VIACOM

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Technical Director
File Reference No. 2013-270
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Via email: director@fasb.org

Subject: Proposed Accounting Standards Update (Revised)
Leases (Topic 842)

Dear Technical Director:

Viacom, a global entertainment content company, appreciates the opportunity to comment on the Financial Accounting Standards Board's revised exposure draft of the Proposed Accounting Standards Update on lease accounting.

We understand that many users who were initially supportive of the concept of recognizing leases on the balance sheet are now less supportive because they do not agree with the accounting methodology in its entirety, leaving them to be in a position of unwinding certain aspects of the proposed accounting and replacing it with their own methodologies. While we agree that a lessee should recognize a right-of-use asset and liability when the lessee assumes the right to control substantially all of the leased asset, we believe that leasing arrangements that do not provide the lessee with the right to control substantially all of the leased asset have distinct economic characteristics that differ from purchased assets and related financing liabilities and that such leased assets and related obligations should not be reflected on the balance sheet. We believe that enhanced disclosures, such as providing the present value of the lease obligation in the financial statement footnotes, are the most appropriate way to convey more useful information to financial statement users.

We also appreciate that the current lease accounting model's bright-line distinction between operating and capital leases may lead to a lack of comparability in accounting for similar economic transactions and believe that moving to a more principles-based lease classification assessment, such as using the indicators included in IAS 17, would be the most appropriate way to improve comparability.

However, if the Board continues to require all leases to be reflected on the balance sheet, we do have some specific concerns as discussed below.

Question 2: Lessee Accounting
Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Balance Sheet Recognition
We acknowledge that various users of financial statements often adjust a company's financial statements to incorporate contractual obligations related to lease arrangements that are currently off-balance sheet. We also understand the current information in the financial statement footnote may be insufficient for some users to make reliable adjustments to a lessee's financial statements. However, we believe that on-balance-sheet accounting is not required to achieve transparency and usefulness, which can be obtained by enhanced disclosures, possibly including but not limited to the present value of committed lease payments and additional information about optional terms and variable rents.

We also think that any proposed accounting framework to present lease obligations on balance sheet should not introduce unnecessary complexity to achieve that objective. The proposed treatment of contingent rent and renewal periods requires subjective assessments that introduce unnecessary complexity, potentially decrease the comparability between companies, and likely result in financial statement users still needing to adjust recognized liabilities in order to make meaningful conclusions about a company's lease obligations.

Type B Lease Amortization
We also have some concerns regarding the fundamental lease model as it relates to Type B leases. While Type B leases result in aggregate expense recognition patterns similar to today's operating leases, which we believe is both theoretically sound and a reasonable representation of the economics of the arrangement, we are concerned about the theoretical soundness of both the calculation of the amortization component and the resulting counterintuitive amortization curve. The straight line expense recognition is determined by adjusting the allocation of expense between the portion attributed to the accretion of the lease liability and the amortization of the right-of-use asset. While the accretion of the lease liability using the interest method is theoretically sound, the right-of-use asset amortization is a balancing figure, calculated as the difference between the straight-line expense and the accretion of the lease liability. Based on this methodology, the right-of-use asset amortization will increase annually as the interest cost from the lease liability accretion decreases. This results in an illogical asset amortization trend that is inconsistent with expected consumption of the use of the asset. We also believe this amortization methodology could result in increased incidences of impairment in cases where that would not be logical as the economic benefit of the asset is being consumed at a consistent pace over the term.

From this perspective, we do not believe the accounting is an improvement over the current accounting and also question whether the financial statement user benefits from this presentation compared with the current accounting and disclosure requirements for lease commitments.

The recordkeeping burden and associated costs to account for Type B leases will also increase significantly in volume and complexity as companies will have to perform separate amortization calculations for each lease in order to account for the change in the right of use asset each reporting period while not providing additional benefit to the users.

Question 4: Classification of Leases
Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Enhanced Lease Classification Assessment
We believe a principles-based analysis as compared with the current bright-line accounting model will be able to provide a reasonable basis to identify those arrangements for which a lessee controls an asset. Accordingly, we propose following the existing IAS 17 lease classification guidance as it is both principles-based and already used in practice. We believe any other deficiencies perceived in information provided under the current framework could be addressed by enhancing the existing disclosure requirements for leasing transactions.

Lack of Consistency with Other Executory Contracts
We further believe that the right-of-use asset model is inconsistent with the accounting for other executory contracts and arrangements. While the Basis for Conclusions states that lease contracts are different because the lessee obtains and controls an asset we do not believe this to be the case because we do not think that a lessee's right to use an asset necessarily provides a sufficient level of control such that the underlying asset should be presented in the same way as an owned and financed asset.

Question 5: Lease Term
Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

We agree that the use of the current operating lease model for short-term leases is a positive and practical accommodation. However, for purposes of assessing whether a lease is short term, the proposed determination is to be based solely on the maximum possible lease term. This is not the same criteria to be used in determining the lease term for purposes of calculating the lease liability. For example, if a company has a one year lease that contains a renewal option, but the company does not have a significant economic incentive to exercise the option, nor does the company intend to exercise the option, it would nonetheless be unable to account for the lease as a short-term lease. Based on this we believe the short-term exception will be of limited use. Accordingly, if the final requirements continue to require balance sheet accounting for all types of leases, we recommend the short-term lease assessment criteria be consistent with the criteria used in determining the lease term for purposes of calculating the lease liability.

Question 6: Variable Lease Payments
Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

As discussed further in our previous responses, we believe that enhanced disclosures will be able to provide the necessary information for users. Consistent with that premise we think that companies can provide more information about the potential future impacts of variable lease payments based on current indexes that will improve the usefulness and transparency of existing disclosures, while not bearing the burden of running changes continually through the periodic financial statements that may not even ultimately be indicative of the company's obligation.

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We do not believe that the proposed accounting model will satisfy the needs of investors. We do believe that leaving the current recognition and measurement provisions in place, with improved classification criteria and expanded relevant lease disclosures, would provide financial statement users with improved financial information.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that you may have. Please do not hesitate to contact me.

Sincerely,

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