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September 13, 2013

Susan M. Cosper, Technical Director
FASB
401 Merritt 7
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File Reference No. 2013-270 Leases

Dear Ms. Cosper,

Aflac, Inc. (Aflac) welcomes the opportunity to share with you our views regarding Exposure Draft (Reference No. 2013-270) of the Proposed Accounting Standards Update, Leases. The goal of the Board to present lease transactions in a manner that more clearly reflects an entity's assets and liabilities, address application questions from interested parties, and to reduce key differences with the IASB is acknowledged and appreciated by Aflac.

Aflac Incorporated is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), referred to as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

Aflac offers voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including loss-of-income products (life and short-term disability plans) and products designed to protect individuals from depletion of assets (hospital indemnity, fixed-benefit dental, vision care, accident, cancer, critical illness/critical care, and hospital intensive care plans).

Our general comments regarding the matters addressed in the Exposure Draft are as follows:

Aflac supports the efforts of the FASB and IASB towards convergence. We agree that presentation of all leases on the balance sheet would more accurately reflect a company's assets and liabilities related to significant and material leasing transactions. However, as an insurance company, Aflac's leases overall are not a significant activity, and our involvement in lease transactions is primarily as a lessee. The standards as proposed would result in substantial costs of implementation and ongoing maintenance, with questionable benefit for our investors and deployment of capital resources.

This exposure draft suspends any consideration of the concept of materiality in application of the proposed guidelines. Per the SEC's *SAB No. 99, Materiality*, "an assessment of materiality requires that one view the facts in the context of the surrounding circumstances," considering both quantitative and qualitative factors in assessing the materiality of an item. Per the FASB's *ASC Notice to Constituents*, references to materiality in the Codification could lead users to believe that materiality only applies to selected standards, thus references to materiality are excluded. This would indicate that materiality shall be a consideration in application of all standards.

In view of the extant concept of materiality, Aflac requests that, to ease transition and ongoing processing of lease agreements, consideration be given to broadening the requirements of leases that can use simplified lease treatment, from those that are no longer than a year in duration, to those that have all the following characteristics:

1) immateriality to an entity's finances, for example:
    a. a portfolio of right-of-use assets with a balance less than 0.5% of a company's total assets could be considered immaterial
2) lack of relevance to a company's core business, which could be evaluated by function, or by using a ratio, for example:
    a. evaluation by function could be that a coin sorting machine might be relevant to a bank's core business but not to a grocery store's, or
    b. evaluation by a ratio could be a threshold such as the expense of a portfolio of leases comprising less than 1% of a company's operating expenses
3) a lease term of no longer than 5 years, which would encompass most leases of computers, office equipment, and vehicles, which are often not material for a company or relevant to its core business.

(Herein, this comment letter will denote leases which meet all three criteria above as "minor", and those that do not as "major." Our responses to the exposure draft are not necessarily correlated with the above suggestions for broadening the criteria for simplified accounting treatment, but certainly may be considered in conjunction with them.)

Requiring that all three of the above criteria are met for a lease or portfolio of leases to qualify for an accounting treatment practical expedient would lessen the likelihood that leases which are of sufficient importance to the balance sheet are not omitted. Although minor leases would likely include items which are essential to a lessee's daily operations, such as printers and copiers, excluding such elemental leases from the requirements of the standard would reduce transition effort and ease ongoing lease accounting. The requirements could also be applied to month-to-month leases which would not be considered short-term per the proposed standard, but which may otherwise be appropriately given the simplified accounting treatment.

Additionally, we recommend that in any subsequent standard release, examples and illustrations be more consistent throughout the document. The current exposure draft contained few examples that followed a single fact pattern beyond one step and throughout all variations or scenarios. It would be very helpful to have a consistent fact pattern for both Type A and Type B leases, from transition through payoff, and the same fact pattern from lease inception through payoff under the proposed standard. We would also suggest including illustrative financial statement presentation for each scenario, including the statement of cash flows, and amortization schedules that compare the results of the proposed changes using the same fact pattern. Amortization schedules are a key component to lease analysis and including them with each example creates a complete and useful picture. Finally, as transitional guidance, a comparison of prior GAAP journal entries and proposed GAAP journal entries for all transition examples would be beneficial.

Our comments regarding Questions for Respondents are as follows:

Scope – Identifying a Lease
Question 1:
Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

Response: Aflac agrees with the proposed definition of a lease, and the guidelines for determining if a contract contains a lease.

Lessee Accounting
Question 2: 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?

Response: Aflac suggests that only one approach for lessee accounting be required, be it the proposed straight line (Type B) recognition or the proposed front-loaded interest and amortization (Type A) recognition. Because the lessee reports a right-of-use asset and the subsequent consumption of that right of use, rather than consumption of the underlying asset itself, there is no significant difference as to whether the underlying asset is property or non-property, and the reporting for both should be uniform. It would be less complex and costly for a lessee to implement a single recognition pattern, and more straightforward for a user of the financial statements to interpret the entity's lease activity due to the consistency in reporting that would result from use of a single recognition pattern. We recognize that it may be useful to report property and non-property type leases separately in the financial statements, but still believe the recognition pattern should be consistent between the two lease types. Using a single accounting treatment for all leases would eliminate potential confusion from leases of similar underlying assets which may be treated differently, and thus presented differently on the income statement and the statement of cash flows.

