICALS AND ALLIED PRODUCTS	19	3.7%	3.8%	4	1.2%	0.8%
73	BUSINESS SERVICES	19	3.7%	3.5%	13	4.0%	2.4%
23	APPAREL AND OTHER TEXTILE PRODUCTS	18	3.5%	45.0%	0	0.0%	0.0%
59	MISCELLANEOUS RETAIL	17	3.3%	19.5%	0	0.0%	0.0%
29	PETROLEUM AND COAL PRODUCTS	14	2.7%	32.6%	4	1.2%	9.3%
35	INDUSTRIAL MACHINERY AND EQUIPMENT	14	2.7%	5.8%	10	3.1%	4.1%
53	GENERAL MERCHANDISE STORES	14	2.7%	51.9%	1	0.3%	3.7%
45	TRANSPORTATION BY AIR	11	2.1%	23.9%	3	0.9%	6.5%
62	SECURITY AND COMMODITY BROKERS	10	1.9%	8.5%	2	0.6%	1.7%
63	INSURANCE CARRIERS	10	1.9%	6.2%	5	1.5%	3.1%
31	LEATHER AND LEATHER PRODUCTS	9	1.7%	47.4%	0	0.0%	0.0%
87	ENGINEERING & MANAGEMENT SERVICES	9	1.7%	10.6%	7	2.2%	8.2%
54	FOOD STORES	8	1.6%	27.6%	1	0.3%	3.4%
67	HOLDING AND OTHER INVESTMENT OFFICES	8	1.6%	2.5%	136	41.8%	42.6%
13	OIL AND GAS EXTRACTION	7	1.4%	1.8%	11	3.4%	2.8%
20	FOOD AND KINDRED PRODUCTS	7	1.4%	5.4%	1	0.3%	0.8%
38	INSTRUMENTS AND RELATED PRODUCTS	7	1.4%	2.6%	2	0.6%	0.7%
40	RAILROAD TRANSPORTATION	6	1.2%	60.0%	4	1.2%	40.0%
57	FURNITURE AND HOMEFURNISHINGS STORES	6	1.2%	33.3%	0	0.0%	0.0%
58	EATING AND DRINKING PLACES	6	1.2%	9.5%	2	0.6%	3.2%
65	REAL ESTATE	6	1.2%	7.6%	8	2.5%	10.1%
30	RUBBER AND MISC. PLASTICS PRODUCTS	5	1.0%	13.9%	0	0.0%	0.0%
34	FABRICATED METAL PRODUCTS	5	1.0%	8.2%	0	0.0%	0.0%
26	PAPER AND ALLIED PRODUCTS	4	0.8%	7.7%	0	0.0%	0.0%
50	WHOLESALE TRADE-DURABLE GOODS	4	0.8%	3.9%	0	0.0%	0.0%
55	AUTOMOTIVE DEALERS & SERVICE STATIONS	4	0.8%	14.3%	0	0.0%	0.0%

Distribution of Firms by Industry - Continued

Panel B: Firms Lobbying Directly + Members of Associations Engaging in Lobby - Continued							
2-digit-SIC	Industry	# Lessee[1]	%[2]	% of industry[3]	# Lessor[1]	%[2]	% of industry[3]
99	NONCLASSIFIABLE ESTABLISHMENTS	4	0.8%	17.4%	3	0.9%	13.0%
10	METAL MINING	3	0.6%	0.7%	1	0.3%	0.2%
22	TEXTILE MILL PRODUCTS	3	0.6%	27.3%	0	0.0%	0.0%
25	FURNITURE AND FIXTURES	3	0.6%	12.0%	1	0.3%	4.0%
42	TRUCKING AND WAREHOUSING	3	0.6%	9.1%	0	0.0%	0.0%
44	WATER TRANSPORTATION	3	0.6%	4.6%	7	2.2%	10.8%
51	WHOLESALE TRADE-NONDURABLE GOODS	3	0.6%	4.5%	0	0.0%	0.0%
52	BUILDING MATERIALS & GARDEN SUPPLIES	3	0.6%	37.5%	0	0.0%	0.0%
61	NONDEPOSITORY INSTITUTIONS	3	0.6%	2.5%	4	1.2%	3.3%
70	HOTELS AND OTHER LODGING PLACES	3	0.6%	15.8%	0	0.0%	0.0%
16	HEAVY CONSTRUCTION, EX. BUILDING	2	0.4%	8.7%	0	0.0%	0.0%
27	PRINTING AND PUBLISHING	2	0.4%	4.4%	0	0.0%	0.0%
33	PRIMARY METAL INDUSTRIES	2	0.4%	2.5%	2	0.6%	2.5%
47	TRANSPORTATION SERVICES	2	0.4%	7.4%	1	0.3%	3.7%
64	INSURANCE AGENTS, BROKERS, & SERVICE	2	0.4%	8.7%	1	0.3%	4.3%
72	PERSONAL SERVICES	2	0.4%	15.4%	0	0.0%	0.0%
80	HEALTH SERVICES	2	0.4%	2.5%	0	0.0%	0.0%
14	NONMETALLIC MINERALS, EXCEPT FUELS	1	0.2%	2.9%	0	0.0%	0.0%
17	SPECIAL TRADE CONTRACTORS	1	0.2%	6.7%	2	0.6%	13.3%
21	TOBACCO PRODUCTS	1	0.2%	14.3%	1	0.3%	14.3%
32	STONE, CLAY, AND GLASS PRODUCTS	1	0.2%	3.8%	0	0.0%	0.0%
46	PIPELINES, EXCEPT NATURAL GAS	1	0.2%	10.0%	1	0.3%	10.0%
75	AUTO REPAIR, SERVICES, AND PARKING	1	0.2%	9.1%	2	0.6%	18.2%
82	EDUCATIONAL SERVICES	1	0.2%	2.8%	0	0.0%	0.0%
1	AGRICULTURAL PRODUCTION CROPS	0	0.0%	0.0%	1	0.3%	5.9%
24	LUMBER AND WOOD PRODUCTS	0	0.0%	0.0%	3	0.9%	10.0%
79	AMUSEMENT & RECREATION SERVICES	0	0.0%	0.0%	1	0.3%	2.1%
Total		515			325		

[1] Total number of lobbying firms in the sample that have GVKEY available on Compustat.
[2] The representativeness of the industry in the lobbying sample.
[3] Total number of lobbying firms relative to all firms in Compustat for that industry in 2010.

Appendix E

Appendix: Correlation Table

Correlation Table

The table shows the correlations between the main variables used in the analysis. The correlations above the main diagonal are Pearson, below the main diagonal are Spearman. All variables are as defined in Appendix A. All variables are winsorized at bottom and top 1% level.

	Lobby	Log(Assets)	Oper. Leases	ROA	Market-to-Book	Leverage	Z-Score	DebtCovenant
Lobby	1	0.001	0.069	0.032	0.124	-0.119	0.153	0.021
Log(Assets)	0.002	1	-0.569	0.095	-0.187	0.083	-0.312	-0.158
Oper. Leases	0.11	-0.506	1	-0.205	0.092	-0.189	0.229	-0.001
ROA	0.044	0.02	0.008	1	0.477	-0.302	0.486	-0.012
Market-to-Book	0.139	-0.159	0.122	0.623	1	-0.238	0.708	0
Leverage	-0.106	0.09	-0.229	-0.369	-0.212	1	-0.602	0.185
Z-Score	0.129	-0.271	0.288	0.648	0.649	-0.612	1	-0.038
DebtCovenant	0.021	-0.168	0.135	-0.035	0.005	0.167	-0.043	1
Violation Lev.	0.072	0.048	-0.11	-0.054	-0.062	0.086	-0.088	0.074
Violation Int.	0.077	-0.108	0.087	0.117	0.069	-0.053	0.155	0.395
Tightness Lev.	-0.04	-0.104	0.212	0.014	0.101	-0.076	0.094	-0.411
Tightness Int.	-0.101	0.163	-0.154	0.028	-0.042	-0.05	-0.017	-0.529
Change Z-Score	-0.13	0.508	-0.964	-0.064	-0.193	0.33	-0.379	-0.087
Abnormal Lease	0.15	-0.191	0.564	-0.009	0.039	-0.25	0.13	0.017
Headlines #	0.054	0.105	-0.063	0.084	0.095	-0.017	0.116	0.032

Correlation Table - Continued

	Violation Lev.	Violation Int.	Tightness Lev.	Tightness Int.	Change Z-Score	Abnormal Lease	Headlines #
Lobby	0.072	0.077	-0.047	-0.095	-0.099	0.079	0.068
Log(Assets)	0.041	-0.113	-0.097	0.154	0.612	-0.171	0.196
Oper. Leases	-0.038	-0.022	0.137	0.009	-0.948	0.422	-0.087
ROA	-0.035	0.114	0.012	-0.002	0.108	-0.028	0.133
Market-to-Book	-0.052	0.06	0.094	-0.013	-0.191	0.044	0.084
Leverage	0.065	-0.055	-0.038	-0.081	0.255	-0.217	-0.084
Z-Score	-0.068	0.085	0.094	0.034	-0.35	0.118	0.123
DebtCovenant	0.074	0.395	-0.411	-0.53	-0.022	-0.019	0.007
Violation Lev.	1	-0.028	-0.2	0.001	0.054	-0.047	0.085
Violation Int.	-0.028	1	0.024	-0.779	0.04	-0.138	-0.037
Tightness Lev.	-0.205	0.026	1	-0.049	-0.159	0.033	-0.051
Tightness Int.	0	-0.823	-0.049	1	-0.002	0.051	0.015
Change Z-Score	0.11	-0.044	-0.212	0.108	1	-0.461	0.105
Abnormal Lease	-0.058	-0.111	0.048	0.007	-0.572	1	0.024
Headlines #	0.099	-0.029	-0.037	0.012	0.062	0.016	1

Appendix F

Appendix: Figures and Tables

Figure 1: Comment Letters' Tone Distribution
From the 1454 Comment Letters there were a total of 300 unique firms with GVKEY available on Compustat for the year 2010. The pie chart below shows the proportion of these 300 firms who are: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against ASC 840/842.

