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Technical Principal International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Ms. Patrina Buchanan

September 13, 2013

Re: File Reference No. 2013-270 and ED/2013/6

Dear Ms. Cosper and Ms. Buchanan:

MetLife, Inc. (MetLife) is pleased to comment on the Exposure Draft, *Leases*, (the Exposure Draft) issued jointly by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). MetLife is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 50 countries. MetLife, as lessee, has entered into various leases and sublease arrangements for office space, information technology and other equipment and is also a lessor of real estate properties and an investor in leveraged leases.

We support and commend the FASB and IASB (the Boards) in their joint efforts to develop common, high-quality standards with respect to leases. We agree with the overall objective of the Boards to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information.

We are pleased with the Boards' considerations regarding the application of the proposed guidance to real estate lessors, and we are fully supportive of the Boards' proposal to not apply a receivable and residual lessor accounting model to most real estate leases. We continue to believe that a receivable and residual approach would be operationally complex and impractical for real estate with multiple leases and multiple tenants. Such an approach would result in arbitrary allocation methods which could lead to financial statements that are not useful with respect to the presentation of real estate. We recommend that the Boards move forward with the provisions regarding leases of real estate in the final standard.

While the proposals in this Exposure Draft represent an improvement over the model proposed in the 2010 exposure draft, MetLife has some concerns over the complexity and cost to implement and comply with the proposed lease model and questions whether the proposed model fully reflects the economics of all lease transactions as further explained below:

Equipment Leases

We believe that the costs to implement the proposed standard are not insignificant and, for many leases, the benefits in providing the proposed information do not justify the costs. Therefore, we recommend that the election for short-term leases be broadened to include certain leases such as fax machines, printers, copiers, if they are ancillary to an entity's operations and insignificant to its results. This can be achieved by applying a more principles-based approach providing qualitative conditions to assist in determining when the simplified accounting is appropriate. The approach should produce results that would not be significantly different than applying the full measurement and recognition principles and should produce a more effective result that weighs the costs and benefits. In addition, not all equipment leases are entered into for financing purposes but instead are entered into as a matter of convenience and flexibility. The items mentioned above would fit this category and would be more appropriately classified as Type B assets.

We also believe complexity exists in presentation within the financial statements and disclosures. For certain sectors including the insurance industry, leases are not generally a significant activity. Therefore, we encourage the Boards to apply principles from its disclosure framework when establishing disclosure requirements for the leases project so that entities have flexibility in determining what disclosures are most relevant for the users of their financial statements.

Leveraged Leases

While we understand the Boards' desire not to have a separate approach for leveraged leases, we continue to believe that the current leveraged lease concept best reflects the economics of a lease transaction that is based on tax benefits and leverage. Because the proposed guidance would no longer integrate the impacts of tax benefits or leverage in the accounting model, the economics of the transaction would be lost. Additionally, these types of structures generally result in lower cost to the lessee and help spur economic activity by facilitating the financing of "big ticket" items such as power plants, commercial aircraft, trains, and ocean liners. We therefore recommend that the Boards reconsider their proposal to not retain the existing accounting model for leveraged leases.

If the Boards move forward with their proposal to not retain the existing accounting model for leveraged leases, then we suggest that the Boards consider "grandfathering" all existing leveraged leases at transition. If the Boards reject the retention or "grandfathering" of leveraged leases, we believe that specific transition provisions (similar to those provided for other leases) are necessary for existing leveraged leases. Specifically, those provisions should address all aspects of the leveraged lease transactions, including transition provisions for the non-recourse debt, deferred income taxes and income taxes, as well as consolidation matters relating to the vehicles (partnerships and trusts) used in leveraged lease structures.

We urge the Boards to continue to strive towards issuing a final converged, simplified standard that achieves the purpose of recognizing assets and liabilities arising from leases without introducing complexity and cost.

We appreciate the opportunity to comment on the Exposure Draft. We have also attached our responses to the *Questions for Respondents*. If you have any questions regarding the contents of this letter, please do not hesitate to contact me.

