2013-270
Comment Letter No. 393

SanDisk

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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2013-270

Dear Sir/Madam:

SanDisk Corporation appreciates the opportunity to provide our views on the Proposed FASB Exposure Draft, *Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)* (FASB file No. 2013-270, the "Proposed Standard"). In general, we support the Board's goal of establishing a principle-based approach to lease accounting. We have provided below comments on certain topics of the Proposed Standard that will have significant impacts on our business and operations.

SanDisk Corporation is an innovator and a global leader in flash memory storage solutions. Our products are used in a variety of large markets, and we distribute our products globally through retail and commercial channels. We are an S&P 500 (NASDAQ:SNDK) and Fortune 500 company, with more than half our product sales outside the United States. As a common business practice, we lease many of our office facilities and operating equipment utilizing various terms generally under long-term non-cancelable operating lease agreements. Our comment letter is from a lessee point of view.

The following is a summary of our comments, which are detailed further below:

- Having two different approaches to assess leases (Type A and Type B) will introduce unnecessary complexity.
- Having two different approaches to assess leases (Type A and Type B) will substantially increase costs.

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<u>Having two different approaches to assess leases (Type A and Type B) will introduce unnecessary complexity.</u>

While we understand the underlying concepts of a Type A and Type B lease and it makes sense theoretically, having two different on balance sheet type leases creates more complexity which in turn creates more education requirements and potential comparability based upon interpretations of what is a Type A or Type B lease.

Under the proposed guidance, the principle for determining the Type A and Type B leases would be based upon the portion of the economic benefits of the underlying assets expected to be consumed by the lessee over the lease term. With respect to the exception criteria for leases of property (i.e. the lease term is for the major part of the remaining economic life and the present value of the lease payments account for substantially all of the fair value), we noted the Board did not provide any definition of what constitutes "major part" or "substantially all" or include any guidelines on how these criteria should be applied. Our understanding is that this wording is similar to the current ASC 840 without using numerical bright line tests. As a result, we expect significant diversity in interpretation and practice among financial statement users without more specific interpretation guidance being provided. Most likely the guidance on whether a lease is Type A or B will potentially come from audit firms and not necessarily from the FASB.

Creating two models, a Type A and B, with different calculations for extensions, amendments, revisions or impairments will only drive more confusion in an otherwise appropriate goal of putting leases on balance sheets. A single approach with less optionality will most likely result in more comparability.

We recommend the Board consider a model with only one "Type".

Having two different approaches to assess leases (Type A and Type B) will substantially increase costs.

We believe this proposal using both a Type A and Type B will require a significant amount of time, effort as well as implementation costs for the Company specifically with respect to the following:

- Under the proposed guidance, lessees would recognize period lease expense for Type B leases on more of a straight-line basis, versus the front-loaded pattern for Type A leases. While Type B leases might result in expense recognition patterns similar to today's operating leases, it would significantly increase our recordkeeping burden. We believe it would be costly to implement changes to the system and processes to enable us to perform additional calculations to account for the change in the right-of-use asset in each period under two different methods. We would have to implement new software and systems to track all leases and perform necessary calculations and this effort will be increased if we need to implement two different "Types".
- The proposed guidance requires lessees to reassess lease terms based upon certain conditions and adjust the lease liability and right-of-use of asset accordingly. The requirement to re-assess requires judgment. Maintaining two separate accounting models for potentially identical lease terms but different underlying leased assets increases the costs to implement and maintain.

We believe this proposed standard will be costly to implement and maintain but overall the approach to put leases on the balance sheet is appropriate. We are concerned costs will be significantly increased for all issuers both for implementation as well as ongoing compliance if two "Types" of leases remain in the final standard. Any simplification that can be created by having only one "Type" would be very welcome.

We thank you for providing us with the opportunity to provide our comments on the Proposed Accounting Standards Update and you can reach me directly at (408) 801-1856 to discuss these issues further.

Sincerely,

Donald F. Robertson, Jr.
Vice President and Chief Accounting Officer
SanDisk Corporation

CC: Judy Bruner, Executive Vice President, Administration and Chief Financial Officer