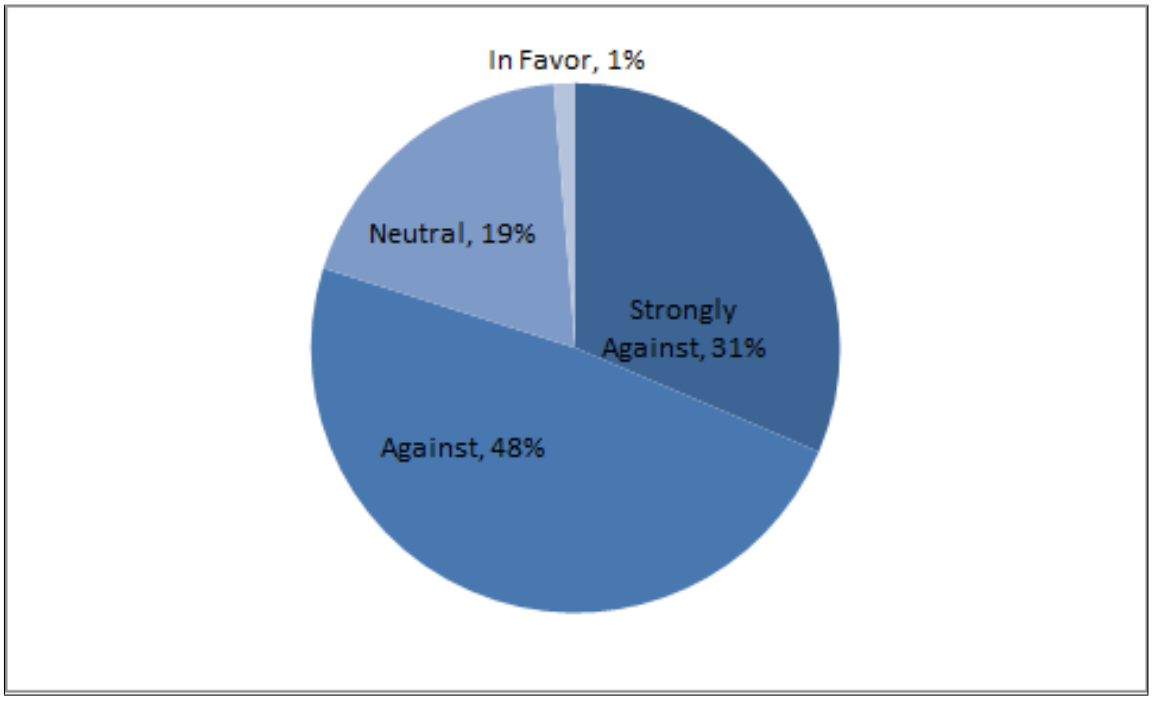


Figure 2: Comment Letters' Tone Distribution by Entities
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 217 identify themselves as lessees, 118 as lessors and 20 are associations. The pie chart below shows the proportion of firms (split by lessors/lessees) and associations who are: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against ASC 840/842.

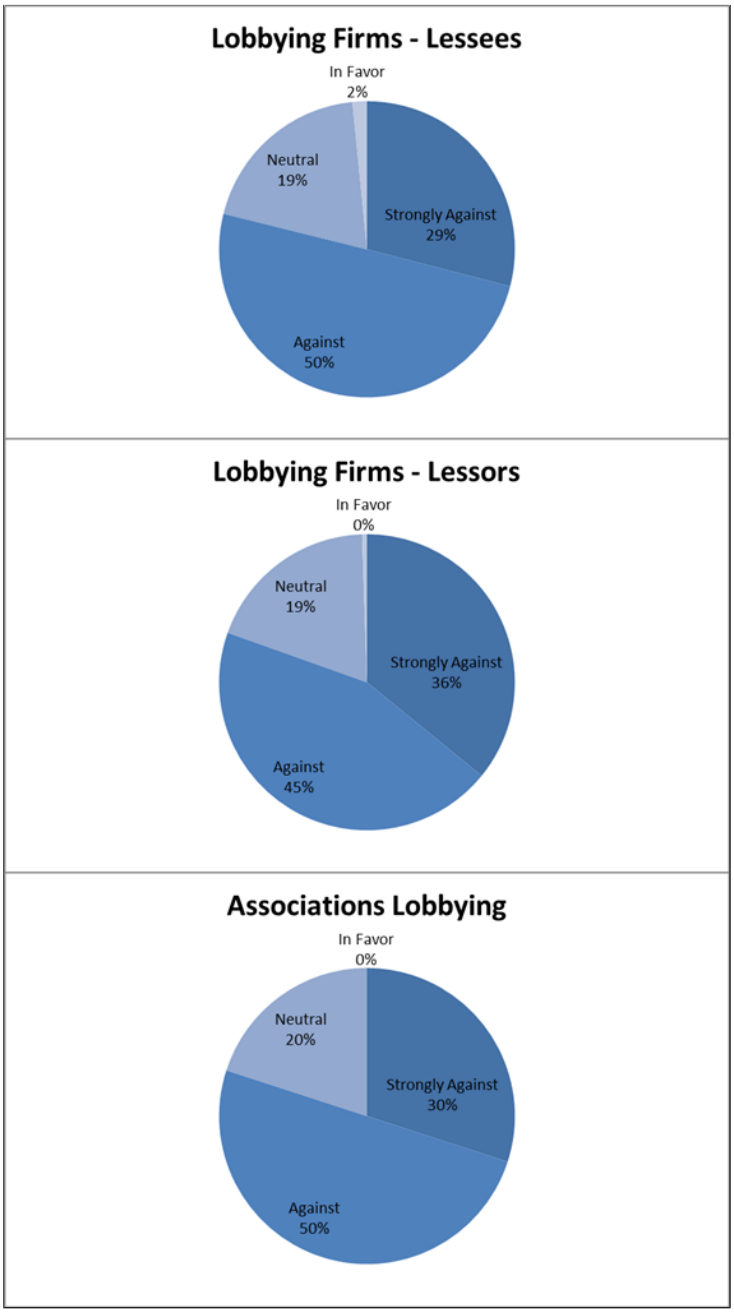


Figure 3: Comment Letters' Tone Distribution - Financial Companies
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 73 are financial companies. The pie chart below shows the proportion of financial firms who are: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against ASC 840/842.

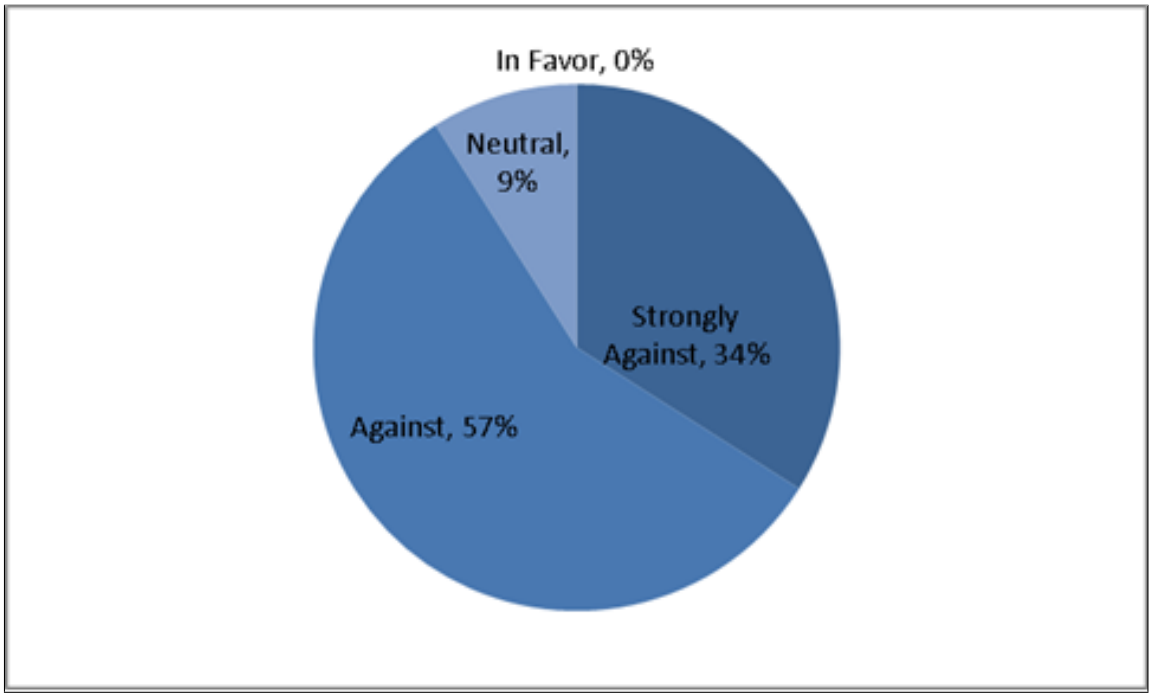


Figure 4: Concerns Raised by Firms/Associations on Comment Letters
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010 and a further 20 associations that provide information on membership. The histogram below presents the proportion of comment letters that raised a particularly issue with ASC 840/842.

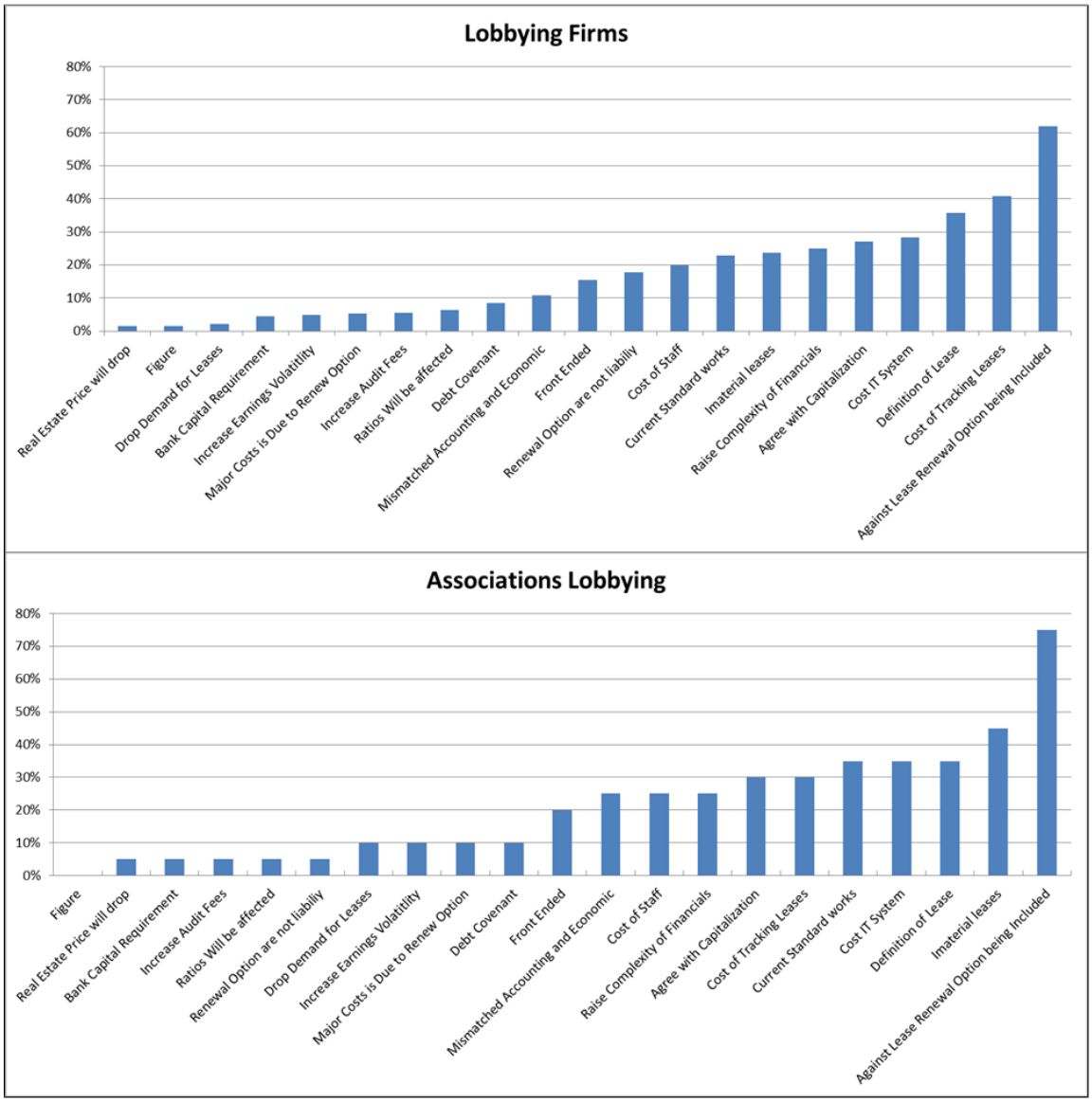


Figure 5: Concerns Raised by Lessees/Lessors on Comment Letters
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 217 identify themselves as lessees, 118 as lessors. The histogram below presents the proportion of comment letters that raised a particularly issue with ASC 840/842. Results are presented separately for lessors and lessees.

