



December 14, 2010

Submitted via email (to director@fasb.org)

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

File Reference No. 1850-100

Leases (Topic 840)

Technical Director, Board Members and Staff:

Dell appreciates the opportunity to comment on the exposure draft for *Leases (Topic 840)*. Dell is in agreement with the approach that for leases currently classified as operating leases a liability should be recognized for the obligation to make lease payments. We are also in agreement that the lessee also has an asset represented by the right-to-use the underlying asset(s).

We support the accounting framework for leases proposed in the exposure draft. However, we do not support certain aspects of the proposal. We do not believe that all of the assets and liabilities that are required to be recognized by this proposed standard meet the definition of an asset or a liability. Therefore, we do not believe the Boards accomplished their objective to provide "relevant and representationally faithful information" about the "amounts timing and uncertainty of the cash flows arising from leases." To the contrary we believe that certain assets and liabilities that are required to be recognized by this proposed standard potentially may be misleading and would not be representative of the cash flows. In particular, we disagree that lessors have a continuing performance obligation once the underlying assets(s) subject to the lease have been delivered to the lessee. In addition, we do not believe an option to renew that has not been exercised represents an obligation of the lessee or an asset of the lessor.

The body of this letter summarizes our general comments and observations on the Exposure Draft, which we generally support. The letter then follows with our responses to specific questions raised for comment to which we believe we can add insight.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Determining the lease term

We disagree that the lease term should be the most likely lease term based on an assessment of the probability that the lessee will renew the lease. We believe that renewal options and purchase options are similar in that the accounting should not generally be anticipated. Yet the Boards have proposed to require recognition for renewal options but not purchase options upon commencement of the lease.

In analyzing the assets and liabilities that require recognition at the commencement of the lease we do not believe that the future rental payments associated with an unexercised renewal option represent an asset of the lessor or a liability of the lessee. Conceptually we believe that renewal options may have a fair value at the commencement of the lease and that if the option could be valued it would be appropriate to recognize the fair value of the option in the calculation of the right-of-use asset and obligation to pay rentals for the lessee and the right to receive rental payments by the lessor. We agree with the Boards approach to not measuring the components of a lease separately. However, the value of the option would be different than recognizing an asset or obligation for the future lease payments associated with that renewal period. We believe that in most leases the value of the renewal option is included in the future minimum lease payments and does not require separate recognition.

Therefore, we believe the right to renew a lease may itself have value and that the probability to renew may affect the value of the option. However, the probability to renew should not determine when assets and liabilities arise. Including a renewal period in the calculation of the right-of-use asset or obligation to pay lease payments results in the recognition of an asset and liability that do not meet the conceptual framework's definition of assets and liabilities. Options to renew are not past events that give rise to present obligations.

We recognize that there may be leases where the fixed non-cancellable term of the lease is not representative of the time period that the lessee is compelled to occupy or possess the property and in those circumstances there should be a requirement to consider the potential renewal terms. In that case the asset and liability recognized at the beginning of the lease term should reflect the rights and obligations that exist on the assumption that the lease is renewed. Therefore, we support a threshold approach whereby the exercise of the renewal option would be "virtually certain" in order for recognition to occur.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

We do not believe requiring a renewal assumption be made for all leases where at least one possible outcome is the most likely outcome provides relevant and reliable information to the users of financial statements. The renewal estimates may prove to be unreliable and will certainly retain the risk of uncertainty. This will reduce the accuracy of financial statements. This will subject financial statements to undue variability and reduce the usefulness of financial statements. In addition, it is very possible that lessors and lessees will differ on the estimate of the most likely lease term. That will result in asymmetry between the lessor and lessee and would be an impediment to meeting the objectives of the project.

In summary, when accounting for renewal options we do not believe those should be anticipated and included in the determination of the lease term. Our recommendation is to retain the current requirement to include only the fixed non-cancellable portion of the lease term except where that period clearly is not representative of the assets and obligations incurred. We also recommend that where renewal options have distinct value (and assuming its value can be determined reliably) those should be included in the measurement of assets and liabilities at commencement of the lease.

Contingent Rentals

As is the case with renewal options we believe that contingent rentals should not be anticipated but should be recognized when the contingency criteria are met. This is especially true where the contingency is tied to estimates of future sales activity or estimates of future usage. Those estimates do not represent a liability of the lessee or an asset of the lessor.

The recognition of contingent rentals based on estimates of future activity will interject variability and volatility into the financial statements. This will cause undue time to be spent disclosing and discussing the reasons estimates differed from actual activity. The requirement to recognize these contingent rentals will also create comparability and symmetry issues between lessors and lessees. The inclusion of contingent rentals will reduce the accuracy of financial statements. Lastly, the inclusion of contingent rentals will cause financial statements to be less reliable and relevant. It is our opinion that contingent rentals based on estimates of future events do not represent a present obligation.

