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Technical Director/director@fasb.org Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update – Leases (Topic 840) File Reference No. 1850-100)

Goldman Sachs appreciates the opportunity to comment on the above captioned Proposed Accounting Standards Update (the "proposal" or "proposed guidance"). We support the proposal's objective to provide principles that lessees and lessors can use to report relevant and representationally faithful information about leasing transactions. We also support the move away from bright-line to principle-based accounting standards, and the global convergence of accounting. Our comments and concerns are limited to those aspects of the proposal that we wish to emphasize.

Lease Term

We currently lease approximately 1,000 properties in a variety of countries, including emerging markets where we have limited or no history. The determination of the longest possible lease term that is more likely than not to occur taking into account the effect of any renewal or termination options is difficult if not impossible to predict in some circumstances.

For example, consider the lease of a building with an initial term of 15 years and one 10-year renewal option. Lease terms of these lengths and longer are not uncommon –

particularly in other parts of the world. The term for accounting purposes in this example is either 15 or 25 years depending on whether it is more likely than not that the lessee will exercise its option to renew. In this simple fact-pattern, the proposal requires the lessee to determine which outcome is more likely – a decision to renew or a decision not to renew – a prediction that we believe is likely to be impossible when the decision point is so far out in the future. Furthermore, a requirement to, essentially, pick one outcome over the other in these circumstances is overly subjective and will lead to arbitrary accounting and lack of comparability between companies.

The operational problems associated with predicting whether we will exercise renewal options far into the future are compounded by the proposed requirement that companies estimate contingent rents during the lease term and the value of residual value guarantees and termination penalties at the conclusion of the lease term (collectively, "variable payments") using a probability-weighted, expected outcomes approach. The proposal also requires companies to update these estimates if facts or circumstances indicate that there would be a significant change in the lease liability since the previous reporting period. While we do not have a conceptual problem with the inclusion of estimates of variable payments in the calculation of the lease liability, we believe that these estimates are overly subjective and arbitrary if the model forces companies to make predictions about the timing and amount of these payments well into the future and far beyond the point where companies have developed long-term strategic plans and budgets.

As such, we believe the final standard should require companies to consider renewal periods in the lease term only when they can reasonably conclude that it is more likely than not that the renewal option will be exercised – that is, the company's future behavior with respect to the exercise of the renewal option is not highly uncertain. Alternatively, we would not object to the "reasonably assured" standard in the existing guidance used in certain circumstances for determining whether to include renewals in the estimated lease term.

Lessor Accounting and Leveraged Leases

The proposal allows for derecognition of leased real estate assets where the requirements of the "derecognition approach" are met without regard to the guidelines outlined in ASC Subtopic 360-20, "Real Estate Sales." Additionally, we note that on November 19, 2010, the EITF reached a tentative consensus in EITF Issue No. 10E, "Accounting for Deconsolidation of a Subsidiary That Is In-Substance Real Estate," that an entity is required to apply the guidance in Subtopic 360-20 to determine whether to derecognize real estate owned by an in-substance real estate subsidiary that the reporting entity is required to deconsolidate. The Board should ensure that the existing guidance in Subtopic 360-20, the final EITF 10-E consensus, and its conclusions in the proposal are consistent.

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¹ See paragraphs 28, 29 and B22-B27 of the proposal.

Scope

The ED retains the historical guidance in ASC 840-10-15 (previously, EITF Issue 01-8) for determining whether an arrangement contains a lease. With the changes proposed by the ED, the key stress point in applying the leasing guidance will likely shift from operating lease versus capital lease decisions to identifying leases. As such, as part of this project, we encourage the Board to reach out to practitioners with experience in apply EITF 01-8 to identify perceived flaws in the guidance and to identify application issues needing resolution.

Miscellaneous

ASC 810-10-55-39 (paragraph B24 of FAS 167) specifies that most operating leases are not variable interests in the lessor entity. The continuing relevance of this guidance should be reconsidered as part of the Board's proposals to amend ASC 840.

Thank you for the opportunity to provide our views. If you have any questions or comments regarding this letter, please do not hesitate to contact me.

Sincerely,

Matthew L. Schroeder

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