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December 10, 2010

Abitibibowater, Inc. thanks the Financial Accounting Standards Board and the International Accounting Standards Board (collectively, "the Boards") for the opportunity to comment on the Exposure Draft (ED) "Leases (Topic 840)" issued August 17, 2010. As a bit of background, Abitibowater Inc. is a producer of a wide range of newsprint, commercial printing and packaging papers, market pulp and wood products. We own or operate pulp and paper mills and wood products facilities located in the United States, Canada and South Korea, marketing our products in more than 90 countries worldwide.

While we support the Boards' approach to providing users of financial statements with a complete and understandable picture of an entity's leasing activities, we have concerns regarding the proposed methods, the reporting and a number of unintended consequences should this proposal be issued and effective relatively unchanged. Our responses to the questions you have posed are primarily from our perspective, which is that of a lessee, and therefore we have not responded to the questions the Boards posed related to lessors.

The accounting model

The exposure draft proposes a new accounting model for leases in which:

a) A lessee would recognize an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraphs 10 and BC5 – BC12). The lessee would amortize the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.

b) A lessor would apply either a performance obligation approach or a derecognition approach to account for the asset and liabilities arising from a lease, depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraph 28, 29 and BC23 – BC27).

Question 1: Lessees

c) 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?

Company Response:
We agree on the right of use approach, however, there are concerns that the measurements will be subjective and influenced my management's discretions and disparity in practice. See responses to Questions 8, 9 and 10.

d) 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?

Company Response:
Yes, we agree that the right-of-use asset should be amortized over the shorter of the useful life of the leased asset or the lease term unless the lease contains a bargain purchase option or ownership of the asset reverts to the lessee at the end of the lease term, in which case, the right-of-use asset should be amortized over the useful life of the leased asset. We believe that the accretion of the liability should not be recorded as interest. Instead, it should be classified similar to the lease expense (e.g., in COS or in SG&A), with the amortization expense and accretion expense disclosed in a footnote to the financial statements, providing the users of our statements with the information necessary to assess our true leasing costs.

Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

(See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Company Response:
Yes, we are in agreement that a lessee should apply the proposed simplified requirements in accounting for short-term leases. The Boards should re-write paragraph 64 (see Question 3a above), which currently reads, "Such lessees would recognize lease payments in the income statement over the lease term," to read, "Such lessees would recognize lease payments as a reduction of the liability for lease payments over the lease term. No accretion expense would be recognized in the income statement since the liability is carried at its undiscounted amount. Amortization of the right-of-use asset will be recognized in the income statement over the asset's estimated useful life."

Definition of a lease

Question 4: Definition of a lease

This exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). This exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

   Company Response:
   Yes, we believe that the Boards' have appropriately defined a lease.

b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

   Company Response:
   Yes, we agree with the criteria as defined in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale.

c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

   Company Response:
   Yes, we agree that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient.

Scope

Question 5: Scope exclusions

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

a) Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

Company Response:
We believe that the Boards should clarify that the proposed scope exceptions will include timberland leases and timber cutting rights on timberlands.

Question 6: Contracts that contain service components and lease components

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, *Revenue Recognition* (Topic 605): *Revenue from Contracts with Customers,* to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

b) The IASB proposes that:
   i. A lessee should apply the lease accounting requirements to the combined contract.
   ii. a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
   iii. a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

Company Response:
No, we do not agree with the Boards' approach to the lessee's accounting for distinct service components of a lease. The application of the revenue recognition accounting rules and the nomenclature regarding performance obligations as part of a service component of a lease would be more in line with the lessor's accounting for the service component of a lease instead of the lessee's. A lessee should account for the service component of a lease similar to the way they recognize period expenses. For example, if a lessee entered into a lease of a building where the landlord also provides cleaning services, mail services, common area maintenance and/or other shared services, the cost of those services, if distinct, should be recognized by the lessee as incurred.

Question 7: Purchase options

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

a) Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

   Company Response:
   We agree with the proposed accounting guidance unless the purchase option is considered a bargain purchase option, in which case, the bargain purchase price would be included in the cost of the right-of-use asset. At the date the bargain purchase option is exercised, the right-of-use asset would be reclassified as an owned capital asset and depreciation of the owned asset would continue over the asset's remaining useful life. Refer also to Question 1b.

Measurement

This exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

a) assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).
b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be reliably measured.
c) is updated when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 39, 56 and BC132–BC135).

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

Company Response:
No, we do not agree with the proposed guidance. We believe that initial measurement of the asset and liability associated with a lease should be based on the contractual minimum lease term. When management exercises a renewal option, a new asset and a new liability should be established for that extended lease term.

The predictive values of assumptions have shorter and shorter shelf lives given the current economic and business environment in which we operate. Considering the number of leases entered into by companies, including ours, the assessment of a probability for each possible length of a lease term would be time consuming, highly subjective and more costly given internal costs and external auditor costs to review assumptions as part of an audit. It could also create an inconsistent platform for the analysis and assessment of our lease obligations against our competitors and peers. In addition, we question whether the proposed processes of assessing the probability of the length of a lease term and using this term in the measurement of assets and liabilities; and determining lease payments based on events that may or may not occur and using this term in the measurement of assets and liabilities are in line with the FASB's conceptual framework and the Boards' objectives.

Refer also to Questions 9 and 10.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?
Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

Company Response:
We disagree on using an expected outcome technique for the inclusion of contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease in the measurement of an asset and liability arising from a lease. The objective should be to provide users with our contractual obligations (liabilities) and reflect such in our balance sheet. Estimating contingencies and variables as an inclusion in lease payments is highly subjective. The costs most likely would outweigh the benefit as significant time and effort would be required to analyze.