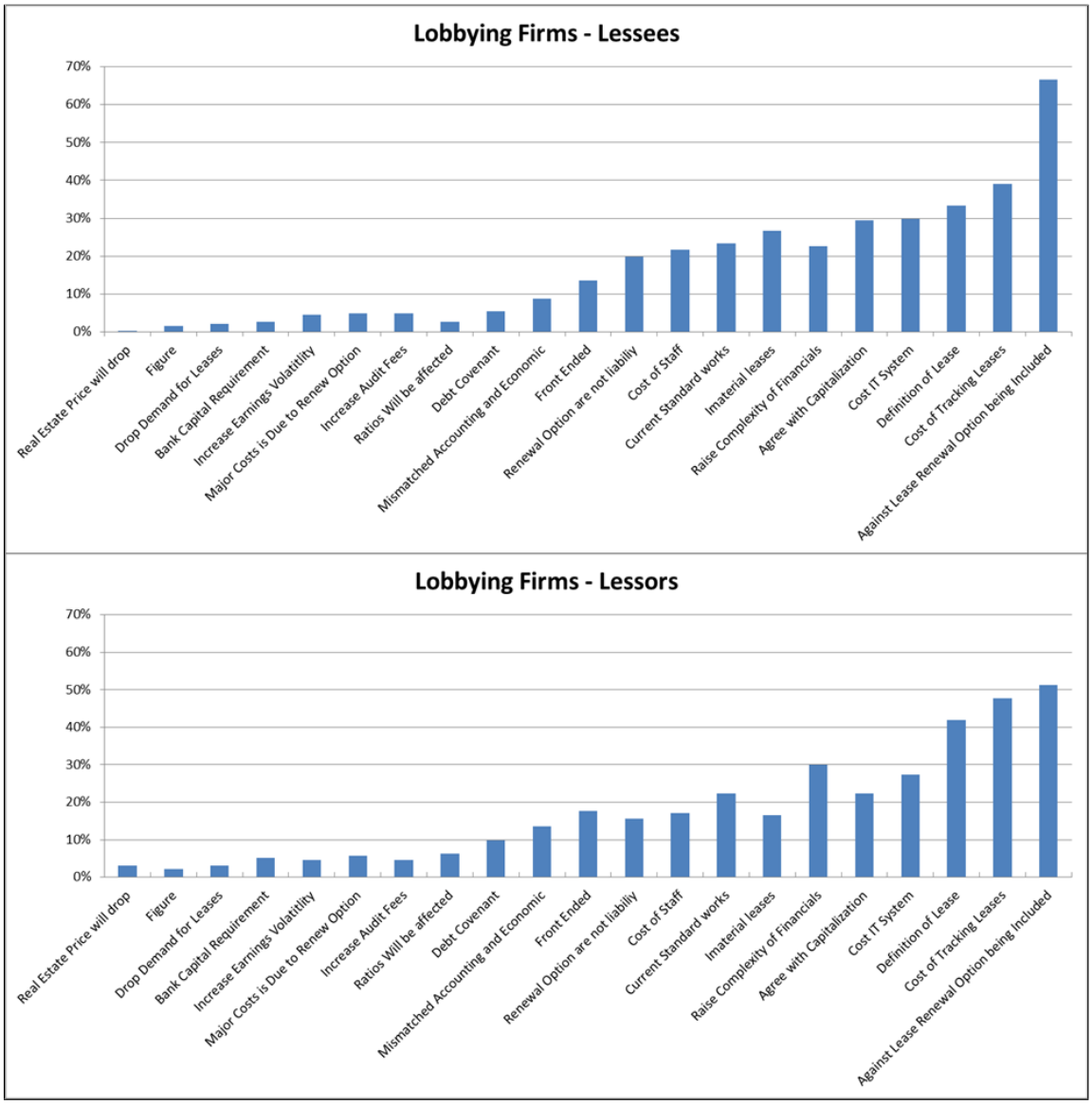


Figure 6: Concerns Raised by Financial Companies on Comment Letters
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 73 are financial institutions. The histogram below presents the proportion of comment letters that raised a particularly issue with ASC 840/842.

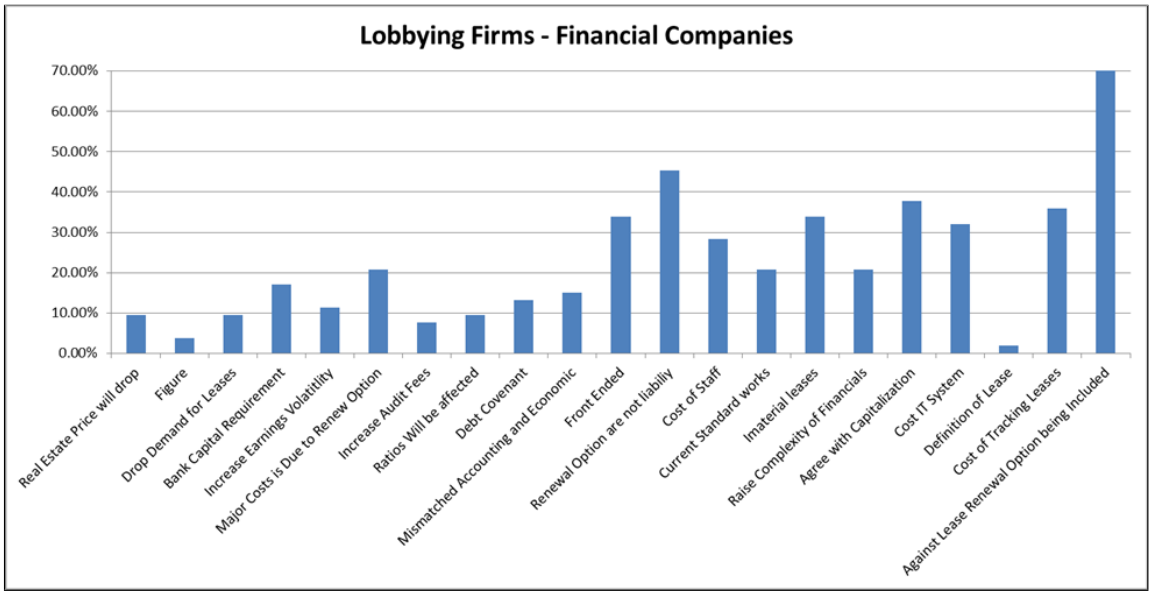
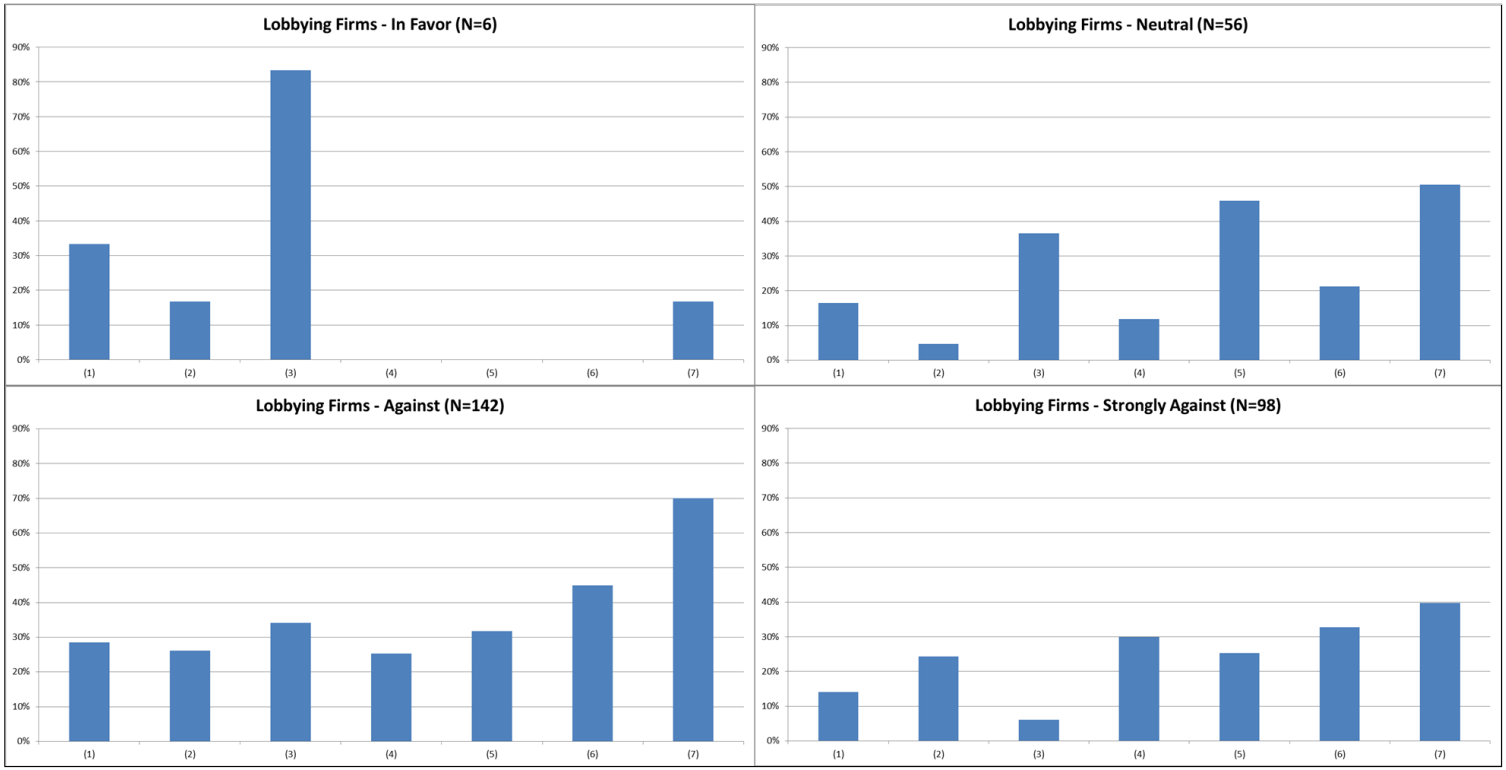
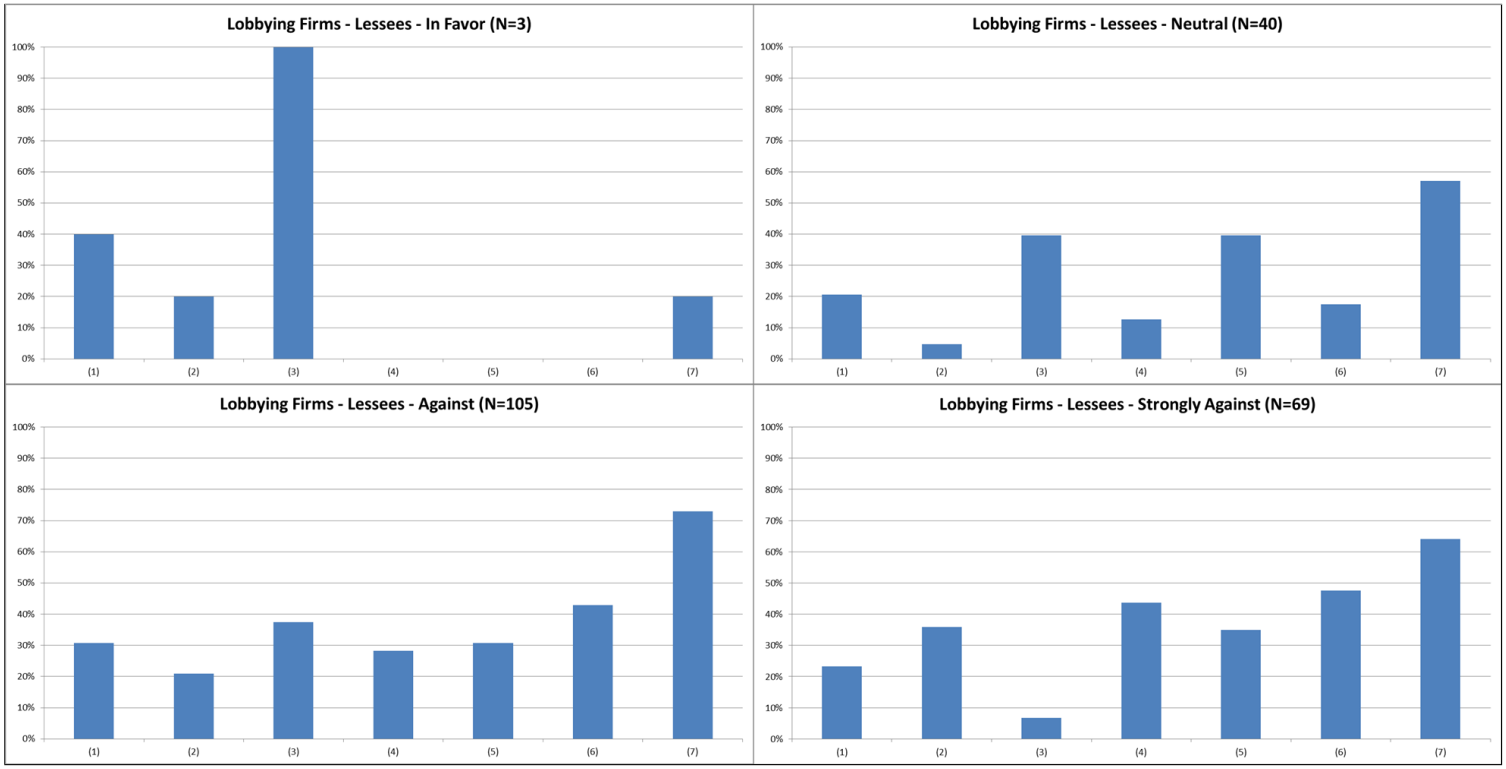