Our recommendation is to retain current guidance as found in ASC 840-25-35 for contingencies. This accounting has served us well. We believe that the current guidance provides for financial statements that are reliable and relevant.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

The Performance Obligation Approach and The Derecognition Approach

We do not agree with either of the approaches proposed by the Boards. We believe that each approach has some conceptual issues that must be changed in order for the proposed accounting to be an improvement on the existing accounting. We believe that lessors should have a single model that encompasses the differing business models of lessors. We do not believe the issue is one of recognition versus derecognition but one of appropriately measuring the assets and obligations of the lessor.

The Performance Obligation Approach

Conceptually we do not believe the lessor has a performance obligation once the leased property that is subject to the lease has been delivered or made available for use by the lessee. We believe this is true regardless of whether the lessor is leasing a single asset to a single lessee or a portion of the asset to multiple lessees. It is our view that the most significant act of performance under a lease is the delivery of the leased property to the lessee. This can be done by delivering or making available the property subject to the lessee. Once the lessor has done this, the prevailing view is that the lessee has rights to "quiet enjoyment" of the leased property. In our view there is little uncertainty that the lessor will continue to allow the lessee to use the leased property unless there is breach of contract or event of default by the lessee. Therefore, the lessor has substantially performed under the lease contract and there is no continuing performance obligation that should be recognized.

In all leases we believe that the lessor has effectively converted at least a part of the asset to a financial asset derived from the rental payments to be received. Therefore, we agree that the Performance Obligation Approach appropriately requires the recognition of an asset to receive rental payments. We also believe that the value of the right to receive rentals payments is distinct from the value of the underlying asset.

The lessor also has an asset representing the residual asset to be received or returned at the end of the lease. In many cases where the lessor is only leasing a portion of the underlying asset we recognize that the value of the asset retained may be far greater than the portion of the asset converted to a financial asset. The proposed accounting would lead to the double counting of assets to the extent that the value of the right to receive rental payments is also included in the value of the underlying asset. Therefore, we believe the boards should give more consideration to the method(s) to be used to value the underlying asset retained by the lessor.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

It is our opinion that the lessor in all leases has an asset to receive rental payments and an asset that represents the value of the underlying asset retained or residual asset to be received or returned at the end of the lease. We do not believe a performance obligation exists for the lessor. We also recognize that dependent on the lessor's business model the asset retained could be significant and that the value of the retained asset could be greater than the value of the right to receive rental payments. Therefore, the issue is not one of recognition versus derecognition but of the valuation of the retained assets. It is our opinion that the Boards should address the requirements for the valuation of the retained assets rather than propose two accounting models.

The Derecognition Approach

Our primary objection with the derecognition approach is that it requires a risk and reward analysis to be used to determine when the derecognition model may be applied. It is our view that this risk and rewards model is counter to the control model as proposed under the revenue recognition exposure draft. In addition, the proposed accounting retains some of the complexities of the old standard by requiring the lessor to determine whether the *Performance Obligation Approach* or *Derecognition Approach* is appropriate. We believe that the risk and rewards approach as prescribed would restrict profit recognition by companies that finance product sales using leases.

We believe that the boards could limit gain recognition at the inception of the lease to lessors that are manufacturer's or dealers. We believe a model could be developed that would provide principles based criteria that would appropriately measure the amount of revenue to recognize, the costs associated with the asset transferred and the value of the residual asset retained.

We specifically disagree that the value of the residual asset should be based on the previous carrying cost. We believe that disconnects the value of the residual asset from the underlying economics. It would also lead to difficulties in the measurement of impairments related to residual assets as the carrying cost is not market based while the pricing of the lease is. We believe the Boards should consider retaining the valuation of residual assets as currently prescribed by ASC 840-10.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Our Proposed Model

We believe that a single lessor accounting model should exist. Under this model we believe the boards should develop criteria for determining the value of the assets to be recognized by the lessor. We believe that in all cases the lessors will recognize the following assets:

- 1) The Right to receive rental payments; and
- 2) A residual or retained portion of the underlying asset

We recognize that depending on the lessors business model the portion of the underlying asset retained could far exceed the value of the asset to receive rental payments. We encourage the Boards to focus on the criteria and method for valuing the portion of the underlying asset retained. Conceptually it maybe preferable that the retained asset should be measured at fair value for lessors that retain the asset for the rental stream or for the appreciation of the asset. We would also support an amortized cost model similar to the current accounting for operating leases. It is our opinion that valuing the retained asset appropriately is the critical issue to resolve and requiring the recognition of a performance obligation where none exists does not address the valuation of the assets that we believe arise in lease contracts for lessors.

It is our view that gain should only be recognized when there is clear evidence that the value of lessor's assets have increased as a result of entering into the lease. We also believe that in order for gain to be recognized it must be able to be measured reliably. Therefore, there may be many leases in which the lessor's assets may have increased as result of entering into the lease. However, as noted many lessor's intend to hold the asset for recurring rentals and for potential appreciation in the value of the asset. We do not believe gain recognition would be appropriate for those lessor's. Therefore, we encourage the board to further develop the criteria to determine when gain recognition would be allowed at the commencement of the lease.