The incongruity in presentation between Type A and Type B leases, that is, separate presentation of amortization expense and interest expense versus presentation of a single amount to recognize straight-line lease expense, does not meet the purpose of adding clarity regarding lease activity for the users of the financial statements. The more complex presentation on the statement of cash flows further obscures clarity by presenting Type A principal payments as financing activity, while Type A interest payments, Type B lease payments, and short-term lease payments would be presented as operating activity. Not only would the varying presentations on the income statement and statement of cash flows complicate understanding of leasing activity, it would require additional effort for the reporting entity to implement and maintain going forward.

Lessor Accounting
Question 3: Do you agree that a lessor should apply a different accounting approach to 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?

Response: Not applicable to Aflac.

Classification of Leases
Question 4: 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?

Response: Aflac appreciates the latitude allowed entities by the proposal to determine what thresholds should be used for “insignificant part” (paragraph 842-10-25-6), “major part”, and “substantially all” (paragraph 842-10-25-7). However, this flexibility may only increase confusion for users of the financial statements. Application of these conditions to a lease population can be complicated and inconsistently applied by each entity or within an industry. If a single accounting method is used, as proposed in our reply to Question 2, this type of computation and differentiation would not be necessary.

Lease Term

Question 5: 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?

Response: Lessees would have to establish clear guidelines and consistent processes to detect triggers that may require a lease to be reassessed. As triggering reassessment could likely result in modifications being made to the lease, Aflac requests the application of a materiality threshold to the factors being monitored (those which could potentially affect a lessee’s incentive to exercise or not exercise an option) as a consideration to minimize modification of leases.

Variable Lease Payments

Question 6: 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?

Response: Aflac agrees with the proposals on the initial measurement of variable lease payments, and also agrees that variable lease payments based on an index or a rate should be reevaluated periodically, although reevaluation at each reporting period could be onerous for entities. This potentially creates the need to modify the lease terms every period, particularly in times of economic instability. We suggest modification upon reassessment to include materiality factors for application to reduce operational burden.

Transition

Question 7: Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the Boards should consider? If yes, what are they and why?

Response: Aflac agrees with the recommended retrospective or modified retrospective approach to preserve comparability among entities’ financial statements, rather than a prospective approach to application of the proposed standards. The modified retrospective approach is preferred as more practicable since current data regarding leases is readily available, and the effort of recalculating an entire population of leases using data as of the inception date of the leases would be operationally burdensome.

Performing the necessary degree of detailed analysis of an entity’s existing inventory of leases for transition to the new standard has the potential to be an arduous task and may have little return of value for the effort and cost required. As a practical expedient, Aflac would recommend that, if minor leases are not allowed to use simplified accounting as described in our general comments above, that they be allowed treatment as follows:

1. Prospective application, or
2. Transition with separable components remaining part of the lease; for example, allowing minor leases for equipment such as printers and copiers, to continue to include service components upon transition rather than attempting to bifurcate the ROU asset and service components in order to account for them separately as proposed in the exposure draft.

Disclosure

Question 8: Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognized in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Response: For major leases, or aggregations of major leases, increased disclosure may be useful to financial statement users. But as proposed, a lessee's disclosures may be excessive and overly detailed at the cost of clarity and decision usefulness. Although a lessee has the latitude to aggregate, disaggregate, and determine the amount of emphasis to be given different required disclosures, the required disclosures are extensive. We recommend that disclosure requirements be reviewed and streamlined to focus on the most important aspects of the lease arrangement, to maintain a high level of clarity and usefulness, and that materiality of the information being disclosed also be a factor.

(FASB Only) Nonpublic Entities

Question 9: To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities

- *(a) To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.*
- *(b) To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.*

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

Response: Not applicable to Aflac.

(FASB Only) Related Party Leases

Question 10: Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

Response: Aflac agrees that it is not necessary to provide different recognition and measurement requirements for related party leases.

(FASB Only) Related Party Leases

Question 11: Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

Response: Aflac agrees that additional disclosure is not required.

(IASB Only) Consequential Amendments to IAS 40

Question 12: The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of *investment property. Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?*

Response: Not applicable to Aflac.

Additional Comments

We appreciate the Board's efforts thus far in providing clarity and convergence on various standards. In that regard, we strongly recommend that the Board evaluate the impact of the proposed Lease standard changes in conjunction with all other proposal stage literature (such as Revenue Recognition, Insurance Contracts and Financial Instruments) for coinciding effective dates over a 5 year period resulting in significant financial capital, systems implementation, human capital burden, time, cost and effort to reporting entities. Thank you again for your consideration. If you have any questions or concerns regarding our comments please feel free to contact June Howard, SVP and CAO or Resh J. Reese, 2nd Vice President of Accounting Policy at +001 706 323 3431.

Sincerely,

June P. Howard
Senior Vice President and
Chief Accounting Officer