Figure 7: Concerns Raised by Companies on Comment Letters Partitioned by Tone
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. The histogram below presents the proportion of comment letters that raised a particularly issue with ASC 840/842. Results are presented separately for firms: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against the proposal.



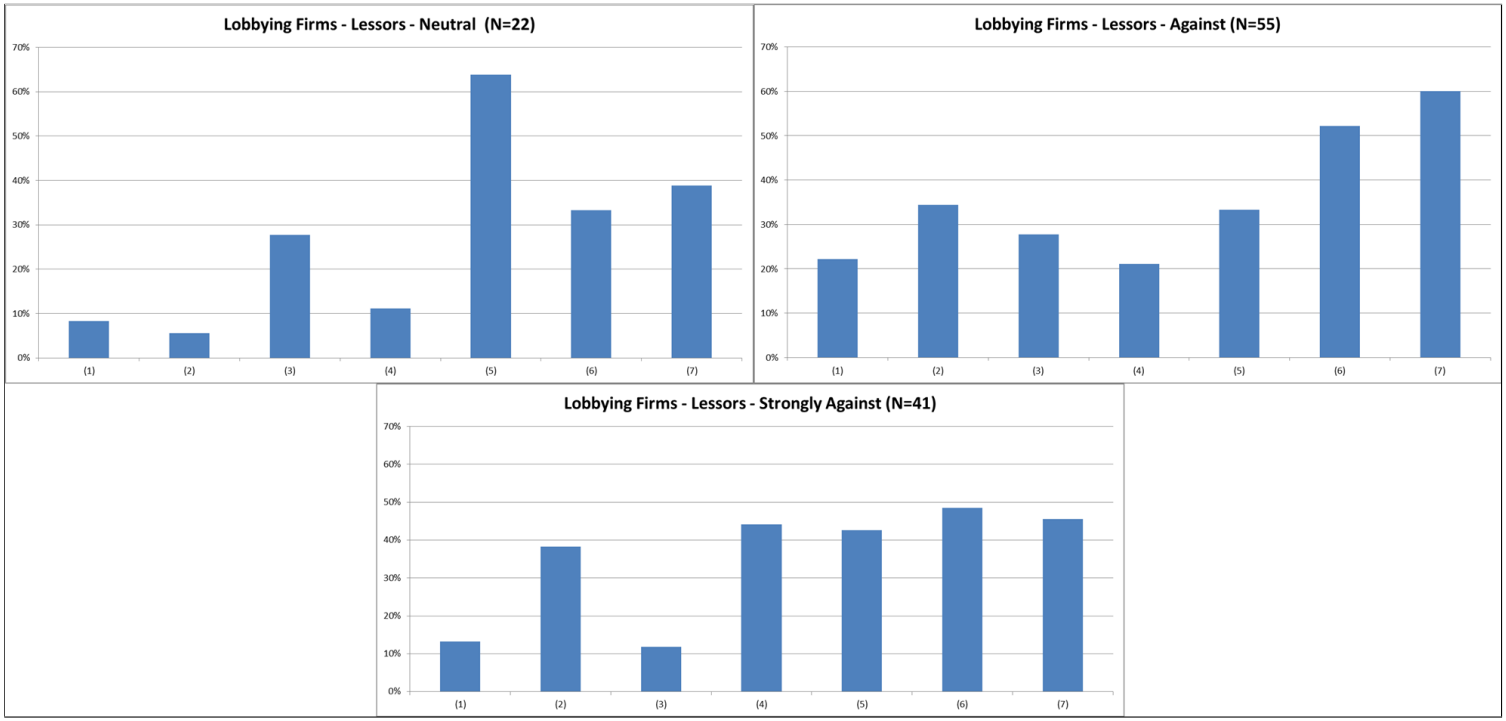
(1) Immaterial leases; (2) Raise Complexity of Financials; (3) Agree with Capitalization; (4) Cost IT System; (5) Definition of Lease; (6) Cost of Tracking Leases; (7) Against Lease Renewal Option being Included.

Figure 8: Concerns Raised by Lessees on Comment Letters Partitioned by Tone
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 217 identify themselves as lessees. The histogram below presents the proportion of comment letters sent by *lessees* that raised a particularly issue with ASC 840/842. Results are presented separately for firms: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against the proposal.



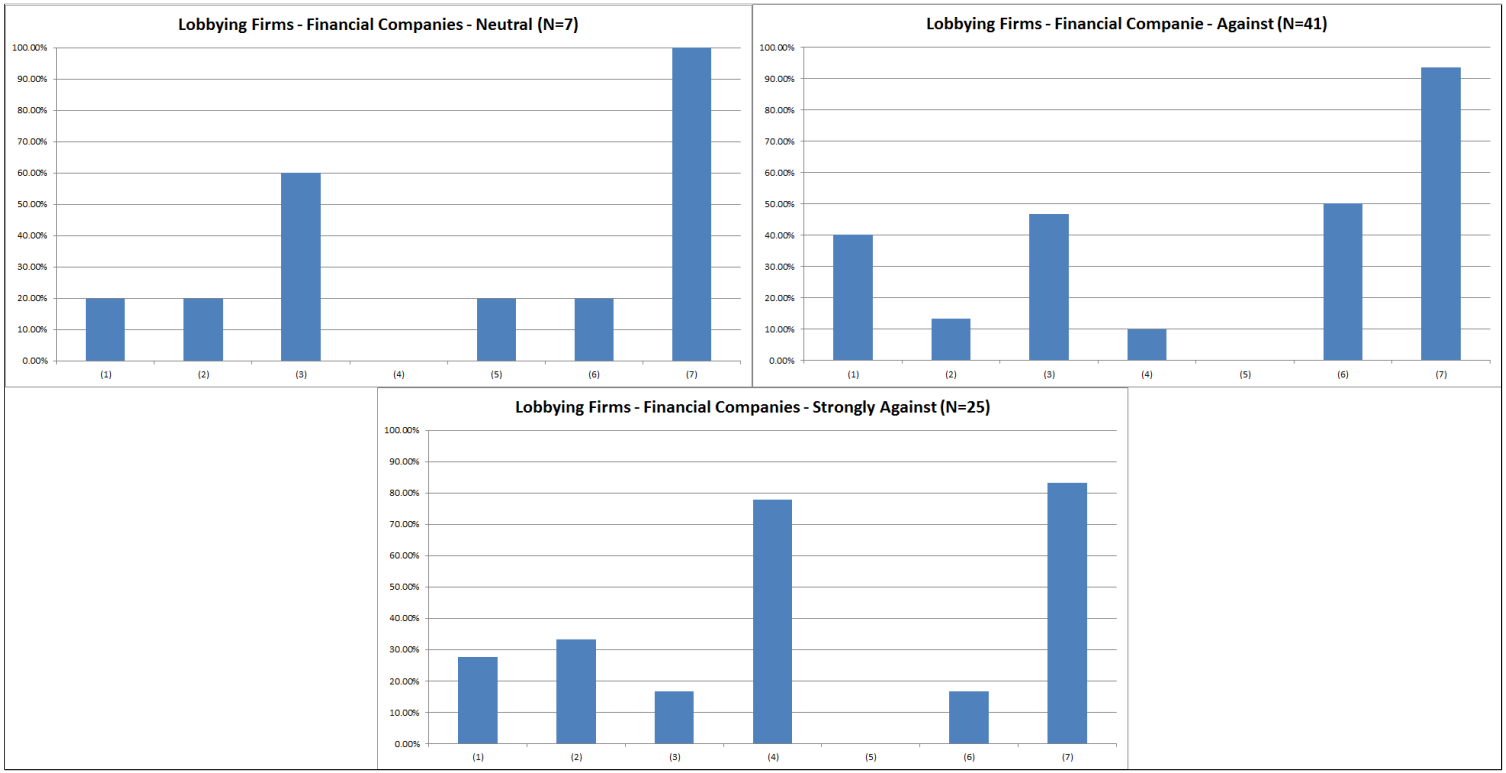
(1) Immaterial leases; (2) Raise Complexity of Financials; (3) Agree with Capitalization; (4) Cost IT System; (5) Definition of Lease; (6) Cost of Tracking Leases; (7) Against Lease Renewal Option being Included.

