Johnson & Johnson

December 14, 2010

Leslie Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Nowalk, Connecticut 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M6xh
United Kingdom

Re: File Reference: No. 1850-100, Exposure Draft: *Leases (Topic 840)*

Dear Madam and Sir:

Johnson & Johnson (J&J) welcomes the opportunity to comment on the FASB's exposure draft ***Leases*** (the "proposal"). Johnson & Johnson with approximately 114,000 employees worldwide engaged in the research and development, manufacture and sell of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being.

We agree with the overall objectives of the proposal that lease accounting should provide users of financial statements a complete and clear picture of an entity's leasing activities. Establishing a standard that an entity should apply around leasing transactions will provide information about the rights and obligations of leased assets. Additionally, we believe that this will provide relevant and representational information about the amounts, timing, and uncertainty of the cash flows arising from leases. While we are supportive of the overall objectives of the proposal, we have concerns with some aspects relating to:

Overall:

- Lack of consistency in the measurement of asset and liability
- Cost vs. Benefits of proposal

Lessor specific:

- Inconsistency with definition of control under proposals
- Lessor accounting relating to captive lease companies
- Discontinuation of accretion

Measurement of underlying asset and liability

We do not agree with the proposal's basis for recognizing the underlying asset and liability since it does not drive consistency in the amounts recognized by both the lessors and lessees. While we understand that there is no consistency today, we believe that this approach will not eliminate the inconsistency. In addition, we believe that this will create unnecessary complexities since the approach uses calculations of lease term and contingent rentals/expected payments that could be evaluated very differently between entities. The combination of calculating lease term using probabilities of the longest possible term and the weighted probability of any contingent rents/expected payments may not provide an accurate view on the financial statements since the assets and liabilities recognized are now subjected to complex computations of probabilities and possibilities which may not be reasonably estimated at the inception of the lease.

We recommend that all information about the rights and obligations of leased assets continue to be disclosed within the footnotes of the financial statements. The calculation used to determine the amount of the underlying asset and liability should be calculated using a guaranteed lease term while disclosing any contingent rents/termination options and the impacts of these.

Cost vs. Benefit

Although the proposal could increase the information to users of financial statement, we do not believe that the costs associated with implementing and monitoring all leases would outweigh any benefits derived. For an enterprise our size, it would be difficult to trace, monitor, and administer our over ten thousand operating and capital leases. The administration involved would be very burdensome while not guaranteeing any additional benefit of accuracy of leasing transactions due to measurement of underlying assets and liabilities. Substantial investments would need to be made to accounting systems to meet the complex calculation and monitoring activities required by the proposal. The proposal would also create additional costs to convert management's books to tax books.

We recommend the Board consider guidance on recognizing and valuing groupings of "like leased assets" as opposed to individually leased assets. Grouping of assets could entail similar classes of assets (such as copiers, computers, fleet cars, etc) with similar useful lives. This approach would limit the total amount of leases to be administered and cut down some of the costs while retaining the benefits.

Inconsistency with definition of control under proposals

We believe that the definition of 'control' under *Revenue Recognition to Customers* is not consistency applied in this proposal. The Boards' viewpoint within other guidance is that the underlying asset be derecognized when control of the asset has been transferred to the customer. The lease proposal does not follow this same recognition pattern since it bases derecognition upon transfer of risks and benefits to the customer. We believe that the control criteria should be applied consistently. Based upon this, a derecognition model is more appropriate since the lessor loses control over the asset, the lessee has physical possession to operate the underlying asset, and the lessee has the right to solely use the asset. Given these facts, we feel that any performance obligation is satisfied once leased asset is provided to lessee.

Lessor accounting relating to captive lease companies

We believe that the proposal's accounting treatment related to sales-type leases is inconsistent since it gives an artificial competitive advantage to using third party financiers. Under the proposal, only a partial gross profit based on the ratio of the PV of the rents versus the fair value of the asset will be recognized. As a result of this partial derecognition, manufacturers will be more likely sell equipment to independent leasing companies and financial institutions in order to recognize the entire gross profit of the sale. We believe that a lease through both a captive leasing company and a third party financier is the same in substance. As such, we recommend that the accounting treatment should be the same.

In conclusion, we support the positive changes the Boards' are trying to implement; however, we feel that the Board should reassess the impacts of developing a single model of leases. We ask that that the Boards consider the impacts of our concerns noted above.

Thank you very much for taking our comments into consideration.

Sincerely,

Stephen J. Cosgrove
Vice President, Corporate Controller