It is our view that revenue recognition at the commencement of the lease should generally be limited to either manufacturer's or dealers. These lessors view leasing activities as a method for marketing their products. A dealer in this case is one who buys product at wholesale and sells at retail. These lessors differ from other lessors in that the cost to acquire the property is either at the cost to manufacture or the wholesale price. In both of these cases the carrying cost is lower than the normal selling price.

A gain should only be recognized at the beginning of the lease term when there is a manufacturer's or dealer's profit indicated by the difference in the

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

fair value of the receivable to receive lease payments versus the carrying cost of the leased property. We recommend that the proposed accounting standard would only permit gain recognition at the beginning of the lease term when the lessor manufactures or deals in the property that it leases or in other cases that the carrying amount of the property that is leased is demonstrably lower than its fair value.

Under the proposed accounting the residual asset would be an allocation of the previous carrying cost of the underlying asset. We believe that the allocation of the previous carrying cost disconnects the accounting from the underlying economics and expected cash flows inappropriately. To the extent that the lease is considered a financed product sale we believe it is consistent to value the residual asset at the estimated fair value at the end of the lease. Therefore, we support the current accounting that would initially record the residual asset at the present value of the estimated fair value at the end of the lease term. We do not believe the Boards have made their case for changing the valuation for residual assets.

We also support the current accounting for the amount of revenue to be recognized at the commencement of the lease. Therefore, we believe recognizing revenue equal to the present value of the lease payments is appropriate which is consistent with the current guidance under ASC 840-10.

We support this model for many reasons. First, we believe it would appropriately account for the assets and obligations that arise for lessors. In addition, we believe the current accounting for lessors especially in the determination of whether the lease qualifies as a sales-type lease is an "all or nothing approach" to gain recognition. We believe the model proposed would allow manufacture's and dealer's to recognize gain in proportion to the value transferred and remove structuring opportunities that may exist in both the current accounting and the proposed accounting. We believe this would result in an improvement to existing accounting.

Retain Current Lessor Accounting

If the Boards cannot resolve the lessor accounting issues especially for other than simple leases we believe that retaining the current lessor accounting guidance would be preferable. As noted above we believe that the proposed accounting is not an improvement over the existing accounting. We do not believe that the Performance Obligation approach or The Derecognition Approach represent the underlying economics of leases.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Summary

In summary we believe that there should only be one accounting model for lessors. We generally believe that lessors have an asset for the rentals to be received and the value retained of the underlying asset. We support gain recognition when the lessor is a manufacturer or a dealer. We do not believe lessors have a continuing performance obligation for the leased asset once delivered. We recognize that lessors will utilize different business models and that the Boards should prescribe additional guidance for the valuation of the residual asset or asset retained depending on that business model. The general presumption is that the residual asset would be carried at the present value of the estimated fair value of the asset at the end of the lease term for lessors that do not hold the asset for the rental stream or appreciation. We believe that these recommendations would better achieve the stated objectives of the Boards and would eliminate the need for lessors to perform a lease classification test to determine whether the Performance Obligation Approach or Derecognition Approach is required.

The Role of Probability in Accounting Estimates

We believe generally accepted accounting principles have historically promoted the concept of conservatism. Therefore, future events are generally not given recognition except in the case of certain loss contingencies. However, the current proposed lease accounting standard would dramatically increase the role of probability for financial statement recognition. We believe the Boards have added undue complexity to the accounting for leases with the requirement to utilize probability assessments for both renewals and contingent rentals.

By requiring probability assessments for both renewals and contingent rentals the Boards have ignored the rights and obligations that have been negotiated between the parties as well as the financial flexibility this negotiated contract has provided. If the Boards are concerned that lessors and lessees will structure arrangements in way to avoid the accounting requirements then we do not think the Boards are giving enough creditability to the dynamics of the independent lessor or lessee negotiations. Lessees may desire to structure arrangements in ways to reduce or limit lease obligations, however, lessors will be driven by the retained risks in those arrangements. Therefore, we believe that these market forces serve as the proper constraint.

We do not think that requiring recognition based on a probability assessment provides more timely and relevant information. We also believe there is an inherent uncertainty in determining the probabilities for these future events

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

which leads to unreliable information. In our opinion, the increased risk of providing unreliable financial information is far greater than the benefit obtained by using probability assessments. As we have stated above we do not believe future events including options to renew and contingent rentals represent assets of lessors or liabilities for lessees. Those are not past events creating present obligations.

We also believe there will be undue time on the part of both preparers and auditors to explain the variances from previous probability estimates. It is not a question of whether there will be variances but a question of the magnitude of the variances. We do not believe that the ensuing analysis and discussion concerning the variances from previous estimates provides useful and relevant information. It is in fact an inefficient use of resources.

As noted above, we strongly urge the Boards to reconsider their position on the proposed accounting for renewals and contingent rentals. The movement down the path where financial forecasts and projections are given recognition in the financial statements is one that will lead to less reliable and accurate financial statements. In time we do believe it will erode the reliability and accuracy of financial information.

