

December 15, 2010

Technical Director Financial Accounting Standards Board (FASB) 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Email: director@fasb.org

RE: File Reference No. 1850-100

FASB Exposure Draft: Leases

Dear FASB Member,

We are writing on behalf of Koch Industries, Inc. ("KII") in response to your invitation to comment on the matters included in the FASB Exposure Draft on Leases. KII and its subsidiaries ("Koch companies") are engaged in operations, trading and investments worldwide and in many industry sectors. Koch companies have a presence in nearly 60 countries and approximately 70,000 employees worldwide. A number of Koch companies, including KII, are both issuers of non-public financial statements and users of financial statements in the ordinary course of business.

Cost-benefit considerations

We understand and appreciate the time and effort that the FASB has put forth in the in-depth considerations over lease accounting. We also understand there are certain characteristics indicating a liability exists at the time a lease agreement would be executed. However, we are unable to validate the benefits outlined by the Board in paragraph BC204 of the Exposure Draft.

The first stated benefit is that users of the financial statements would no longer need to make adjustments to operating lease information. We work very closely with the primary users of our financial statements (i.e., rating agencies) on a regular basis regarding leasing adjustments made in estimating our long-term liquidity needs. First we note that each of the rating agencies have different methodologies in determining the amount of their leasing adjustments. We also note the definition of a lease (as specified in paragraph B1 through B4 of the Exposure Draft) is not all-inclusive of those adjustments made by the rating agencies. We believe that it will prove extremely difficult to provide for a lease liability that would accommodate the users in way that they would rely solely on the lease liability under the proposed guidance.

The second stated benefit is that the users of the financial statements would have better information given that the liabilities would include the effects of contingent features and amounts payable in optional periods. The inclusion of these items may in fact lead to some

manipulation of the contract terms and the judgments made, which would result in significant variability and reduced comparability of financial information among companies. While you have anticipated this variability could be overcome by disclosure, we are not so certain given the sheer volume of leases outstanding at each company. The judgment would be performed on an individual lease basis. We do not believe it is operationally possible to provide sufficient disclosure over these judgments at the lease level or even at some aggregated amount. We would expect that the users would need to spend additional time at each company to obtain a full understanding of the lease information.

From the preparer's perspective, significant costs are expected to be incurred to adequately develop and maintain processes over the accounting for leases and to assist the users in their understanding of the lease liability under the proposed guidance. An investment in accounting systems to provide the present value calculations (and including estimated cash flows and terms) and amortization schedules will be necessary by most large companies. An integrated system that can adequately accommodate the lease standard does not exist today. There will need to be significant effort once the standard is finalized to gather the information in an executable format for those systems once available. In addition, we expect that we will need to build some form of "bridge" to demonstrate to the users how the recorded liability relates to the measures they use.

Prior to the finalization of the lease standard, we strongly urge you to re-consider the benefits to be gained. It is clear that the standard cannot meet all users' needs. Additional consideration is necessary to balance the users' needs with the efforts to adequately apply the standard.

Leasing arrangements involving related parties

We request the Board to consider and include separate accounting guidance on leases between related parties. Our company is required to issue stand-alone financial statements for a number of our subsidiaries. In addition, the way in which we manage our businesses has resulted in a number of leasing arrangements between the parent-subsidiary and/or subsidiary-subsidiary. Under the new proposed guidance, we will need to record those leases from both a lessor and lessee perspective. This can be very cumbersome to record and ensure that the estimates (including subsequent changes), interest rates, and amortization methods have been consistently applied. In addition, it does not seem intuitive that the same transaction could result in two different accounting treatments (where the lessor is required to use the de-recognition model and lessee the performance obligation model). If we look to the objective of the standard, lease commitments with related parties may not be as relevant as those with a third party. There is a level of flexibility around the term and the payments, including the timing of said payments. In addition, the agreements could easily be terminated without penalty. With these facts in mind, disclosures over these types of arrangements may be deemed to be sufficient for users of the financial statements.

Presentation and disclosures

As it relates to presentation and disclosures, we agree that there will be prominence given to lease information by the users of the financial statements. However, there should be some flexibility by the preparers whether this could be accomplished on the face of the financial statements or within the footnotes. The face of the financial statements should be maintained at

a high level, providing the users a "big picture" view of the company's financial position and results. There should not be a presentation requirement that could result in the addition of more than 1-2 line items (i.e., lessor gross and net presentation).

The presentation and disclosure should remain consistent with the overriding concepts considered under the Staff Draft on financial statement presentation. The standard should incorporate some flexibility by the preparers to assess the classification of cash flows based upon the nature of the lease transaction. There has been a proposed notion of an operating finance category, which may be most appropriate for leases, instead of the current proposal of financing for lessees. In addition, there may be different categories that would be appropriate for lessors, instead of operating only. If there is no change in the proposed standard, it should be noted there will be a conflict in presentation for interest on leases and interest on debt which should be resolved at the same time.

We also suggest that further consideration be given on the proposed disclosure requirements outlined in paragraph 73 of the Exposure Draft. There appears to be a focus on qualitative information. While we agree that such type of information could be helpful, we do not feel that it would be operational for companies to adequately provide information surrounding contingent rents, options, and assumptions on such a significant number of lease agreements. We would also propose additional quantitative information be disclosed to give the readers the ability to further analyze the leases. Suggested disclosures might include the total dollar amount within the lease obligation associated with contingent rents and residual guarantees, a range of and the average estimated lease term, and a range of and the average borrowing rate. In addition, to accommodate the fact that users of the financial statements are interested in the long-term liquidity, it may be helpful to further disaggregate lease disclosures between leases with a total lease term of equal to and less than 5 years and more than 5 years.

We appreciate your consideration on these matters. We would be happy to discuss further. Please feel free to contact me at 316-828-6486.

kind regards,

Richard K. Dinkel

Corporate Controller and Chief Accounting Officer

Koch Industries, Inc.