



October 4, 2010

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**Subject: File Reference 1850-100 – Proposed Accounting Standards Update of Topic 840, “Leases”**

The Lubrizol Corporation (“Lubrizol”) is pleased to have this opportunity to provide feedback on the FASB’s exposure draft of a proposed Accounting Standards Update of Topic 840, “Leases.” Lubrizol is an innovative specialty chemical company that produces and supplies technologies that improve the quality and performance of our customers’ products in the global transportation, industrial and consumer markets. The company is headquartered in Cleveland, Ohio and has geographically diverse operations, with an extensive global manufacturing, supply chain, technical and commercial infrastructure. Lubrizol’s consolidated results for the year ended December 31, 2009, included total revenues of \$4.6 billion. Lubrizol is a lessee under numerous agreements to lease office space, terminal facilities, land, railcars and other equipment.

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. However, we have several suggested improvements to the exposure draft to improve and facilitate its implementation.

Our responses to the questions asked within the exposure draft are set forth below.

*Question 1: Lessees*

*(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?*

*(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?*

We agree that a lessee should recognize a right-of-use asset and a liability to make lease payments for the reasons stated in paragraph BC6 of the exposure draft. In addition, the proposed method for recognizing amortization of the right-of-use asset and interest on the liability to make lease payments is consistent with the accounting for property, plant and equipment and other financial liabilities. While the new standard results in higher expense in the earlier periods of a lease arrangement compared with latter periods, the pattern of expense from the interest method is consistent with the pattern on amortizing loans where the principal of the loan is paid down over the life of the loan. Therefore, while the proposed expense pattern is a departure from the historical requirements of straight-line expense recognition, we believe that this is the only approach that would fit within the new lease accounting framework.

*Question 13: Income statement*

*Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?*

We believe that the proposed disclosure to present lease income and lease expense within the notes, unless such amounts are relevant to understanding an entity's financial statements, is an appropriate approach. Expenses related to leases often will be classified within both cost of goods sold and selling, general and administrative expenses based on the nature of the lease. Hence, a mandated disclosure to present separately these amounts within the income statement would potentially require an entity to add multiple captions to their income statement for amounts that in the aggregate are immaterial. Therefore, we support the proposed disclosure requirement in paragraph 26.

*Question 14: Statement of cash flows*

*Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?*

We believe that cash payments made by lessees under lease arrangements should be presented in a manner consistent with other financing liabilities. Accordingly, we believe that the interest portion of cash payments made by lessees should be reported as an operating activity and the principal portion should be reported as a financing activity. Under ASC 230-10-45-15, only principal payments are included as a cash outflow from financing activities. The proposed requirements in paragraph 27 to present both the repayments of amounts borrowed and interest payments as financing activities is contradictory to existing guidance. As stated in the introduction to the exposure draft, "leasing is an important source of finance." Companies routinely evaluate whether to fund projects either through debt financing or lease arrangements. Therefore, we disagree with treating the repayments made under lease financing differently from other sources of financing and encourage the FASB to reconsider the proposed presentation requirements within paragraph 27 of the exposure draft.

Principal payments associated with lease arrangements reported as a financing activity would already require separate disclosure under the current requirements in ASC 230-10-45-7 through ASC 230-10-45-9. In addition, ASC 230-10-50-2 requires the disclosure of total cash interest payments during the reporting period. Therefore, we believe that additional disclosure of cash payments related to leasing activities is unnecessary given the level of existing disclosure requirements.

*Question 15: Disclosure*

*Do you agree that lessees and lessors should disclose quantitative and qualitative information that:*

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and*
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows? (paragraphs 70-86 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?*

We disagree with the proposed disclosures in paragraph 77 that require a lessee to present a tabular reconciliation of the right-of-use asset and liabilities to make lease payments. We believe that the disclosure requirements for the right-of-use asset and liability to make lease payments should be consistent with the requirements for property, plant and equipment in Topic 360 and debt in Topic 470. Singling out lease arrangements for additional disclosure when such reconciliations are not required for

owned assets or other financing liabilities provides little in additional value to users of financial statements, while creating additional burdens for preparers. Furthermore, the disclosure requirements within paragraphs 26 and 27 already provide sufficient information on the amount of lease payments made during the year. Thus, the requirements in paragraph 77 would provide little incremental value. We believe the presentation of the right-of-use asset as a separate class within property, plant and equipment, with the corresponding useful lives assigned, in addition to the maturity analysis of the liability to make lease payments is sufficient and consistent with other disclosure requirements in Topic 360 and Topic 470.

We acknowledge the Board's basis for proposing this disclosure in paragraphs BC177 – BC179. However, we disagree with the comparison to the disclosure requirements for intangible assets in ASC 350-30-50-2 and property, plant and equipment in ASC 360-10-50, as these requirements are in no way similar to the proposed requirement to provide a reconciliation of opening and closing balances for right-of-use assets and the liability to make lease payments.

Therefore, we encourage the FASB to remove paragraph 77 from the exposure draft when issuing the final standard. Rather, the FASB should evaluate whether reconciliations of opening and closing balances are necessary as part of the broader financial statement disclosure project. We believe evaluating disclosures holistically will ensure more cohesive and meaningful disclosures.

*Question 16: Transition*

*(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?*

*(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?*

*(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?*

We agree with the proposed transition method outlined in the exposure draft for the reasons set forth in paragraphs BC186–BC199. We believe that allowing full retrospective application would create confusion and hinder analysis among reporting entities, and therefore the FASB should not allow this as an acceptable transition method.

*Question 18: Other comments*

*Do you have any other comments on the proposals?*

We encourage the FASB to include explicit guidance in the final draft on how lease incentives received by a lessee should be handled within paragraph 12. This topic is not addressed within the current exposure draft. We believe that cash incentives received by the lessee from the lessor should reduce the amount recognized for the right-of-use asset, similar to the treatment for initial direct costs incurred by a lessee. However, incentives could also be viewed as a reimbursement by the lessor of a portion of the overall payments owed under the lease. Therefore, we encourage the FASB to address this issue to assist in the consistent application of this proposed standard.

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Thank you for the opportunity to offer our comments on this exposure draft. We would be pleased to discuss our comments or answer any questions you may have.

Sincerely,

W. Scott Emerick  
Corporate Controller