Figure 9: Concerns Raised by Lessors on Comment Letters Partitioned by Tone
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 118 identify themselves as lessors. The histogram below presents the proportion of comment letters sent by *lessors* that raised a particularly issue with ASC 840/842. Results are presented separately for firms: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against the proposal.



(1) Immaterial leases; (2) Raise Complexity of Financials; (3) Agree with Capitalization; (4) Cost IT System; (5) Definition of Lease; (6) Cost of Tracking Leases; (7) Against Lease Renewal Option being Included.

Figure 10: Concerns Raised by Financial Companies on Comment Letters Partitioned by Tone
From the 1454 Comment Letters there were a total of 300 firms with GVKEY available on Compustat for the year 2010. Of those 73 are financial institutions. The histogram below presents the proportion of comment letters sent by *financial institutions* that raised a particularly issue with ASC 840/842. Results are presented separately for firms: (1) In Favor, (2) Neutral, (3) Against, and (4) Strongly Against the proposal.



(1) Immaterial leases; (2) Raise Complexity of Financials; (3) Agree with Capitalization; (4) Cost IT System; (5) Definition of Lease; (6) Cost of Tracking Leases; (7) Against Lease Renewal Option being Included.

Table 1: Example of Lessee Accounting

Let's consider a three-year lease with annual payments of: $10,000 in year 1, $15,000 in year 2, and $20,000 in year 3. Operating leases more commonly have even lease payments but it is not uncommon to see a pattern like the one shown in this example, especially for younger and more cash constrained firms. The initial measurement of the leased asset and liability to make lease payments is $38,000 at a discount rate of 8 percent.This table highlights the differences in accounting for the lease under the financing and straight-line approaches

	Both Methods	Financing Approach (Type A)				Straight-Line Approach (Type B)		
Year	Lease Liability[1]	Interest Expense (A)	Amortization Expense (B)[2]	Total Lease Expense (A + B)	Leased Asset	Lease Expense (D)	Reduction in Leased Asset (D - A)[3]	Leased Asset
0	38,000				38,000			38,000
1	31,038	3,038	12,666	15,704	25,334	15,000	11,962	26,038
2	18,520	2,481	12,667	15,148	12,667	15,000	12,519	13,519
3	-	1,481	12,667	14,148	-	15,000	13,519	-
Total		7,000	38,000	45,000		45,000	38,000	

[1] The effective-interest method is used to calculate the lease liability, regardless of the expense recognition pattern.

[2] Under the financing approach, the leased asset would be amortized in the same manner as other nonfinancial assets.

[3] Under the straight-line method, amortization expense is calculated as the difference between lease expense and interest expense.

Table 2: Comment Letters by Entities
This table presents a breakdown of the 1454 comment letters issued, partitioned by the entity that wrote the comment letter.

Entity	Number of Comment Letters	%
Accounting Boards	41	2.8%
Associations	297	20.4%
Auditors	11	0.8%
Comissions	5	0.3%
Committees (e.g Government Committees)	18	1.2%
Companies	831	57.2%
Councils	10	0.7%
Government Departments	14	1.0%
Individual	87	6.0%
International Institution (i.e. World Bank)	1	0.1%
Nonprofits	8	0.6%
Professional Associations	114	7.8%
Schools/Universities	15	1.0%
Stock Exchange	2	0.1%
Total	1454	100.0%

Table 3: Comment Letters by Entities Partitioned by ASC
This table presents a breakdown of the 1454 comment letters issued, partitioned by the entity that wrote the comment letter and for the ASC 840/842.

	ASC 840		ASC 842	
Entity	Number of Comment Letters	%	Number of Comment Letters	%
Accounting Boards	17	2.1%	24	3.7%
Associations	158	19.6%	139	21.5%
Auditors	7	0.9%	4	0.6%
Comissions	1	0.1%	4	0.6%
Committees (e.g Government Committees)	9	1.1%	9	1.4%
Companies	460	56.9%	371	57.4%
Councils	7	0.9%	3	0.5%
Government Departments	9	1.1%	5	0.8%
Individual	60	7.4%	27	4.2%
International Institution (i.e. World Bank)	1	0.1%	0	0.0%
Nonprofits	6	0.7%	2	0.3%
Professional Associations	61	7.5%	53	8.2%
Schools/Universities	10	1.2%	5	0.8%
Stock Exchange	2	0.2%	0	0.0%
Total	808	100.0%	646	100.0%

Table 4: Revenue Hypothesis for Lessors - Percentage of Revenue from Leases, by 2-digit SIC Code Distribution

Panel A: All lessor firms	N	% Revenue from Leasing
All firms*	67	68%
Panel B: By 2-digit-SIC	**N**	**% Revenue from Leasing**
WATER TRANSPORTATION	2	100%
AUTOMOTIVE DEALERS & SERVICE STATIONS	1	99%
OIL AND GAS EXTRACTION	4	98%
ELECTRIC, GAS, AND SANITARY SERVICES	1	98%
TRANSPORTATION BY AIR	1	95%
COMMUNICATION	2	91%
HOLDING AND OTHER INVESTMENT OFFICES	19	91%
TRANSPORTATION SERVICES	1	84%
BUSINESS SERVICES	10	79%
AUTO REPAIR, SERVICES, AND PARKING	2	72%
Other	3	59%
NONDEPOSITORY INSTITUTIONS	4	56%
RAILROAD TRANSPORTATION	2	49%
REAL ESTATE	3	31%
INDUSTRIAL MACHINERY AND EQUIPMENT	3	26%
EATING AND DRINKING PLACES	2	24%
TRANSPORTATION EQUIPMENT	5	10%
INSURANCE CARRIERS	1	6%
TOBACCO PRODUCTS	1	2%

* There are a total of 118 lessor firms. I was able to distinguish the importance of revenue from leases for only 67 firms as for the others the breakdown was not available in their 10-K. For the firms where I was not able to identify revenue from leases, the most common reason is because they define segments on their 10-Ks as geographic locations or because leases are inside a larger segment.

Table 5: Descriptive Statistics
The table shows the descriptive statistics for the main variables used in the analysis. Lobbying firms are matched with non-lobbying firms on industry, year and size (Total Assets plus Capitalized leases). *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively, using two tailed tests. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A. Panel A provides descriptive statistics for firms lobbying directly. Panel B provides descriptive statistics for members of associations lobbying, in addition to those firms lobbying directly (those given in Panel A).

Panel A: Firms Lobbying Directly							
		Firms Lobbying		Firms Not Lobbying			
Variables	N	Mean	Median	Mean	Median	Diff Mean	Diff Median
Descriptive:							
Log(Assets)	97	9.47	9.66	9.47	9.62	0.005	0.04
Oper. Leases	97	0.13	0.04	0.10	0.03	0.03	0.01
ROA	97	0.060	0.053	0.056	0.049	0.004	0.004
Market-to-Book	97	1.741	1.528	1.563	1.377	0.18*	0.15*
Leverage	97	0.242	0.222	0.280	0.263	-0.04	-0.04
Z-Score	97	3.252	2.640	2.619	2.507	0.63**	0.13*
Beta	97	1.013	1.029	1.034	1.004	-0.02	-0.01
Earnings and Balance Sheet Impact:							
Change ROA	97	-0.12	-0.02	-0.05	-0.01	-0.08	-0.01**
Change Leverage	97	3.46	0.15	1.70	0.10	1.76	0.05*
Earnings Quality:							
ERC	97	3.48	0.98	2.48	0.76	1.00	0.22
Return Volatility	97	0.019	0.017	0.020	0.019	-0.001	-0.001
Institutional Ownership	97	0.29	0.37	0.25	0.02	0.04	0.36
Cost of Implementation:							
DebtCovenant	97	0.51	1.00	0.48	0.00	0.02	1.00
Violation Lev.	97	0.01	0.00	0.00	0.00	0.01	0.00
Violation Int.	97	0.14	0.00	0.10	0.00	0.04	0.00
Tightness Lev.	97	8.55	10.00	8.84	10.00	-0.28	0.00
Tightness Int.	97	7.61	10.00	8.35	10.00	-0.74	0.00
Lease Duration	97	8.64	7.70	7.92	7.99	0.71	-0.29
Litigation Risk	97	0.13	0.11	0.13	0.12	0.00	-0.01
Implementation Cost	97	0.0046	0.0014	0.0036	0.0010	0.0010	0.0004
Cost of Capital:							
Change Z-Score	97	-0.11	-0.05	-0.09	-0.04	-0.03	-0.01*
Abnormal Lease	97	0.27	0.12	0.20	0.00	0.07	0.12**
Opacity All	97	2.19	2.24	2.18	2.25	0.01	-0.01
Opacity SL	97	2.05	2.16	2.09	2.21	-0.04	-0.05
Headlines #	97	3.37	1.71	2.82	1.37	0.54	0.35
Rating	97	0.75	1.00	0.75	1.00	0.00	0.00
Analysts	97	2.56	2.77	2.29	2.71	0.27*	0.06
Stock Compensation	69	0.47	0.48	0.44	0.42	0.03	0.07
Avg. Age	69	53.31	53.60	53.60	53.40	-0.29	0.20

Table 5: Descriptive Statistics - Continued

Panel B: Member of Associations Lobbying							
		Associations Lobbying		Associations Not Lobbying			
Variables	N	Mean	Median	Mean	Median	Diff Mean	Diff Median
Descriptive:							
Log(Assets)	148	7.60	7.52	7.64	7.61	-0.03	-0.09
Oper. Leases	148	0.20	0.05	0.15	0.03	0.05	0.02**
ROA	148	0.047	0.046	0.046	0.047	0.001	-0.001
Market-to-Book	148	1.57	1.30	1.58	1.36	-0.02	-0.06
Leverage	148	0.22	0.22	0.22	0.22	-0.01	0.00
Z-Score	148	3.33	2.87	3.54	2.70	-0.21	0.17
Beta	148	1.00	1.032	1.03	1.026	-0.02	0.002
Earnings and Balance Sheet Impact:							
Change ROA	148	-0.12	-0.020	-0.09	-0.017	-0.03	-0.002
Change Leverage	148	4.48	0.22	3.86	0.15	0.62	0.07
Earnings Quality:							
ERC	148	2.12	0.96	2.44	0.84	-0.32	0.11
Return Volatility	148	0.024	0.022	0.025	0.023	-0.002	-0.001
Institutional Ownership	148	0.325	0.377	0.322	0.419	0.002	-0.04
Cost of Implementation:							
DebtCovenant	148	0.59	1.00	0.46	0.00	0.14**	1**
Violation Lev.	148	0.01	0.00	0.00	0.00	0.01	0.00
Violation Int.	148	0.16	0.00	0.11	0.00	0.05	0.00
Tightness Lev.	148	8.69	10.00	9.10	10.00	-0.41	0.00
Tightness Int.	148	8.04	10.00	8.45	10.00	-0.42	0.00
Lease Duration	148	6.44	6.92	6.52	6.86	-0.08	0.06
Litigation Risk	148	0.08	0.06	0.09	0.07	-0.01	0.00
Implementation Cost	148	0.007	0.002	0.005	0.001	0.002	0.001**
Cost of Capital:							
Change Z-Score	148	-0.16	-0.06	-0.13	-0.04	-0.03	-0.02
Abnormal Lease	148	0.21	0.00	0.14	0.00	0.07**	0.00
Opacity All	148	2.32	2.30	2.20	2.25	0.12**	0.06**
Opacity SL	148	2.13	2.16	2.05	2.09	0.08	0.07
Headlines #	148	2.45	2.01	2.25	0.00	0.21	2.01
Rating	148	0.53	1.00	0.51	1.00	0.02	0.00
Analysts	148	2.23	2.40	2.10	2.30	0.13	0.10
Stock Compensation	105	0.36	0.37	0.40	0.40	-0.05**	-0.03*
Avg. Age	105	53.40	53.40	53.21	53.20	0.19	0.20

Table 6: Logistic Regression
This table presents pooled logistic regression computed using backward elimination and using the computational algorithm of Lawless and Singhal (1978) to compute a first-order approximation of the remaining slope estimate to subsequent variable estimations. The variables that are eliminated in the backward elimination are done so based on these approximations. The significance level for elimination used in this study is 15 percent. Lobbying firms are matched with non-lobbying firms on industry, year and size (Total Assets plus Capitalized leases. The dependent variable is 1 if a firm sent a comment letter to the FASB/IASB, 0 otherwise. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A.

