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September 12, 2013

Mr. Russ Golden Chairman Financial Accounting Standards Board 301 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-05116

The Honorable Hans Hoogervorst Chairman International Accounting Standards Board 30 Cannon Street London EC 4M 6XH United Kingdom

Re: Lease Accounting (FASB Project 2013-270, Accounting Standards Update Topic 842)

Dear Chairmen Golden and Hoogervorst:

The International Council of Shopping Centers hereby submits the following letter regarding the exposure draft on leases (FASB Project 2013-270, Accounting Standards Update Topic 842.) The International Council of Shopping Centers ("ICSC") was founded in 1957 and is the premier global trade association of the shopping center industry. Its more than 60,000 members in over 90 countries include shopping center owners, developers, managers, marketing specialists, investors, retailers and brokers, as well as academics and public officials. As the global industry trade association, ICSC links with more than 25 national and regional shopping center councils throughout the world.

ICSC has submitted comments on lease accounting issues in 2009, 2010 and recently joined with other trade associations in submitting a comment letter earlier this month. ICSC is writing separately to address the specific issue of balance sheet capitalization and increased footnote disclosure in the context of shopping center leases.

ICSC understands that the impetus for revising lease accounting standards to require enhanced disclosure of leases derives, in part, from a belief that certain leases are in fact "disguised" forms of financing that should be properly disclosed as a liability on the lessee's balance sheet. Leases involving shopping centers cannot reasonably be viewed in this way. The clear intention of the parties to a shopping center lease is



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merely to provide access to, and use of, space for a limited time in return for rental payments. We are aware of no economic or legal analysis that suggests such leases are in fact a sub rosa method for financing the acquisition of a portion of a shopping center. ICSC believes that is indisputable that shopping center leases are in effect true leases and not a "disguised" way to finance to the actual sale of an asset. Accordingly, the rationale for requiring leases to be capitalized on a balance sheet is simply not applicable to shopping center tenants.

In addition to the conceptual flaw that seems to underlie the requirement that shopping center leases be disclosed on the balance sheet rather than through footnotes, capitalization creates significant and unnecessary real-world consequences for shopping center lessees. As noted in prior submissions by ICSC and in submissions to which ICSC is a co-signor, capitalization by lessees may well cause tenants/lessees to violate debt covenants with lenders and other third parties. This can occur even though the actual financial condition of the retail tenant is unchanged. ICSC understands from its retail tenants that many debt covenants may not be sufficiently flexible to accommodate changes in GAAP standards. In such situations, the retail tenant will needlessly be forced to renegotiate terms with lenders.

The lease accounting proposal as presently drafted could force tenants to produce a balance sheet that could mislead investors into believing the financial condition of the tenant has deteriorated when in fact the financial condition is unchanged. For this reason, ICSC strongly encourages modification of the exposure draft to permit increased footnote disclosure for shopping center leases as opposed to balance sheet capitalization.

Further, the exposure draft will likely increase costs for retail tenants with no corresponding benefit to investors or landlords. The capital standards required in Basel III could require regulated bank lenders to insist on more onerous credit terms for retail borrowers after the tenant capitalizes its lease obligations. Thus, the net effect of requiring that shopping center leases be capitalized on a tenant's balance sheet could be to manufacture financial disruptions that will increase the cost of credit to tenants and harm landlords who rely on otherwise creditworthy tenants.

In conclusion ICSC would encourage FASB and IASB to require increased footnote disclosure - rather than balance sheet capitalization - for the narrow class of leases that involve shopping centers. Shopping center leases are truly lease arrangements as a matter of economic substance and in no way constitute disguised financing. Forcing capitalization of shopping center leases is tantamount to forcing the proverbial square peg into the round hole.

Thank you for considering the views of ICSC.

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Betsy Laird

Senior Vice President

Office of Global Public Policy