Transition

The proposed accounting standard will add significant complexity to the accounting for leases. Therefore, due to this increased complexity the Boards must provide sufficient time for the implementation of the new standard. Among the activities that must be completed are:

- 1) Development and implementation of new accounting policies;
- 2) The training of employees on the new accounting policies and accounting requirements;
- 3) Identification of all leases for a multinational company will take a substantial amount of time as operating leases are generally not gathered centrally.
- 4) The implementation of new accounting controls; and the development of software to aid in the performance of the accounting requirements

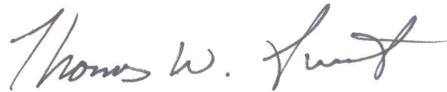
We request that the boards provide sufficient time for firms to design and implement the new accounting policies, to appropriately train staff, to collect all of the information necessary for presentation and disclosure of existing leases and to enhance systems and accounting controls.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

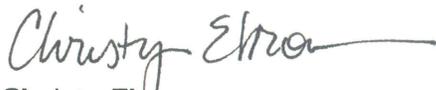
We appreciate the opportunity to submit these comments on the Exposure Draft. We are available to help and to further discuss the additional updates that we believe are necessary to the lessee and lessor accounting models. If you have any questions, please contact me at (512) 728-8092.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Sincerely,

Handwritten signature of Thomas W. Sweet in black ink.

Thomas W. Sweet
Vice President and Chief Accounting Officer
Dell Inc.

Handwritten signature of Christy Ebrom in black ink.

Christy Ebrom
Corporate Reporting Senior Manager
Dell Inc.

Handwritten signature of Donald J. McDaniel in red ink.

Donald J. McDaniel
Senior Financial Consultant
Dell Inc.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Appendix

Question 1: Lessees

- (a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Dell Response: We agree that a lessee should recognize a right-of-use asset and a liability to make lease payments. We recognize that a lease conveys the right to use the underlying assets during the term of the lease and an obligation to pay rentals.

- (b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Dell Response: We agree that the lessee should recognize amortization of the right-of-use asset as an expense during the lease term. We further agree that the obligation to pay rentals is similar to other financial obligations that the lessee should recognize the cost of funds through a charge to interest expense.

We believe that to the extent the lease term includes renewal periods and contingent rentals are included in the recognition of the right-of-use asset and the liability to make lease payments that the lease inappropriately accelerates expense at the commencement of the lease. We do not object to the normal amortization of the liability using the effective interest method as interest expense is always a component when using debt financing. However, the inclusion of future events should not be included in expense over the life of the lease.

Question 2: Lessors

- (a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Dell Response:

It is our opinion that the dual model approach as proposed does not achieve the objectives as stated by the Boards. We do not believe the proposed standard is an improvement over the current lessor accounting. In particular we are concerned that:

- 1) The proposed models will be an impediment to manufacturer's seeking to use lease financing in connection with product sales;
- 2) The two models as prescribed are not representative of the underlying economics;
- 3) The proposed Performance Obligation Approach will lead to the double counting of assets and an overstatement of revenues and expenses in lessor financial statements; and
- 4) Retains the need for a lease classification test.

Therefore, we disagree with the Performance Obligation Approach. As noted above we do not believe the lessor has an ongoing obligation once the underlying asset(s) have been delivered or made available to the lessee. We believe that substantial performance has occurred by the lessor and that there is no performance obligation. We would agree that prior to delivery the lessor has a performance obligation but that it is extinguished once the asset(s) subject to the lease have been delivered to the lessee.

As noted above we would propose a single model for lessor accounting. In addition, we do not believe a performance obligation exists once the leased property has been delivered. However, we understand that it may be difficult to achieve in practice. Therefore, we would also recommend that the boards move forward with the proposed standard that the Board's give more consideration that the Performance Obligation Approach not be applied to simple lease transactions where the entire underlying asset is leased to a single lessee. We would also recommend that only manufacturer's or dealers would be allowed to recognize revenue at the commencement of the lease. In our opinion this would retain the guidance under ASC 840-10 and would also better reflect the economics of leases.

Conceptually we believe that in all leases the lessor has converted a portion of the underlying property into a finance receivable. The accounting issue in our view is not one of recognition or derecognition but of the valuation of the retained residual asset. In many leases the

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

lessor will have retained an insignificant residual in relation to the value of the finance receivable. In others the lessor has retained substantially all of the value of the underlying asset(s).

We would recommend that in cases where the lessor's business model is one of holding the asset for appreciation and the rental stream that the Boards develop additional criteria for determining the appropriate method(s) to use in valuing the retained asset. As noted above that could be a fair value or an amortized cost model. We believe the amortized cost model is conceptually similar to the current operating lease model for lessors.

We would also recommend that the Boards consider retaining the current lessor accounting models. We believe that in large part the major concerns about unrecorded liabilities have been addressed with the lessee right-of-use model. Therefore, we believe it is preferable to retain the existing lessor accounting models rather require lessors to record a performance obligation that we do not believe exists.

- (b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

Dell Response:

As noted above we generally believe that the Derecognition Approach is preferable for most leases. This would be particularly true for simple leases where one lessee has the right to use the whole asset for all or substantially all of its economic life. In the case of simple leases the Derecognition Approach also retains symmetry with the lessee accounting.