	Firms Lobbying		Associations' Members	
Variables	Coefficient	p-value	Coefficient	p-value
Leverage	-2.72	0.04	-	-
Tightness Int.	-0.07	0.10	-	-
Change Z-Score	-6.07	0.02	-	-
Oper. Leases	-	-	2.65	0.01
DebtCovenant	-	-	0.83	0.01
Beta	-	-	-0.69	0.13
Pseudo-R^2	0.15		0.11	

Table 7: Signatory of the Comment Letter
The table shows the distributions of signatories of the comment letters for public companies. *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively in the difference between the standard being reported and the leasing standard.

	Leasing ASC 840 & 842		Stock Options SFAS 123		Goodwill SFAS 141 & 142	
Signatory	N	%	N	%	N	%
Chairman	1	0.3%	9	2.62%**	2	2.6%
CEO	4	1.2%	49	14.29%***	14	14.29%***
Company	6	1.9%	0	0%**	0	0%*
Others	11	3.4%	55	16.03%***	27	16.03%***
President	0	0.0%	17	4.96%***	1	5.0%
CFO	82	25.2%	116	33.82%**	56	33.8%
Controller	247	76.0%	132	38.48%***	106	38.48%***

Table 8: Signatory of the Comment Letter Partitioned by ASC
The table shows the distributions of signatories of the comment letters for public companies partitioned by ASC 840/842.

	ASC 840		ASC 842	
Signatory	N	%	N	%
Chairman	0	0.0%	1	0.5%
CEO	2	0.8%	2	1.0%
Company	3	1.2%	3	1.4%
Others	8	3.3%	7	3.4%
CFO	55	22.6%	51	24.6%
Controller	187	77.0%	157	75.8%

Table 9: Change in Tone of Comment Letters
This table presents the comment letters' tone for companies that lobby the FASB in 2010 (SFAS 840) and again in 2013 (SFAS 842). The gray areas represent the highest value for each row.

Panel A: Number of Firms

		SFAS 842			
	Tone	Favor	Neutral	Against	Strongly Against
SFAS 840	Favor	0	1	0	0
	Neutral	1	7	5	2
	Against	1	12	34	18
	Strongly Against	0	4	10	28

Panel B: Percentage

		SFAS 842			
	Tone	Favor	Neutral	Against	Strongly Against
SFAS 840	Favor	0%	100%	0%	0%
	Neutral	7%	47%	33%	13%
	Against	2%	18%	52%	28%
	Strongly Against	0%	10%	24%	67%

Table 10: Change in Signatories of the Comment Letters
This table presents the change in signatories of the comment letters for companies that lobby the FASB in 2010 (SFAS 840) and again in 2013 (SFAS 842). The gray areas represent the highest value for each row.

Panel A: Number of Firms						
				SFAS842		
	Signer	CEO	Company	Others	CFO	Controller
	CEO	0	0	0	1	1
	Company	0	3	0	0	0
SFAS840	Others	0	0	3	1	1
	CFO	0	0	0	19	11
	Controller	1	0	2	12	92
Panel B: Percentage						
	CEO	0%	0%	0%	50%	50%
	Company	0%	100%	0%	0%	0%
SFAS840	Others	0%	0%	60%	20%	20%
	CFO	0%	0%	0%	63%	37%
	Controller	1%	0%	2%	11%	86%

Table 11: Distribution of Signatories by Industry
The table presents the distribution of who signs the letter by industry (2-digit-SIC code).

		Signer												
		Chairman		CEO		Company		Others		CFO		Controller		
2-digit-SIC	Industry	#	%	#	%	#	%	#	%	#	%	#	%	Total
10	METAL MINING	0	0%	0	0%	0	0%	0	0%	0	0%	3	100%	3
13	OIL AND GAS EXTRACTION	0	0%	0	0%	1	5.3%	0	0%	8	42.1%	10	52.6%	19
14	NONMETALLIC MINERALS, EXCEPT FUELS	0	0%	0	0%	0	0%	0	0%	1	100%	0	0%	1
16	HEAVY CONSTRUCTION, EX. BUILDING	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
17	SPECIAL TRADE CONTRACTORS	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
20	FOOD AND KINDRED PRODUCTS	0	0%	0	0%	1	20%	0	0%	1	20%	3	60%	5
21	TOBACCO PRODUCTS	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
23	APPAREL AND OTHER TEXTILE PRODUCTS	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
25	FURNITURE AND FIXTURES	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
26	PAPER AND ALLIED PRODUCTS	0	0%	0	0%	0	0%	0	0%	1	50%	1	50%	2
28	CHEMICALS AND ALLIED PRODUCTS	0	0%	0	0%	0	0%	1	6.7%	3	20%	11	73.3%	15
29	PETROLEUM AND COAL PRODUCTS	0	0%	0	0%	0	0%	0	0%	4	28.6%	10	71.4%	14
30	RUBBER AND MISC. PLASTICS PRODUCTS	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
31	LEATHER AND LEATHER PRODUCTS	0	0%	0	0%	0	0%	0	0%	1	100%	0	0%	1
32	STONE, CLAY, AND GLASS PRODUCTS	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
33	PRIMARY METAL INDUSTRIES	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
34	FABRICATED METAL PRODUCTS	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
35	INDUSTRIAL MACHINERY AND EQUIPMENT	0	0%	0	0%	0	0%	2	20%	1	10%	7	70%	10
36	ELECTRONIC & OTHER ELECTRIC EQUIPMENT	0	0%	0	0%	0	0%	0	0%	1	14.3%	6	85.7%	7
37	TRANSPORTATION EQUIPMENT	0	0%	0	0%	0	0%	0	0%	1	10%	9	90%	10
38	INSTRUMENTS AND RELATED PRODUCTS	0	0%	0	0%	0	0%	0	0%	0	0%	3	100%	3
40	RAILROAD TRANSPORTATION	0	0%	0	0%	0	0%	0	0%	1	16.7%	5	83.3%	6
44	WATER TRANSPORTATION	0	0%	0	0%	0	0%	0	0%	2	50%	2	50%	4
45	TRANSPORTATION BY AIR	0	0%	0	0%	0	0%	0	0%	1	12.5%	7	87.5%	8
46	PIPELINES, EXCEPT NATURAL GAS	0	0%	0	0%	0	0%	0	0%	1	50%	1	50%	2
47	TRANSPORTATION SERVICES	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
48	COMMUNICATION	0	0%	0	0%	2	9.5%	1	4.8%	2	9.5%	16	76.2%	21
49	ELECTRIC, GAS, AND SANITARY SERVICES	0	0%	0	0%	0	0%	1	4.8%	4	19%	16	76.2%	21
50	WHOLESALE TRADE-DURABLE GOODS	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1

Table 11: Distribution of Who Signs the Letter by Industry - Continued

		Signer												
		Chairman		CEO		Company		Others		CFO		Controller		
2-digit-SIC	Industry	#	%	#	%	#	%	#	%	#	%	#	%	Total
51	WHOLESALE TRADE-NONDURABLE GOODS	0	0%	0	0%	0	0%	0	0%	2	50%	2	50%	4
52	BUILDING MATERIALS & GARDEN SUPPLIES	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
53	GENERAL MERCHANDISE STORES	0	0%	0	0%	0	0%	0	0%	1	33.3%	2	66.7%	3
54	FOOD STORES	0	0%	0	0%	0	0%	0	0%	2	50%	2	50%	4
55	AUTOMOTIVE DEALERS & SERVICE STATIONS	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
56	APPAREL AND ACCESSORY STORES	0	0%	0	0%	0	0%	0	0%	3	50%	3	50%	6
57	FURNITURE AND HOMEFURNISHINGS STORES	0	0%	0	0%	1	25%	0	0%	1	25%	2	50%	4
58	EATING AND DRINKING PLACES	0	0%	0	0%	0	0%	0	0%	3	50%	3	50%	6
59	MISCELLANEOUS RETAIL	0	0%	0	0%	0	0%	0	0%	1	33.3%	2	66.7%	3
60	DEPOSITORY INSTITUTIONS	1	2.8%	1	2.8%	0	0%	1	2.8%	6	16.7%	27	75%	36
61	NONDEPOSITORY INSTITUTIONS	0	0%	0	0%	0	0%	0	0%	1	33.3%	2	66.7%	3
62	SECURITY AND COMMODITY BROKERS	0	0%	0	0%	0	0%	0	0%	1	9.1%	10	90.9%	11
63	INSURANCE CARRIERS	0	0%	0	0%	0	0%	1	10%	2	20%	7	70%	10
65	REAL ESTATE	0	0%	0	0%	0	0%	1	33.3%	1	33.3%	1	33.3%	3
67	HOLDING AND OTHER INVESTMENT OFFICES	0	0%	1	5%	0	0%	0	0%	6	30%	13	65%	20
70	HOTELS AND OTHER LODGING PLACES	0	0%	0	0%	0	0%	0	0%	2	66.7%	1	33.3%	3
73	BUSINESS SERVICES	0	0%	1	5%	1	5%	0	0%	8	40%	10	50%	20
75	AUTO REPAIR, SERVICES, AND PARKING	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
79	AMUSEMENT & RECREATION SERVICES	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
80	HEALTH SERVICES	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
82	EDUCATIONAL SERVICES	0	0%	0	0%	0	0%	0	0%	0	0%	1	100%	1
87	ENGINEERING & MANAGEMENT SERVICES	0	0%	0	0%	0	0%	0	0%	0	0%	2	100%	2
99	NONCLASSIFIABLE ESTABLISHMENTS	0	0%	1	25%	0	0%	0	0%	1	25%	2	50%	4

Table 12: Distribution of Tone by Signatories
This table presents the breakdown of the distribution of the tone of the comment letter by the signatory of the comment letter.