Sincerely,

Peter M. Carlson

cc: John C. R. Hele

Executive Vice President and Chief Financial Officer

Responses to Questions for Respondents

Question 1: Identifying a Lease:

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.

We agree with the definition of a lease and the proposed requirements for how an entity would determine whether a contract contains a lease. We believe that the guidance is generally adequate to make a determination about whether a contract contains a lease. We commend the Boards for providing examples to illustrate some key concepts in identifying a lease. However, we feel it would be more useful to preparers if the Boards could provide additional implementation guidance (or provide the rationale leading to their conclusions in those examples) regarding substantive substitution rights and indicators as to what makes assets inseparable from a good or service.

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?

We believe the dual approach model of identifying a Type A and Type B lease is appropriate.

However, in our opinion, the costs to implement the proposed standard are not insignificant and for many leases, the benefits in providing the proposed information do not justify the costs. The Exposure Draft allows an election for short-term leases, defined as leases that, at commencement date, have a maximum contractual term, including all options to extend, of 12 months or less. We believe that the election for short-term leases is overly prescriptive. Certain leases such as fax machines, computers, copiers, etc., which are ancillary to an entity's operations and insignificant to its results, do not satisfy the proposed short term lease definition. The Boards should further consider providing an exclusion for assets that are not significant to an entity's operation or consider a more principles-based approach. The guidance should include qualitative conditions to assist preparers in determining when the simplified accounting is appropriate. The objective would be to produce results that would not be significantly different than applying the full measurement and recognition principles and would be more efficient by balancing costs and benefits.

In addition, not all equipment leases are entered into for financing purposes but instead are entered into as a matter of convenience and flexibility and are considered a cost of operations by the entity. Where leases for items such as computers, servers, printers, and copiers are entered into as a matter of convenience, we believe that these leases should be considered similar to Type B leases such that the lease expense would be presented on a straight-line basis or another systematic and rational basis. We believe that the Boards could further reduce complexity by allowing a lessee to apply a Type B lease approach for leases with shorter terms that are not significant to the entity. As many of these leases are often accompanied by a service component, we further believe that lessees should not be required to separate the service component of such leases. Instead, such costs should be treated as a lease payment, since, in most cases, it would be impractical for the lessees to separately contract for these services with a

party other than the lessors of the assets. The costs to obtain the information required to separate lease and non-lease components based on observable prices and apply a residual allocation method as proposed in the Exposure Draft would outweigh the benefit for the lessee. Under our proposed approach, the guidance would still meet the objective of recognizing assets and liabilities arising from leasing transactions (other than short-term leases) on the balance sheet and also reduce complexity.

We also have concerns about the potential effect of the two different approaches on the presentation of leases in the financial statements. Depending on the lease classification, some leases would be presented as a single-line expense while others would be presented as a separate interest and amortization expense. In addition, the classification would affect how the lease is presented in the statement of cash flows (disaggregated between multiple line items between financing and operating activities), which could be confusing to financial statement users.

Question 3: Lessor Accounting:

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?

We generally agree that a lessor should apply a different accounting approach to different leases. However, we believe that the "more than insignificant consumption" criteria provides too high of a hurdle. The approach should also incorporate the lessor's business model, which would consider whether the lessor is providing financing or simply using its asset to generate rental income. For example, a rail car or a commercial jet with a thirty year life, which the lessor intends to re-lease several times, could be considered a type B lease if the lessor's business model is to lease for rental income. Under the proposed guidance, such an asset would automatically be classified as a Type A lease even though the lessor is using the asset to generate rental income.

Additionally, we believe that the requirement for entities to recognize real estate rents on a straight-line basis for investment properties measured on a fair value basis (under Topic 946 *Financial Services – Investment Companies*), could lead to an inflation of the fair value of the real estate if certain adjustments are not made. The receivable asset under the proposed model on a lessor's balance sheet in addition to the reporting of the related investment property at fair value could lead to the double-counting of future expected cash flows from leases. We recommend that the Boards specifically provide an exception to the requirement to record rental income on a straight-line basis for entities that measure investment real estate on a fair value basis. Instead, such entities would record rental income on an accrual or contract basis.