However, we are concerned that the current standard as proposed would limit the ability of manufacturers and dealers to properly account for the economics in these financing transactions. In particular the determination of significant risks and benefits could result in a large number of leases having to be accounted for using the performance obligation approach. It is our opinion that the Boards should provide additional guidance to make this determination of which approach to use. We also object to the inclusion of possible renewal payments to make that determination as those are future events that should not be

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

included in the measurement of assets and liabilities at the inception of the lease.

We believe that for manufacturers and dealers these are financed sales and that the accounting should reflect the true economics. We also believe that the proposed accounting for the residual asset under the derecognition model is not reflective of the economics. The residual asset should be valued using the estimated fair value at the end of the lease and at commencement recognized at the present value of the estimated fair value at the end of the lease. Over the lease term the residual should then be accreted to fair value as it is under the current accounting requirements.

- (c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

Dell Response:

Dell does not have any experience with leveraged leases and so does not have any comments to provide on this question.

Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

- (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).
- (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Dell Response:

We are in agreement that simplified accounting should apply to short-term leases for lessees. However, we also believe that the definition of short term lease as one with a maximum possible term of twelve months or less will result in very few if any leases being classified as short-term leases. This is due to the fact that a large percentage of leases with contractual terms of twelve months or less also offer an option to renew on a month to month basis upon the expiration of the original contractual term. Therefore, a large population of leases will not qualify for the simplified accounting. This will result in unnecessary and complex accounting for these leases and the Board's intent to provide pragmatic relief will not be achieved. We believe the definition should be based on the original contractual term and that future events should not be considered. We think it would be better accounting to recognize renewal periods as those are exercised.

We also believe that lessors should have the option to not recognize assets and liabilities arising from a short-term lease in the statement of financial position nor derecognize any portion of the underlying asset. As noted above we believe that this option will not be available for a large percentage of leases due to the commonly included provision that allows the lessee to renew on a month to month basis at the end of the initial lease term. We are in favor of limiting the lease term to the original contractual period.

Definition of a lease

This exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). This exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

Question 4

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?
- (c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

Dell Response:

- (a) We agree that a lease is defined appropriately. As an example we agree that intangible property should not be included in the definition of a lease. It is our opinion that intangible property is appropriately included in the revenue recognition project. This is particularly true in the high technology industry where there is a concentration of intangible assets. Often in patent situations, for example multiple companies have the rights to use intangible assets, and we do not believe it would be an improvement to the current accounting model to value those liabilities and place those assets on the books of multiple companies. In addition, again in the example of patents many times companies are only required to pay based on usage, unlike property, plant and equipment leased assets which are used by only one company and have clearly defined rental streams
- (b) We agree with the criteria distinguishing from a contract that represents a purchase or sale. We believe the criteria are consistent with current practice and that removing these contracts from the scope of the lease accounting proposed standard is appropriate. It is also consistent with the control model used in the proposed standard for revenue recognition.
- (c) We believe additional criteria and examples are necessary to aid in the determination of when services are distinct. In addition, we believe the criteria for when an arrangement contains a lease should be revised with additional examples that would aid in that determination especially

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

for the high tech industry. In addition, we believe that the Boards should focus on when a specified asset has been provided to determine if an arrangement contains a lease.

Distinct vs. Non-Distinct Services

There are differing views on whether some normal services for maintenance and asset administration qualify as distinct services. Some have also suggested that when a lessor charges for insurance, property taxes and sales taxes that those also could be considered non-distinct services. If these accounting elements do not qualify as distinct services then there is potential that the universe of leases that qualify for the proposed Derecognition Approach is greatly reduced. We encourage the Boards to provide additional criteria and example for determining distinct and non-distinct services.

Contract depends on Providing a Specified Asset

Under current accounting guidance embedded leases are often classified as operating leases. Given the fact that accounting for services and operating leases is similar separating the two components in practice presents few issues. However, given the proposed accounting requirements the ability to separate the components is critical given the assets and liabilities that must be recognized. In addition, considerable professional judgment will now be required and this could lead to significant diversity in accounting practice.

In particular we disagree that a lease embedded in a service arrangement which, as proposed would require different accounting than that proposed under the exposure draft on revenue from contracts with customers. Therefore, the accounting for economically similar service transactions will vary depending on whether an embedded lease is identified. Paragraph B2 states that "An asset is implicitly 'specified' if it is (a) infeasible or impractical for a lessor to provide alternative assets in place of the underlying asset during the lease term or (b) if a lessor can substitute another asset for the underlying asset but rarely does so in practice."

We believe lessors either do or do not specifically grant a right-to-use a specific asset for a specified term. Therefore, we believe the current guidance that requires assets to be specifically identified and under the control of lessee is the correct guidance. If the lessee's right to use the

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

asset is restricted and the lessor has the ability to unilaterally determine the assets necessary to fulfill the arrangement we do not believe that is sufficient to establish that a lease exists. Furthermore, we believe it will be impractical to base the accounting on whether or not assets are normally replaced. In these situations the lessee typically does not believe it controls or has a unilateral right to use the underlying asset, but rather that the lessor controls the asset which is the means to deliver the contracted services – the primary element of the contract.