	Favor		Neutral		Against		Strongly Against		
Signatory	N	%	N	%	N	%	N	%	Total
Chairman	1	100%	0	0%	0	0%	0	0%	1
CEO	0	0%	0	0%	2	50%	2	50%	4
Company	0	0%	0	0%	5	83%	1	17%	6
Others	0	0%	1	10%	5	50%	4	40%	10
CFO	0	0%	7	9%	41	50%	34	41%	82
Controller	4	2%	54	22%	120	48%	70	28%	248

Table 13: Descriptive Statistics - Unmatched Sample
The table shows the descriptive statistics for the main variables used in the analysis. *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively, using two tailed tests. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A. Panel A provides descriptive statistics for firms lobbying directly. Panel B provides descriptive statistics for members of associations lobbying, in addition to those firms lobbying directly (those given in Panel A).

Panel A: Firms Lobbying Directly

	Firms Lobbying			Firms Not Lobbying				
Variables	N	Mean	Median	N	Mean	Median	Diff Mean	Diff Median
Descriptive:								
Log(Assets)	142	9.62	9.84	3267	6.22	6.13	3.4***	3.70***
Oper. Leases	142	0.13	0.04	3267	0.10	0.04	0.03*	0.00
ROA	142	0.066	0.060	3267	-0.021	0.035	0.08***	0.02***
Market-to-Book	142	1.745	1.466	3267	2.029	1.512	-0.28***	-0.05
Leverage	142	0.234	0.218	3267	0.184	0.130	0.05***	0.09***
Z-Score	142	3.417	2.774	3267	3.883	3.052	-0.47**	-0.28
Beta	142	1.025	1.043	3267	0.984	0.989	0.04*	0.06
Earnings and Balance Sheet Impact:								
Change ROA	142	-0.11	-0.03	3267	-0.07	-0.03	-0.04**	0.00
Change Leverage	142	3.97	0.17	3267	5.67	0.34	-1.70	-0.17***
Earnings Quality:								
ERC	142	3.25	1.47	3237	2.36	0.88	0.89	0.59*
Return Volatility	142	0.019	0.018	3267	0.032	0.029	-0.01***	-0.01***
Institutional Ownership	142	0.31	0.45	3267	0.23	0.06	0.08***	0.39***
Cost of Implementation:								
DebtCovenant	142	0.51	1.00	3267	0.34	0.00	0.17***	1***
Violation Lev.	142	0.01	0.00	3267	0.00	0.00	0.01	0.00
Violation Int.	142	0.15	0.00	3267	0.08	0.00	0.07**	0.00
Tightness Lev.	142	8.57	10.00	3267	9.67	10.00	-1.10***	0.00
Tightness Int.	141	7.79	10.00	3219	8.72	10.00	-0.92***	0.00
Lease Duration	142	8.87	7.98	3267	6.73	6.31	2.14***	1.67***
Litigation Risk	142	0.14	0.11	3205	0.07	0.05	0.07***	0.07***
Implementation Cost	142	0.0046	0.0014	3267	0.0035	0.0014	0.001*	0.00
Cost of Capital:								
Change Z-Score	142	-0.12	-0.06	3267	-0.12	-0.07	0.00	0.01
Abnormal Lease	142	0.25	0.01	3267	0.17	0.00	0.08**	0.01***
Opacity All	142	2.16	2.24	3267	2.00	1.95	0.16***	0.31***
Opacity SL	142	2.03	2.13	3267	1.82	1.70	0.21***	0.44***
Headlines #	142	3.29	1.51	3267	1.69	0.00	1.59***	1.51***
Rating	142	0.80	1.00	3267	0.27	0.00	0.52***	1***
Analysts	142	2.57	2.94	3267	1.71	1.79	0.85***	1.15***
Stock Compensation	102	0.48	0.49	1317	0.39	0.39	0.08***	0.09***
Avg. Age	102	53.56	53.60	1317	52.61	52.60	0.95**	1**

Table 13: Descriptive Statistics - Unmatched Sample - Continued

Panel B: Member of Associations Lobbying								
	Associations Lobbying			Associations Not Lobbying				
Variables	N	Mean	Median	N	Mean	Median	Diff Mean	Diff Median
Descriptive:								
Log(Assets)	365	8.52	8.54	3044	6.10	6.01	2.42***	2.52***
Oper. Leases	365	0.18	0.05	3044	0.09	0.04	0.09***	0.01***
ROA	365	0.057	0.053	3044	-0.026	0.034	0.08***	0.02***
Market-to-Book	365	1.68	1.41	3044	2.06	1.53	-0.38***	-0.12***
Leverage	365	0.22	0.22	3044	0.18	0.12	0.04***	0.01***
Z-Score	365	3.59	2.92	3044	3.90	3.05	-0.31	-0.13
Beta	365	1.02	1.034	3044	0.98	0.986	0.03*	0.053
Earnings and Balance Sheet Impact:								
Change ROA	365	-0.13	-0.028	3044	-0.06	-0.025	-0.07***	-0.002***
Change Leverage	365	5.19	0.22	3044	5.65	0.35	-0.46	-0.12***
Earnings Quality:								
ERC	365	2.66	1.15	3014	2.37	0.87	0.29	0.28*
Return Volatility	365	0.022	0.020	3044	0.033	0.029	-0.01***	-0.01***
Institutional Ownership	365	0.331	0.434	3044	0.217	0.043	0.11***	0.39***
Cost of Implementation:								
DebtCovenant	365	0.58	1.00	3044	0.32	0.00	0.25***	1***
Violation Lev.	365	0.003	0.00	3044	0.001	0.00	0.002	0.00
Violation Int.	365	0.14	0.00	3044	0.08	0.00	0.06***	0.00
Tightness Lev.	365	8.64	10.00	3044	9.74	10.00	-1.09***	0.00
Tightness Int.	358	8.14	10.00	3002	8.74	10.00	-0.60***	0.00
Lease Duration	365	7.79	7.53	3044	6.70	6.23	1.09***	1.29***
Litigation Risk	364	0.11	0.08	2983	0.07	0.04	0.04***	0.04***
Implementation Cost	365	0.006	0.002	3044	0.003	0.001	0.003***	0.001***
Cost of Capital:								
Change Z-Score	365	-0.16	-0.06	3044	-0.12	-0.07	-0.04***	0.02**
Abnormal Lease	365	0.25	0.00	3044	0.16	0.00	0.09***	0.00
Opacity All	365	2.25	2.27	3044	1.98	1.90	0.28***	0.37***
Opacity SL	365	2.07	2.14	3044	1.80	1.69	0.28***	0.44***
Headlines #	365	2.83	2.06	3044	1.62	0.00	1.21***	2.06***
Rating	365	0.65	1.00	3044	0.25	0.00	0.40***	1***
Analysts	365	2.42	2.64	3044	1.67	1.79	0.75***	0.85***
Stock Compensation	267	0.41	0.41	1152	0.39	0.40	0.02*	0.01
Avg. Age	267	53.59	53.60	1152	52.47	52.40	1.12***	1.2***

Table 14: Logistic Regression - Unmatched Sample
This table presents pooled logistic regression computed using backward elimination and using the computational algorithm of Lawless and Singhal (1978) to compute a first-order approximation of the remaining slope estimate to subsequent variable estimations. The variables that are eliminated in the backward elimination are done so based on these approximations. The significance level for elimination used in this study is 15 percent. The dependent variable is 1 if a firm sent a comment letter to the FASB/IASB, 0 otherwise. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A. Using industry (2-digit-SIC code) fixed effects.

	Firms Lobbying		Associations' Members	
Variables	Coefficient	p-value	Coefficient	p-value
Intercept	-13.90	0.01	-12.19	0.01
Log(Assets)	1.35	0.01	0.86	0.01
ROA	-	-	2.37	0.09
ERC	0.05	0.01	-	-
DebtCovenant	-	-	0.38	0.06
Tightness Lev.	-0.09	0.02	-0.08	0.03
Tightness Int.	-0.06	0.06	-	-
Change Z-Score	-6.39	0.01	-2.44	0.04
Abnormal Lease	-	-	0.84	0.08
Pseudo-R^2	0.47		0.42	

Table 15: Descriptive Statistics - Additional Variables
The table shows the descriptive statistics for the variables employed in the robustness tests. Lobbying firms are matched with non-lobbying firms on industry, year and size (Total Assets plus Capitalized leases). *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively, using two tailed tests. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A. Panel A provides descriptive statistics for firms lobbying directly. Panel B provides descriptive statistics for members of associations lobbying, in addition to those firms lobbying directly (those given in Panel A).

		Firms Lobbying		Firms Not Lobbying			
Variables	N	Mean	Median	Mean	Median	Diff Mean	Diff Median
Panel A: Firms Lobbying Directly							
Audit Fees	74	0.0006	0.0004	0.0007	0.0005	-0.0001	-0.0001
BSM	95	0.00	0.00	0.00	0.00	0.00	0.00
Change Leverage Rank	97	23.06	0.00	25.22	5.00	-2.15	-5**
Change Z-Score Rank	97	11.97	2.00	18.37	4.00	-6.40	-2*
Discretionary Accruals	84	-0.008	-0.005	0.002	-0.007	-0.009	0.001
Panel B: Firms Lobbying Directly + Member of Associations Lobbying - Matched Sample							
Audit Fees	139	0.0014	0.0011	0.0012	0.0009	0.0002	0.0001
BSM	143	0.00	0.00	0.00	0.00	0.00	0.00
Change Leverage Rank	148	-21.358	3.000	15.723	2.000	-37.08*	1.00
Change Z-Score Rank	148	4.19	1.00	11.55	2.00	-7.36*	-1**
Discretionary Accruals	145	-0.001	-0.00636	-0.014	-0.00642	0.013*	0.0001

Table 16: Descriptive Statistics - Excluding Firms in Favor or Neutral, and Excluding Firms that Lobbied Both on SFAS123 and SFAS141/142

The table shows the descriptive statistics for the main variables used in the analysis excluding firms in Favor of, or Neutral to, the proposal. Firms that lobbied both on SFAS123 and SFAS141/142 are also excluded. Lobbying firms are matched with non-lobbying firms on industry, year and size (Total Assets plus Capitalized leases). *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively, using two tailed tests. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A.

