

September 13, 2013

Ms. Susan M. Cosper Technical Director File Reference No. 2013-270 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Delivered electronically to: director@fasb.org

Subject: File Reference No. 2013-270 Leases (Topic 842) A Revision of the 2010 Proposed FASB Accounting Standards Update, Leases (Topic 840) (the Exposure Draft)

Dear Ms. Cosper:

Host Hotels & Resorts, Inc. appreciates this opportunity to respond to the request for comments from the Financial Accounting Standards Board (FASB) on the above referenced Exposure Draft. We support the FASB's mission to improve financial accounting and reporting, including its pursuit toward international convergence with the International Accounting Standards Board (IASB) and other standard setters. While we prefer the consistent reporting for our property leases under the FASB's current guidance, we acknowledge that the main objective of the Exposure Draft is to recognize lease assets and lease liabilities on balance sheets. Accordingly, we recommend Type B classification for all property leases and request that the FASB and the IASB (collectively, the Boards) modify the criteria for applying the proposed consumption principle to preserve consistent reporting for all property leases, including leases of land.

About Host Hotels & Resorts, Inc.

Host Hotels & Resorts, Inc. is an S&P 500 and Fortune 500 company and is the largest U.S. lodging real estate investment trust (REIT) and one of the largest owners of luxury and upper-upscale hotels. We are also a member of the National Association of Real Estate Investment Trusts® (NAREIT). The Company currently owns 103 properties in the U.S. and 15 properties internationally totaling approximately 62,700 rooms. We also hold non-controlling interests in a joint venture in Europe that owns 19 hotels with approximately 6,100 rooms and a joint venture in Asia that owns one hotel in Australia and a minority interest in two hotels in India. Guided by a disciplined approach to capital allocation and aggressive asset management, the Company partners with premium brands such as Marriott®, Ritz-Carlton®, Westin®, Sheraton®, W®, St. Regis®, Le Meridien®, The Luxury Collection®, Hyatt®, Fairmont®, Four Seasons®, Hilton®, Swissotel®, ibis®, Pullman®, and Novotel® in the operation of properties in over 50 major markets worldwide. For additional information, please visit our website at www.hosthotels.com.

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Host Hotels & Resorts, Inc.'s Comments and Recommendations

Type B Classification for <u>All Property Leases</u>

Similar to NAREIT's views, we recommend that all leases of property result in Type B lease classification to maintain a more accurate representation of the economics of these transactions and to ensure consistent reporting for all companies. We believe that the recognition of the fixed rental payments on a straight-line basis would be more beneficial to financial statement users. This even distribution would more closely reflect the pattern in which property is consumed, or in which property generates rental income.

Pursuant to the proposed consumption principle, we recommend the following alternatives that would promote Type B classification for all property leases, including land.

Alternative Approaches:

Based on the conclusions expressed in BC42 and BC43 of the Exposure Draft, we suggest that the Boards clearly state the consumption principle as the primary basis for lease classification in the final standard by incorporating the following guidance:

The factor that would be used to distinguish between different leases is the level of the lessee's consumption of the economic benefits embedded in the underlying asset. When the lessee has the right to use substantially <u>all</u> of the underlying asset during the period of the lease, the lease would be classified as a Type A lease.

Instead of using the economic life or the fair value criterion as the basis for property lease classification, we propose that they serve as guidelines toward applying the consumption principle provided that these indicators would not apply to leases of land (similar to the FASB's current guidance). See the discussion below for more information on land leases.

In addition to setting forth the consumption principle in the final standard, another alternative would be to revise the wording in paragraph 842-10-25-7 of the Exposure Draft so that <u>both</u> criteria must be met for Type A property lease classification as follows:

If the underlying asset is property, an entity shall classify a lease as a Type B lease unless both of the following criteria are met:

- a. The lease term is for the major part of the remaining economic life of the underlying asset.
- b. The present value of the lease payments accounts for substantially all of the fair value of the underlying asset at the commencement date.

Type B Classification for All Leases of Land

We recommend that the Boards amend the Exposure Draft to maintain the same accounting results for all leases of land, which would be generally consistent with current accounting in the

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U.S. We believe that the application of the fair value criterion to land leases fails to support the proposed consumption principle. Consequently, this criterion could cause land leases to be accounted for either as a Type A or a Type B lease, irrespective of consumption.

As acknowledged by the Boards in the Exposure Draft, long-term land leases could be Type A leases due to the fair value of the lease payments representing substantially all of the fair value of the land. In BC93, the Boards further noted that, in these instances, the lease accounting would be analogous to the accounting for the purchase or sale of the land. However, this conclusion appears to lack consideration for the proposed consumption principle.

Regardless of whether the present value of the lease payments accounts for substantially all of the fair value of the land, we believe that lessees are incapable of consuming all or substantially all of the economic benefits of the land due to its indefinite life. Additionally, since land is typically not expected to decline in value, lease payments received by lessors of land effectively represent interest only, as opposed to compensation for the decline in the asset's value plus interest. Lessors of land may also receive interest plus profit from variable rent.

Accordingly, all leases of land should be accounted for as Type B leases to reflect the lessor's relatively even return from leasing the land and the indefinite economic benefits of land that the lessee is unable to consume during the lease term, as well as the even consumption of these benefits. Both the nature of the underlying land and the economics of these leases are similar and, therefore, we believe that an accounting distinction among property leases is not meaningful to financial statement users.

Income Statement Presentation for Lessees

For lessees of all property leases, we agree with the Boards' total straight-line charge to earnings over the term of the lease for the combination of the amortization of the right-of-use asset and the interest on the lease liability; however, we recommend that interest expense and amortization of the asset should be presented separately on the income statement and interest should be included as an operating cash flow on the cash flow statement. This recommendation is secondary to our main proposal that all property leases result in Type B classification.

We believe that increasing the debt balance on our balance sheet without recognizing interest expense would create a disconnect between the financial statements and would cause an even greater negative impact to ratios that are calculated for debt covenants including our leverage ratio (calculated as EBITDA as a percentage of our total debt balance). Additionally, the amortization of the asset would be a non-cash expense that would be more properly treated as amortization, as opposed to lease expense.

Therefore, while we agree that straight-lining the expense related to the lease liability and rightof-use asset would be a better reflection of the use of the asset, we believe that the income statement should reflect interest expense and amortization so that it would be presented consistently with the nature of the assets and liabilities we are now including on the balance sheet.

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Again, thank you for allowing us to participate in the FASB's considerations toward the development of a revised leases standard. If you would like to discuss our comments, please contact Brian Macnamara, Senior Vice President and Corporate Controller, at (240) 744-5423 or brian.macnamara@hosthotels.com.

Respectfully submitted,

/s/ Brian Macnamara

Brian Macnamara Senior Vice President and Corporate Controller Host Hotels & Resorts, Inc.