We believe additional examples and guidance should be provided as the high technology industry moves toward cloud computing environments and virtual technologies. As the technology evolves it becomes more difficult to determine when or if a party has specific rights to use property, plant and equipment. The current criteria were written in an era in which there was a movement to purchase the output of a facility such as a power plant and treat the transaction legally as a services arrangement even though the purchaser may obtain 100% benefit or use of the property, plant and equipment. However, the current criteria do not fully address the multiple combinations of services, products and lease deliverables that may exist today. We believe the Boards should specifically review some of the complex services arrangements that exist today and provide examples that are relevant for high technology. The examples and guidance should include virtual technologies, cloud computing, and data center sharing arrangements.

Question 5: Scope exclusions

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not what alternative scope would you propose and why?

Dell Response:

We are in agreement with the scope of the proposed standard. As Dell is in the high technology industry we have many arrangements both as a customer and as a supplier that include the rights to use intangible property. We believe

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

that the rights to use or to convey the rights to use intangible assets are best included in the scope of the revenue recognition project. We believe this is true for arrangements that grant exclusive rights and for arrangements where there may be multiple parties granted those rights.

Question 6: Contracts that contain service components and lease components

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, *Revenue Recognition* (Topic 605): *Revenue from Contracts with Customers*, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

- (a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
- (b) The IASB proposes that:
 - (i) A lessee should apply the lease accounting requirements to the combined contract.
 - (ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
 - (iii) A lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

Dell Response:

We are in agreement with the FASB approach that the lessee and lessor should apply the lease accounting requirements to the combined contract where the

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

service components are not distinct. In addition, it is our opinion that the Boards should provide additional guidance on the types of services that would be classified as non-distinct services. We believe that the current guidance of not including executory costs in the calculation of the future minimum lease payments should be retained when measuring the assets and liabilities at the inception of the lease under the proposed accounting.

There are many leases in which the lessor will bill executory costs such as property taxes, sales taxes, and common area maintenance. In most cases these are pass-through charges at no margin and are not intended to be viewed as a service. In some cases the lessor will bill a fixed amount that represents an estimate of the total charges to be billed to the customer. It is common at year end for the customer to be provided a reconciling invoice that charges the customer for the additional expenses not previously invoiced or provides a credit to the customer for amounts billed in excess of the actual charges incurred by the customer.

We believe the Boards should clarify that these are not services and also not considered the consideration for the use of the property, plant and equipment. These should continue to be treated as periodic expenses and recognized when incurred. The current standard as written would potentially classify these items as non-distinct services and require that they be included in the measurement of the assets and liabilities associated with the lease deliverables.

We are in agreement that an entity should allocate the value of the contract to separate components, however some of the requirements of the lease exposure draft seem inconsistent with the revenue exposure draft. Specifically we believe that the concept of allocating components of a contract based on a 'transaction price' is inconsistent with the concept of 'payments required by the contract' as required by the lease exposure draft. We believe the executory costs described above could be included in the 'payments required by the contract' and do not believe that is appropriate or consistent with the revenue exposure draft.

Question 7: Purchase options

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

Measurement

This exposure draft proposes that lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

- (a) assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13,34,51, B16-B20 and BC114-BC120).
- (b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121-BC131).
- (c) is updated when changes in facts and circumstances indicate that there is significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 39, 56 and BC132-BC135).

Dell Response:

We are in agreement that a lessee or lessor should only account for purchase options when they are exercised. It is our view that future events should generally not be anticipated and given recognition in the financial statements. This is particularly true of leases that have a fair value purchase option. We would agree that the exercise price of that option is not a lease payment and should not be included in the measurement of assets and liabilities arising from the lease.

Measurement

- (a) We do not agree that measurement should include in the lease future events such as rights to renew. We support the current guidance that would include the fixed noncancellable term. We do not believe that a renewal period that has not been exercised should be considered in the measurement of assets and liabilities at the inception of the lease. It is not a past event that gives rise to a present obligation.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

- (b) As noted above we do not believe in general that contingent rentals should be included in the measurement of assets and liabilities at the inception of a lease. In particular we would disagree with the inclusion of contingent rentals based projections of activity such as future sales. We support the retention of the current guidance for contingent rentals.
- (c) We support a position in which the accounting would only be reassessed upon a triggering event occurring. We request the Board to provide guidance similar to that provided under ASC 360-10 for the impairment of property plant and equipment. .

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

Dell Response:

We disagree that the lease term should be defined as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease. It is our opinion that options to renew or terminate should generally not be anticipated. We believe that this proposed accounting would lead to the recognition of elements that do not meet the definition of assets and liabilities. We support a threshold approach in which the renewal period would be "virtually certain" before recognition would occur.

