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Leslie Seidman, Acting Chairman Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk, CT 06856-5116

Sir David Tweedie, Chairman International Accounting Standards Board 30 Cannon Street London EC4M6xh United Kingdom

File Reference No. 1850-100, Exposure Draft: Leases

Dear Madam and Sir:

Intel is pleased to respond to your request for comment on the Exposure Draft, *Leases*. 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. We believe that there are opportunities for the Boards' to align current and proposed changes to US GAAP, as well as to improve the model's operability, without sacrificing the Boards' objective for the project. In particular, we recommend that the determination of the lease liability be consistent with the FASB's Concepts Statement 6 ("CON 6"). In addition, if the Boards require uncertain lease consideration to be included in the lease liability, we recommend that the Boards provide a more principles-based approach to the measurement of this consideration.

Requiring Entities to Measure a Lease Liability That Includes Lease Terms Based on the Probability of Occurrence That is More Likely Than Not to Occur Does Not Meet the Definition of a Liability Under CON 6

The proposed standard defines a lease term as the longest term that is more likely than not to occur, including optional renewal periods. Entities would be required to, after identifying all possible lease

terms, estimate the probability of occurrence of each lease term that has a greater than 50% chance of occurring. Current US GAAP requires an entity to extend a lease term only when it is reasonably assured that a lessee will exercise its option to extend a lease. Consequently, it is likely that the lease term under the proposed standard will be longer than under current US GAAP, resulting in a higher lease liability. We do not believe that optional renewal periods should be included in the assessment of a lease term if it is more likely than not to occur since it may not result in an obligation that meets the definition of a liability under CON 6. Per CON 6, a liability exists when there is a present duty, based on a past event, to transfer assets within a specified timeframe and there is little or no discretion to avoid the obligation. If a lessee has no obligation to exercise an option, the inclusion of the additional term and the required lease payments could result in an overstatement of the lease liability.

In addition, while we believe that the identification of possible lease terms would be relatively straightforward, the requirement to estimate the probability of occurrence of each lease term for each lease an entity enters into would add unnecessary complexity to the determination of the lease term. We believe the proposed approach would introduce a high level of subjectivity and complexity without an additional benefit to the users of the financial statements. We believe that retaining the current notion of "reasonably assured" under US GAAP would meet the Board's objectives while balancing the needs of preparers and users. This will help reduce the complexity and improve operability of the proposed standard by eliminating the need for companies to implement new systems and create new processes to assign probabilities to lease terms, sustain audits of the process, and make frequent periodic adjustments.

Recognizing Contingent Rents in the Lease Liability at the Inception of the Lease Does Not Meet the Definition of a Liability Under CON 6

The proposed standard would require a lessee to recognize, at lease inception, a single right-of-use asset and a single liability to make estimated future lease payments during the estimated lease term. This liability would include an estimate for uncertain lease payments. We do not think that these payments should be included in the lease liability at the inception of the lease as they do not yet meet the definition of a liability under CON 6 as included above. Because these payments are contingent, an entity is not yet obligated to make these payments. If, for example, a lessee has no obligation to exercise an option to renew a lease, the inclusion of the contingent rents beyond the initial lease term could result in an overstatement of the lease liability.

If the Boards determine that contingent rents will be included in the lease liability under the proposed model, we recommend that measurement of these rents not be limited to a probability-weighted approach. Consistent with our Comment Letter on the Exposure Draft, *Revenue from Contracts with Customers*, we believe that the Board's requirement that an entity use a probability-weighted estimate may not result in the most useful measure of the lease liability in all circumstances. In situations where there are a limited number of possible outcomes, probability-weighted estimates could result in a liability that is not indicative of actual amounts expected to be incurred.

We recommend the use of management's best estimate as the overarching principle for measuring uncertain lease payments. We acknowledge that the use of management's best estimate would require judgment; however, a model that only allows the probability-weighted approach simply shifts this subjectivity to the assessment of possible outcomes and probability weightings. It may be that in some cases, the best estimate is based upon a probability-weighted estimate. However, our recommendation would provide a more principles-based approach that could be applied to all industries and lease arrangements.

Thank you for your consideration of the points outlined in this letter. If you have any further questions or would like to discuss our responses further, please contact me at (971) 215-7931, or Liesl Nebel, Accounting Policy Controller, at (971) 215-1214.

Sincerely,

James G. Campbell Vice President, Finance Corporate Controller Intel Corporation