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?

We believe that applying the classification principle based on the nature of the underlying asset (i.e., property vs. assets other than property) is appropriate. However, a consumption approach is not always indicative of the use of a leased asset. As previously discussed in our response to Question No. 2 and as acknowledged by the Boards in Paragraph No. BC334 of the Exposure Draft, there is a wide spectrum of views on the economics of a lease. We request the Boards consider a more principles-based approach that allows an entity to incorporate its own views on the utility of the underlying asset and its business model

to determine the classification as Type A or Type B. Comparability in this regard can be achieved through effective disclosure.

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 generally agree with proposals on lease term including the reassessment of the lease term if there is a change in relevant factors.

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?

We agree that only variable payments that are (1) based on an index or rate or (2) in-substance lease payments should be included in the measurement. Additionally, we agree that that lessors and lessees should reassess index- or rate-based variable lease payments when the underlying rate or index changes.

Question 7: Transition:

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?

We generally agree that the amendments in the Exposure Draft should be applied using either a modified retrospective approach or a full retrospective approach. Additionally, we agree that a modified retrospective approach is appropriate for capital/direct-financing leases. The costs of requiring entities to remeasure lease assets and liabilities for those types of leases would most likely outweigh the benefits, since the accounting under the existing and proposed requirements would be similar.

The Exposure Draft does introduce a new level of judgment, complexity and operational challenges for lessees, particularly those entities whose leasing activities are not a central part of its operations. In particular, we believe that the information provided by these transition approaches does not justify the cost for ancillary leases such as copiers, fax machines, etc., particularly those that expire at the effective date or shortly thereafter. In this context, a practical expedient should be afforded an entity (with appropriate disclosure that the expedient was elected) to grandfather such existing arrangements.

If the Boards move forward with their proposal to not retain the existing accounting model for leveraged leases or at a minimum, "grandfather" all existing leveraged leases, then we strongly believe that specific transition provisions are necessary for existing leveraged leases. Specifically, those provisions should address all aspects of the leveraged lease transactions, including transition provisions for the non-recourse

debt, deferred income taxes and income taxes, as well as consolidation matters relating to the vehicles (partnerships and trusts) used in leveraged lease structures.

Question 8: Disclosure

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?

We agree with the Boards' objective that the disclosures should enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. We also agree that to achieve that objective, disclosures of qualitative and quantitative information are necessary.

We also support the FASB's and IASB's efforts to develop a disclosure framework. One of the objectives of the disclosure framework is to provide a mechanism to permit entities some judgment about which disclosures are relevant in order to reduce disclosure volume without reducing effectiveness. We believe that some of the proposed disclosure requirements in the Exposure Draft could be viewed as contrary to the stated objective and principles-based disclosure framework currently underway. For the insurance industry, leases are not generally a significant activity. Therefore, we encourage the Boards to apply principles from its disclosure framework when establishing lease disclosure requirements so that entities have flexibility in determining what disclosures are most relevant for the users of their financial statements. For example, the numerous reconciliations proposed in the Exposure Draft are overly prescriptive and may not be meaningful given that such leases may not be significant to the entity.

A principles-based framework, with illustrative disclosure guidance, can afford preparers the ability to both assess relevance and meet a level of disclosure standardization and comparability that benefits the financial statement users.

Additionally, we believe that the lessor disclosures outlined in Paragraph No. 842-30-50-10 related to risk management would be more appropriate within Management's Discussion and Analysis of Financial Condition and Results of Operations in an entity's Form 10-K as opposed to within the footnotes to the financial statements.

Question 9: Nonpublic Entities

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?

We believe 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.

Question 10: Related Party Leases (FASB Only):

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?

We agree with the Boards' proposed guidance.

Question 11: Related Party Leases (FASB Only):

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? For preparers, how much effort would be needed to implement the proposed amendments?

We agree that it is not necessary to provide additional disclosures for related party leases.

Question 12: Consequential Amendments to IAS 40 (IASB Only):

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?

We 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.