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Technical Director
Financial Accounting Standards Board
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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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RE: File Reference No. 1850-100, Exposure Draft, *Leases (Topic 840)*

Dear Board Members:

Juniper appreciates the opportunity to respond to the Exposure Draft, *Leases (Topic 840)*.

Overall, we support the Boards' objective to adopt a single set of global accounting standards that may be universally applied across all industries. However, while we acknowledge that the current two-model system and the "bright-line" tests for classifying leases have been criticized for failing to meet the needs of financial statement users, we have significant concerns about the proposal in the Exposure Draft. We believe that the application of the proposal will result in reduced reliability and usefulness of the financial statements with a significant increase in cost and complexity to the preparers. As an alternative to the proposal, we believe that the existing accounting standards and disclosure requirements related to leases are currently adequate to provide readers of a company's financial statements with sufficient information about the business.

Specifically, our concerns are addressed in a few of the questions posed by the Board, as follows:

Question 1: Lessees

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

We do not agree with the principle that a lessee should recognize a right-of-use asset and liability for all leases. The proposed standard erroneously presumes that all leases carry the same risks and rewards regardless of specific terms and conditions and that the financial impact should be the same for all leases. However, like many other companies, Juniper generally

enters into simple lease contracts for rented office space and equipment. These leases are very different in nature from long-term leasing contracts in, for example, the airline and other capital-intensive industries in which leasing arrangements have more direct impact to the ongoing operations and finances of those enterprises. Therefore, we do not believe that the proposed one-size-fits-all approach to leases would provide financial statement users with an accurate depiction of the true economic substance of these arrangements.

The recording of right-to-use assets and related liabilities may result in balances that are significantly larger than the rest of a company's assets and liabilities and ultimately will result in over-inflated balance sheets. Such grossed-up balance sheets would not improve the financial statement user's ability to assess a company's true financial health, but rather create significant confusion. The investor and capital markets community will need to re-calibrate their existing working capital, debt-to-equity ratios, and other commonly used financial metrics in order to understand the financial impact before and after adoption of the new standard. Since most companies enter into lease contracts, this exercise would not be a trivial undertaking.

Further, we disagree with the approach of amortizing the right-to-use asset and recording interest expense on the lease liability. The total charge to the income statement for the amortization of the right-of-use asset and interest charges on the liability will be inappropriately front-loaded during the initial years of the lease term. As a result, income statements will no longer be comparable across reporting periods.

Moreover, companies will be required to make significant judgments in determining their expected lease terms due to renewal and extension options and estimating the appropriate borrowing rates for their present value calculations. As companies will need to re-assess their assumptions and reflect changes to their estimates within each reporting period, the proposed standard could introduce a significant amount of subjectivity and potential volatility in income statements.

As stated in our introduction, we believe that the existing accounting standards on leases provide financial statement users with adequate information to assess the current and future operational and financial impact of leases. The current distinction between an operating lease and a capital lease adequately reflects the difference in economic substance between those types of leasing transactions. We would support a more principles-based approach in classifying leases, similar to the existing leasing guidance issued by the International Accounting Standards Board.

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 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 lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

We strongly disagree with the approach of including contingent rentals under an expected outcome technique in the measurement of lease assets and liabilities. Companies would be required to make significant, highly subjective judgments in their renewal assumptions for decisions that are likely to be very distant in the future and could introduce unnecessary volatility in their earnings. Often, the lease

terms for facility rentals may be five years or significantly more, and the decision to renew is highly dependent upon current factors, including a company's current operations, financial state, and present macroeconomic factors. It is unreasonable to presume that companies will be able to make meaningful judgments so far in advance of when they ultimately will decide to renew their lease contracts.

We believe that the existing guidance on renewals and contingent rentals is adequate. Therefore, we concur with the current premise that an option to renew or extend a lease agreement is not reflected in the accounting or disclosure of that arrangement until that option has been exercised.

Question 17: Benefits and costs

Do you agree with the boards' assessment that the benefits of the proposals outweigh the costs? Why or why not?

We strongly disagree with the Boards' assessment that the benefits of the proposal outweigh the costs. Even the most sophisticated enterprise resource planning and financial reporting systems do not have standard capabilities that allow companies to account for and report leases systematically. Currently, the most commonly used tool to track leases is the computer spreadsheet. For many companies, the number of leases could run in the hundreds and thousands, and therefore, companies cannot continue to use spreadsheets in order to comply with the proposed standard and maintain the required proper controls over their financial reporting processes. In the absence of such automated systems, companies will be required to hire additional employees to support an accounting process which, in our view, ultimately provides very little value to shareholders and other financial statement users.

In addition, the proposed standard may lead many companies to re-negotiate their leases with their suppliers and update debt covenants with their lenders and creditors. Further, regulatory and credit agencies may need to re-calibrate their capital requirements and financial metrics in order to adjust for the grossed up balance sheets resulting from the proposal.

Question 18: Other comments

Do you have any other comments on the proposals?

The financial community has been applying the provisions of Financial Accounting Standards Board Codification Topic 840, *Leases* (formerly Statement of Financial Accounting Standards No. 13, *Accounting for Leases*), and related pronouncements for more than three decades since they were originally issued in November 1976. As a result, these provisions are well-understood by both preparers and users of financial statements. We believe that the proposed standards will make the accounting and reporting of leases highly subjective, administratively burdensome, and most importantly, less understandable to the financial community.

In addition, in complying with other new accounting standards that are expected to take effect over the next few years, companies will undergo a substantial amount of change in their systems, processes, and financial statement disclosures over a short period of time. We believe that companies should be allowed to focus on tackling the more critical projects, including revenue recognition and financial instruments.

We appreciate the opportunity to provide you with our views on the Exposure Draft. If you have any further questions or would like to discuss our responses further, please contact me at (408) 936-6270.

Sincerely,

/s/ Gene Zamiska

Gene Zamiska
Juniper Networks
VP Finance, Corporate Controller, and Chief Accounting Officer