Our recommendation is to retain the definition of the lease term in the current FASB standard found in ASC 840-10 (FAS 13). We believe that the current definition is well understood and provides a fair representation of lease transactions. It is our view that the proposed definition of the lease term would provide recognition of items that are not representative of the cash flows in the lease transaction. We do not believe the Boards have sufficiently demonstrated that the new definition of lease term is preferable to the current standard.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

Dell Response:

Dell generally disagrees that contingent rentals that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique. It is our opinion that requires recognition of items that do not meet the definition of an asset and a liability.

We recognize that contingent rentals can be required under the lease contract in multiple ways. In general those are either:

- a. Indexed based approaches or;
- b. Based on some future event or activity (future sales, use of the leased asset in excess of stated maximums, etc.)

We are in general agreement with the proposed accounting associated with indexed based approaches. We agree that if forward rates or indices are not readily available that the lessee or lessor should use prevailing rates or indices. This is consistent with the current accounting.

We disagree with the requirement to estimate contingent rentals associated with future events using an expected outcome technique. As we have stated above we do not believe future events should be anticipated. Those future events do not, in our opinion, represent assets or liabilities at the inception of the lease.

We believe that when the lease contract has a stated penalty to terminate the contract early that this payment should be included in the measurement of the right-of-use asset and the obligation to pay rentals at the commencement of the lease. Therefore, we support the current definition of future minimum lease payments that would include early termination penalties. We agree that those payments represent the minimum contractual payments required by

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

the contract. As is consistent with current accounting we would propose that the earliest termination penalty be used in the calculation as opposed to using an expected outcome technique.

We believe that residual value guarantees should not be included in the measurement of assets and liabilities at the inception of lease using an expected outcome approach. We believe that residual value guarantees should be recognized when those are probable and can be reasonably estimated.

Lessors

As noted above, we generally believe that residual assets should be recorded using the estimated fair value at the end of the lease and then present valued at the inception of the lease. Therefore, the expectation is that there would be no residual value guarantee to record. Over the life of the lease current accounting would require the lessor to record an impairment when the current fair value is less than the carrying cost of the residual asset. Therefore, a residual value guarantee should only be recorded when it is in excess of current fair value and is probable.

Alternative Accounting

If the Boards conclude that contingent rentals should be included in the measurement of assets and liabilities then we would support higher thresholds for recognition than are currently proposed. We would recommend for lessees the threshold for recognition would be 'probable.' We believe that for lessors the threshold should be either be 'reasonably assured' or 'virtually certain.' It is our opinion that receivables should represent enforceable claims to cash and that the proposed accounting is not an improvement to current accounting.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Dell Response:

We believe that reassessment should only occur in the event of a significant change that would warrant reassessment. We encourage the Boards to provide additional guidance on what would constitute a significant event requiring reassessment. We suggest that the Board looks to ASC 360-10-15 Impairment or Disposal of Long Lived Assets, providing similar examples of events or changes in the environment that should be monitored.

Sale and leaseback

This exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents a sale of the underlying asset, the leaseback also would meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

Dell Response:

We are in agreement with the criteria for classification as a sale and leaseback transaction. We believe the guidance is consistent with the proposed standard for revenue recognition and the current requirements for sale and leaseback transactions.

Presentation

This exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Question 12: Statement of financial position

- (a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial 10 assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

Dell Response:

- (a) We agree in the gross presentation of assets and liabilities for lessees as proposed by the standard.
- (b) We would agree with the Boards net accounting presentation if the Performance Obligation Approach as proposed is adopted. We believe that net presentation does not correct the conceptual inconsistencies of the Performance Obligation Approach but is

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

preferable. As noted above we do not support the Performance Obligation Approach.

- (c) We agree with the proposed presentation for lessors applying the derecognition approach. We further agree that the right to receive rental payments under leases is distinguishable from other financial assets and should be presented separately. We also agree that residual assets are distinguishable from other owned assets and should be distinguished from owned property, plant and equipment.
- (d) We agree with the Boards conclusion to separately present the liability to make lease payments and net the other assets and liabilities with the head lease and sublease. This presentation avoids multiple assets reflected in the statement of financial position for the same underlying asset.

Question 13: Income statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

Dell Response:

We believe that current presentation of lease income and lease expense in financial statements is adequate. We believe that preparers should have the ability based on materiality to determine the appropriate classification of leases in their financial statements. We would also support users being able to determine the appropriate level of aggregation of leases in financial statements. Users should also have the ability to determine when it is appropriate to separately present amounts arising from leases in the financial statements.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Dell Response:

We generally agree with the Boards conclusions relating to the presentation within the statement of cash flows as separate line items. However, for lessees we believe that only principal payments should be reflected within cash flows from financing activities. Similar to interest on indebtedness, interest payments represent operational costs and should be reflected in the cash flow from operations.

Disclosure

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows? (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

Dell Response:

We have significant concerns related to the extensiveness of the disclosure requirements as proposed in the ED. As discussed in our responses to questions 8 and 9 above, we believe that the proposed standard requires recognition of certain items that do not meet the definition of an asset or a liability. Specifically, we do not believe it is appropriate to anticipate future events such as renewal options and contingent rentals in the measurement of assets and liabilities. These requirements create disclosures that would not be necessary in the absence of these items.