Contingent rentals, expected payments under term option penalties and residual value guarantees do not represent liabilities under the conceptual framework at the time the lessee enters into the lease. A liability for contingent rentals arises as revenue is generated, a liability for residual value guarantees arises as the asset is used and a liability for term option penalties arises when the lessee exercises the option. Therefore, these amounts should not be included in the initial value of the right-of use asset or liability. Instead, these amounts should be estimated and accrued as an expense as the liability is incurred. For contingent rentals, this would be as the revenue is generated; for residual value guarantees, this would be as the asset is used; and for the term option penalties, this would be when the term option is exercised. The contingent rental and guaranteed residual value amounts should not impact the value of the right-of-use asset. The option penalty would be included in the value of the new asset and liability that is created upon the extension or renewal of the lease.

Refer also to Questions 8 and 10.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Company Response:
No, we do not agree that the lessee should remeasure the asset and liability arising from a lease when changes in the facts or circumstances as it relates to future assumptions indicate that there is a significant change in the lease term. The asset and liability should be amortized and accreted over the initial contractual lease term. If the lease is extended or renewed, a new asset and liability should be recorded at that time. We do not believe that changes in contingent payments should impact the asset or liability for the reasons indicated in Question 9. Additionally, we believe the Boards should provide guidance regarding the accounting for a lease that is terminated before the contractual term expires, especially if it is replaced with a new lease.

Refer also to Questions 8 and 9.

Presentation

This exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

Question 12: Statement of financial position

a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

   Company Response:
   We do not agree with the presentation of right-of-use assets or liabilities to make lease payments separately on the face of the balance sheet. We believe that the liability to make lease payments should be included in other long-term liabilities on the balance sheet. Disclosure of the details of other long-term liabilities or other long-term assets should be provided if significant. The SEC's disclosure requirements would already require public companies to break out these assets and liabilities separately on the face of the balance sheet if they were significant. We believe that the right-of-use asset should only be included in property, plant and equipment if the lease contains a bargain purchase option or ownership reverts to the lessee at the end of the lease term. Otherwise, we believe the right-of-use asset should be included in other long-term assets on the balance sheet.

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?

Company Response:
Amortization of the right-of-use asset should be included with depreciation and amortization in the income statement. Accretion of interest on the lease to make lease payments should be included in cost of sales or selling, general and administrative expenses, depending on the use of the asset.

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?

Company Response:
We do not agree with the presentation of cash payments for leases as financing activities unless ownership of the leased asset will revert to the lessee at the end of the lease or the lease contains a bargain purchase option. Otherwise, we believe that these are operating cash flows, similar to the payments for other long-term payables and accruals. The payments for other long-term liabilities, such as asset retirement obligations, that are discounted and accreted over time, are included in operating activities; therefore, the all long-term liabilities should be treated similarly.

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?

Company Response:
The disclosures should be adjusted to reflect the impact of our answers to all of the other questions posed herein by the Boards. We do not think that an entity should describe the contingent rentals, renewal terms and options, guaranteed residual values or bargain purchase options associated with its leases other than to indicate that they exist, if significant. Such detail would become burdensome and cumbersome and would not provide significant benefit to the users of the financial statements. A company should disclose significant new leases or significant lease renewals that occur subsequent to the balance sheet date.

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?

Company Response:
The transition method proposed will require the collection of significant additional data and create a time-consuming and costly exercise for the new calculations for all leases. We propose that leases in existence at the date of adoption be grandfathered and that companies continue to account for those leases under the previous accounting guidance. We propose that the adoption of the new guidance only relate to new leases or new lease extensions or renewals entered into subsequent to implementation, similar to the way that SFAS No. 141(R), "Business Combinations," was effective for business combinations that took place after the implementation date, but did not change the way business combinations were accounted for prior to adoption of the new guidance.

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

Company Response:
No, refer to a) above.

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

Company Response:
No, refer to a) above.

Question 17: Benefits and costs

Paragraphs BC200–BC205 set out the Boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the Boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

Company Response:
It is self evident that the Boards have spent a great time considering all aspects of the proposed exposure draft, from the need to improve comparability and transparency for the users of financial statements, to the overall impact to entities who will be required to adopt it.

The initial adoption and transition of this guidance, as proposed, would result in significant incremental expense to us both upon adoption and in future periods. Those costs include:

- Information Technology - Investments in data gathering and computational software products, including integration with existing applications;
- Human Capital - Training and investment in human capital, including increases in the number of employees;
- Legal – Fees associated with the renegotiations of existing leases, and with the renegotiations of debt covenants and compliance;
- Specialist – Professional fees associated with use of external specialist technical experts both at the transition and on an on-going basis;

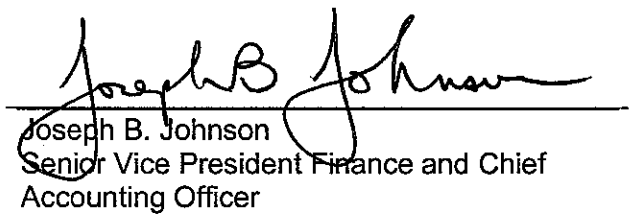
- Compliance – Increased professional fees associated with compliance, reviews and audits.

The benefits provided by this guidance, as proposed, would not outweigh the costs to implement such onerous rules. We believe that the simplified method we describe in our responses would provide more useful, reliable information to the users of our financial statements at a lesser cost to us and would be more in line with the FASB's conceptual framework and the Boards' objectives.

Question 18: Other comments

Do you have any other comments on the proposals?

Company Response:
We believe that the Boards should clarify that the proposed guidance need not be applied to immaterial leases.



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