## Gap Inc.

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September 12, 2013

Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, Connecticut 06856-5116

File Reference No. 2013-270: Revised Exposure Draft – Leases (Topic 842)

Dear Ms. Cosper:

We appreciate the opportunity to respond to the revised exposure draft for the above-referenced topic. This letter summarizes our key concerns from the perspective of a global retailer.

Gap Inc. is a leading global apparel retail company. We offer apparel, accessories, and personal care products for men, women, children, and babies under the Gap, Old Navy, Banana Republic, Piperlime, Athleta, and Intermix brands. We lease over 40 million square feet of retail, corporate office and distribution space around the world. Of our retail space, we have over 3,100 real estate leases with complex lease terms including minimum rent, percentage rent, various consumer price index rent increases, fair market rents, co-tenancy clauses, and lease incentives. The majority of our leases contain contingent rent provisions, and many contain multiple contingencies. Over the last several years, our company has been growing its international presence. This global expansion adds to the complexity of our lease portfolio, as terms and conditions across countries differ. We have annual actions on approximately 40% of our leases around the world, and the impact of market conditions necessitates frequent changes in lease terms.

We provided detailed responses to the original exposure draft (Topic 840) in a letter to Mr. Russell Golden dated December 10, 2010. It is clear that significant consideration has been put forth in the development of the revised exposure draft. However, our position surrounding the revised exposure draft is that, due to its cost of implementation and ongoing compliance far outweighing its benefits, the current accounting model for leases should be retained.

We understand that the stated objective of the revised exposure draft is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. However, as a retailer with thousands of retail leases, we believe the objective to increase transparency and comparability has not been effectively or efficiently met by the proposed standard.

Furthermore, we believe the proposed Type A and Type B model definitions result in unnecessary complexity, and that the revised proposal missed the opportunity to create a simpler two model approach that differentiates between property and non-property leases. We believe the proposed criteria could result in different classification and recognition of two economically similar leases based on the company's application of the proposed guidance. In addition, we believe the judgment required

in the determination and allocation of costs to components of a contract could further compromise comparability.

In order to achieve the stated objective of transparency and comparability, the disclosure requirements in the revised exposure draft are extensive. Given our number of leases and the wide diversity in key terms, we do not believe it is practical to easily summarize this information in a way that will be any more useful to users of the financial statements under the revised exposure draft than under current rules and disclosures.

The revised exposure draft allows subjective application for critical elements of the guidance, such as lease term and contract modifications. As a result, we believe that comparability between companies, even within the same industry, will be impossible to achieve. The volume of disclosures that would be necessary in order for a user to be able to directly compare one company with another would be cumbersome and lengthy. We believe that the majority of users of our financial statements are comfortable with the information provided in our current disclosures — our shareholders, analysts and other users who follow our company can understand our future lease obligations and compare our commitments with other retailers if desired. In fact, many investors, analysts and rating agencies who follow us demonstrate deep knowledge of our leasing activities and some already gross-up our balance sheet in their models in a manner similar, and less complicated, than proposed in the exposure draft.

Implementing and administering this proposed standard will result in extensive cost with minimal incremental benefit to our shareholders, who rely on the completeness and accuracy of our financial reporting. In addition, the costs incurred by our accounting department who would execute the standard would be significant. Most companies will require new or significantly upgraded lease management and accounting information systems, as well as substantial internal and external resources to ensure that we execute the standard with accuracy and adequate controls.

The proposed standard, along with its dramatically increased levels of financial statement disclosure, will necessitate changes to many of our processes and controls which may create adverse and unintended consequences and pressures upon our financial reporting process. As a standalone project subject to our normal investment review, this project would not meet our internal return hurdles and would not be undertaken. Again, and to reemphasize, it would cost many millions of dollars to implement the proposed lease guidance with minimal benefit.

After reading the proposal and reviewing the impact to our company, we respectfully propose the current accounting model for leases be retained as we believe that the proposed standard is no better than current standards.

Thank you for your consideration of our comments and concerns. If you have any questions, or if you would like to discuss our responses further, please contact me as indicated below.

Sincerely,

Roger Chelemedos

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