		Firms Lobbying		Firms Not Lobbying			
Variables	N	Mean	Median	Mean	Median	Diff Mean	Diff Median
Descriptive:							
Log(Assets)	75	9.39	9.52	9.39	9.49	-0.002	0.02
Oper. Leases	75	0.15	0.05	0.12	0.03	0.03	0.02
ROA	75	0.055	0.053	0.053	0.049	0.002	0.004
Market-to-Book	75	1.676	1.502	1.531	1.392	0.14	0.11
Leverage	75	0.245	0.222	0.276	0.260	-0.03	-0.04
Z-Score	75	3.128	2.640	2.607	2.414	0.52	0.23
Beta	75	1.040	1.036	1.022	1.005	0.02	0.01
Earnings and Balance Sheet Impact:							
Change ROA	75	-0.13	-0.03	-0.05	-0.01	-0.07	-0.02**
Change Leverage	75	4.10	0.16	2.02	0.12	2.08	0.04*
Earnings Quality:							
ERC	75	3.12	0.95	2.26	0.68	0.87	0.27
Return Volatility	75	0.020	0.0182	0.021	0.0185	-0.001	-0.0003
Institutional Ownership	75	0.27	0.08	0.27	0.13	0.00	-0.05
Cost of Implementation:							
DebtCovenant	75	0.55	1.00	0.48	0.00	0.07	1.00
Violation Lev.	75	0.00	0.00	0.00	0.00	0.00	0.00
Violation Int.	75	0.16	0.00	0.08	0.00	0.08	0.00
Tightness Lev.	75	8.73	10.00	9.10	10.00	-0.38	0.00
Tightness Int.	75	7.21	10.00	8.43	10.00	-1.21*	0.00
Lease Duration	75	8.95	7.95	8.39	8.09	0.56	-0.14
Litigation Risk	75	0.13	0.10	0.13	0.12	0.00	-0.02
Implementation Cost	75	0.0052	0.0016	0.0041	0.0011	0.0010	0.0005
Cost of Capital:							
Change Z-Score	75	-0.13	-0.06	-0.10	-0.04	-0.03	-0.02*
Abnormal Lease	75	0.29	0.16	0.24	0.00	0.05	0.16
Opacity All	75	2.15	2.19	2.19	2.25	-0.04	-0.05
Opacity SL	75	2.00	2.14	2.08	2.22	-0.09	-0.09
Headlines #	75	2.57	0.00	2.64	0.00	-0.07	0.00
Rating	75	0.72	1.00	0.73	1.00	-0.01	0.00
Analysts	75	2.49	2.71	2.34	2.77	0.14	-0.06
Stock Compensation	51	0.46	0.47	0.43	0.40	0.03	0.07
Avg. Age	51	53.31	53.20	53.49	53.40	-0.19	-0.20

Table 17: Logistic Regression - Excluding Firms in Favor or Neutral, and Excluding Firms that Lobbied Both on SFAS123 and SFAS141/142

This table presents pooled logistic regression computed using backward elimination and using the computational algorithm of Lawless and Singhal (1978) to compute a first-order approximation of the remaining slope estimate to subsequent variable estimations. This table excludes firms classified as 'in Favor' or Neutral, and excludes firms that lobbied both on SFAS123 and SFAS141/142. The variables that are eliminated in the backward elimination are done so based on these approximations. The significance level for elimination used in this study is 15 percent. Lobbying firms are matched with non-lobbying firms on industry, year and size (Total Assets plus Capitalized leases.The dependent variable is 1 if a firm sent a comment letter to the FASB/IASB, 0 otherwise. All variables are winsorized at bottom and top 1% level. All variables are as defined in Appendix A.

	Firms Lobbying	
Variables	Coefficient	p-value
Leverage	-2.29	0.15
Tightness Lev.	-0.13	0.13
Tightness Int.	-0.10	0.03
Change Z-Score	-5.78	0.05
Pseudo-R^2	0.17	

Table 18: Event Dates
This table presents the relevant dates for the leasing project proposed by the FASB/IASB (ASC 840/842).

Date	Event
07/19/2006	FASB/IASB announced they would revisit to Lease Accounting.
03/19/2009	Launch Preliminary View of Lease Accounting
08/17/2010	Published Exposure Draft
08/18/2010	Podcast of Exposure Draft
12/17/2010	Roundtable on Leases -London
12/17/2010	Roundtable on Leases -Hong Kong
01/05/2011	Roundtable on Leases -Chicago
01/06/2011	Roundtable on Leases - Norwalk
06/13/2012	Announced the revised Exposure Draft and the possibility of even expenses for insignificant leases over the life of those leases.
07/19/2012	Webcast on the leases
05/16/2013	FASB/IASB published a revised Exposure Draft

Table 19: Event Study - CARs

The table shows the mean and media CAR around lease accounting event dates. *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively, using two tailed tests. The statistically significance is determine by using t-test for the mean and Wilcoxon test for the median.

						Difference Between Lessee Lobbying Group and Non-Lobbying Group		Difference Between Lessor Lobbying Group and Non-Lobbying Group	
	Event Date[1]	All Firms	Lessee Lobbying Firms	Lessor Lobbying Firms	Non-Lobbying Firms	Mean	Median	Mean	Median
Panel A: Firms Lobbying Directly									
Mean CAR	1	1.79%***	1.14%**	1.38%	1.81%	-0.67%		-0.44%	
Median CAR	1	0.16%***	0.56%**	0.52%*	0.14%***		0.42%		0.37%
Mean CAR	2	-0.36%	-0.33%**	-0.62%	-0.37%	0.03%		-0.25%	
Median CAR	2	-0.46%***	-0.41%**	-0.39%	-0.46%***		0.05%		0.07%
Mean CAR	3	-0.38%***	-0.33%	-0.28%	-0.39%	0.05%		0.11%	
Median CAR	3	-0.56%***	-0.02%**	-0.23%	-0.58%***		0.56%		0.35%
Mean CAR	4	0.66%***	0.03%	0.28%	0.69%	-0.66%		-0.42%	
Median CAR	4	0.07%***	0.04%	0.21%	0.07%***		-0.03%		0.14%
Panel B: Firms Lobbying Directly + Members of Associations Lobbying									
Mean CAR	1	1.79%***	1.09%***	1.53%*	1.87%***	-0.78%		-0.33%	
Median CAR	1	0.16%***	0.39%**	0.32%**	0.12%***		0.28%**		0.20%
Mean CAR	2	-0.36%	-0.23%	-0.24%	-0.38%	0.15%		0.14%	
Median CAR	2	-0.46%***	-0.17%	-0.14%	-0.50%***		0.33%		0.36%
Mean CAR	3	-0.38%***	-0.57%***	-0.22%	-0.36%***	-0.20%		0.14%	
Median CAR	3	-0.56%***	-0.44%***	-0.53%	-0.56%***		0.12%		0.03%
Mean CAR	4	0.66%***	0.10%	1.16%***	0.73%***	-0.63%*		0.42%*	
Median CAR	4	0.07%***	-0.08%	0.75%***	0.09%***		-0.17%		0.65%**

[1] Where event date 1 is 03/19/2009, event date 2 is 08/17/2010, event date 3 is 06/13/2012; and event date 4 is 05/16/2013.

Table 20: Event Study - CARs by Level of Investors' Sophistication

The table shows the mean and media CAR around lease accounting event dates. I divide the sample in two based on the percentage of institutional ownership. *,**,*** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively, using two tailed tests. The statistically significance is determine by using t-test for the mean and Wilcoxon test for the median.

						Difference Between Lessee Lobbying Group and Non-Lobbying Group		Difference Between Lessor Lobbying Group and Non-Lobbying Group	
	Event Date[1]	All Firms	Lessee Lobbying Firms	Lessor Lobbying Firms	Non-Lobbying Firms	Mean	Median	Mean	Median
Panel A: Firms Lobbying Directly - High Level of Sophisticated Investors									
Mean CAR	1	1.79%***	0.79%	1.20%	1.81%	-1.02%		-0.61%	
Median CAR	1	0.16%***	0.54%	0.44%	0.14%***		0.40%		0.30%
Mean CAR	2	-0.36%	-0.34%	-0.65%	-0.37%	0.03%		-0.28%	
Median CAR	2	-0.46%***	-0.36%	-0.43%	-0.46%***		0.10%		0.03%
Mean CAR	3	-0.38%***	-0.57%	-0.34%	-0.39%	-0.18%		0.05%	
Median CAR	3	-0.56%***	-0.58%**	-0.14%	-0.58%***		0.00%		0.44%
Mean CAR	4	0.66%***	-0.01%**	0.24%	0.69%	-0.70%		-0.45%	
Median CAR	4	0.07%***	-0.49%	0.07%	0.07%***		-0.56%		0.00%
Panel B: Firms Lobbying Directly + Members of Associations Lobbying - High Level of Sophisticated Investors									
Mean CAR	1	1.79%***	0.44%	1.04%	1.87%***	-1.43%		-0.83%	
Median CAR	1	0.16%***	0.26%	0.10%	0.12%***		0.14%		-0.02%
Mean CAR	2	-0.36%	-0.04%	-0.14%	-0.38%	0.34%		0.24%	
Median CAR	2	-0.46%***	-0.18%	-0.14%	-0.50%***		0.32%**		0.36%
Mean CAR	3	-0.38%***	-0.67%***	-0.43%**	-0.36%***	-0.31%*		-0.07%	
Median CAR	3	-0.56%***	-0.60%***	-0.79%**	-0.56%***		-0.04%		-0.23%
Mean CAR	4	0.66%***	0.01%	1.24%**	0.73%***	-0.72%		0.51%	
Median CAR	4	0.07%***	-0.09%	0.75%**	0.09%***		-0.18%		0.66%

Table 20: Event Study - CARs by Level of Investors' Sophistication - Continued

						Difference Between Lessee Lobbying Group and Non-Lobbying Group		Difference Between Lessor Lobbying Group and Non-Lobbying Group	
	Event Date[1]	All Firms	Lessee Lobbying Firms	Lessor Lobbying Firms	Non-Lobbying Firms	Mean	Median	Mean	Median
Panel C: Firms Lobbying Directly - Low Level of Sophisticated Investors									
Mean CAR	1	1.79%***	1.49%**	1.64%	1.81%	-0.32%		-0.17%	
Median CAR	1	0.16%***	0.50%*	0.52%	0.14%***		0.36%		0.38%
Mean CAR	2	-0.36%	-0.30%*	-0.69%	-0.37%	0.07%		-0.32%	
Median CAR	2	-0.46%***	-0.29%	-0.29%	-0.46%***		0.17%		0.17%
Mean CAR	3	-0.38%***	-0.34%	-0.08%	-0.39%	0.05%		0.31%	
Median CAR	3	-0.56%***	0.13%	0.03%	-0.58%***		0.71%		0.61%
Mean CAR	4	0.66%***	0.16%	0.29%	0.69%	-0.53%		-0.40%	
Median CAR	4	0.07%***	-0.30%	0.21%	0.07%***		-0.37%		0.14%
Panel D: Firms Lobbying Directly + Members of Associations Lobbying - Low Level of Sophisticated Investors									
Mean CAR	1	1.79%***	1.81%***	1.88%**	1.87%***	-0.06%		0.01%	
Median CAR	1	0.16%***	0.55%***	0.52%*	0.12%***		0.43%*		0.40%
Mean CAR	2	-0.36%	-0.40%**	-0.25%	-0.38%	-0.02%		0.13%	
Median CAR	2	-0.46%***	-0.20%	0.01%	-0.50%***		0.3%*		0.51%
Mean CAR	3	-0.38%***	-0.36%	-0.09%	-0.36%***	0.00%		0.27%	
Median CAR	3	-0.56%***	-0.21%**	-0.23%	-0.56%***		0.35%		0.33%
Mean CAR	4	0.66%***	0.12%	1.32%*	0.73%***	-0.61%*		0.59%	
Median CAR	4	0.07%***	-0.16%	0.78%**	0.09%***		-0.25%		0.69%

[1] Where event date 1 is 03/19/2009, event date 2 is 08/17/2010, event date 3 is 06/13/2012; and event date 4 is 05/16/2013.