For example, paragraphs 85 & 86 require disclosures that distinguish between the minimum obligations under the lease from contingent rentals, expected payments under term option penalties and residual value guarantees. It seems that the Boards recognize there is a difference between minimum obligations which meet the definition of a liability versus future events that do not. We would also add that disclosures will be confusing to financial statement users unless there is also an exclusion of rents associated with

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

renewal options that have not occurred. We do not feel it is possible to summarize this information for footnote presentation in a way that would be sufficiently useful, reliable and relevant for users.

In summary, many of the disclosures are focused on the variable features in a lease contract (i.e. renewal options, contingent rentals and residual value guarantees). Additionally, other disclosures are necessary because the amounts recognized are not synchronized with the actual cash flows. The number and complexity of the disclosures would be reduced if contingent/variable items were excluded and income/expense better matched cash flows. Further guidance is also requested regarding the level to which entities with numerous and varied lease arrangements may aggregate leases.

We do not believe it would be useful to users of financial statements to classify obligations into different types of assets. We believe that inconsistency in definitions of groupings would be problematic. In addition, we believe this requirement is inconsistent with existing requirements for other areas of the financial statements, such as fixed assets.

Finally, it is our interpretation that the disclosure requirements are mandatory in quarterly filings. If this is correct, it is our opinion that this is disclosure overload and that the requirements for quarterly filings should be more limited in scope. Although extensive, the disclosure requirements are more palatable if only required annually when there is more time to accumulate, summarize and report the data. Large accelerated filers have 40 days to file their Form 10Q's. Given all the other processes such as auditor reviews, Audit Committee clearance, XBRL, etc. there simply is not enough lead time for yet another extensive quarterly disclosure, especially when one takes into account that much of the information may not be contained within an entity's general ledger requiring additional time to accumulate. Moreover, in large stable companies dollar values reported in the disclosures would rarely change materially on a quarterly basis. The requirement to repeat all of the disclosures on a quarterly basis, when the figures to a large degree would be very comparable, is simply not needed and would serve little benefit to financial statement users. Instead, the quarterly disclosures should focus on any significant changes that occurred since the year-end disclosure.

Transition

Question 16

- (a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

- using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?
 - (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Dell Response:

- (a) We support the simplified retrospective method for transition and appreciate that the Boards have not required the full retrospective method. We also support the use of the incremental borrowing rates as of the date of application rather than the rates in effect at the inception of the lease. The requirement to utilize the rates at the inception of the lease would create an undue burden for the implementation of the new standard.

However, the Boards should provide additional guidance on the implementation of the simplified retrospective method. This would include clarifying that the accounting is based on current facts rather than those that might have existed at the inception of the lease. This would be particularly true for the assumptions associated with estimated term options and contingent rentals.

- (b) We believe firms should be allowed to choose the full retrospective method if that is preferable for their business but that it should not be required.
- (c) As we have discussed above there are a number of activities that must be accomplished before the effective date of this standard. In particular there must be adequate time to develop, test and implement the information systems required to implement this standard. In addition adequate time must be provided to accumulate all of the information for existing leases prior to the effective date of the standard.

Benefits and costs

Question 17

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Paragraphs BC200–BC205 set out the Board's assessment of the costs and benefits of the proposed requirements. Do you agree with the board's assessment that the benefits of the proposals would outweigh the costs? Why or why not?

Dell Response:

Lessee Accounting

We agree and support from a conceptual view that the new model for lessees is preferable. However, we also recognize that in order to perform the proposed accounting there will be a significant investment in time, new information systems and labor to implement the new standard. Those investments are made larger by the complexity surrounding the proposal to include term options and contingent rentals. In addition, the new accounting substantially increases the required disclosures which are also more complex due to these same accounting requirements. Therefore, there is a large cost associated with implementing the proposed standard.

We also question that the new requirements in fact are an improvement and provide a true benefit to the users of financial statements. It is known that many users of financial statements today already make the necessary adjustments to their respective models based on the information currently available. In addition, the new standard while eliminating some of those adjustments creates new adjustments because the accounting in some respects does not reflect the actual cash flows. Therefore, the costs in our opinion are in excess of the benefits.

We believe that if the accounting is simplified as we have recommended that would reduce the costs of implementation and reporting in the future. We also believe that this would provide information that is an improvement and would be representative of the timing and uncertainty of cash flows. This would in our opinion provide benefits that are in excess of the costs.

Lessor Accounting

We do not believe that the proposed Performance Obligation Approach and the Derecognition Approach as prescribed by the proposed standard are improvement to current accounting. Therefore, the benefits do not exceed the costs. However, if the changes we recommend are made in the final standard we do believe that the benefits would exceed the costs and would be an improvement over the current accounting.

Leases (Topic 840) Exposure Draft Comment Letter
Dell Inc.
December 14, 2010

Question 18

Do you have any other comments on the proposals?

Dell Response:

Dell does not have any additional comments.

Non-public entities

Question 19

Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

Dell Response:

Dell is not aware of any substantive reasons that the non-public entities or private companies should have a different accounting standard for leases.