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Financial Accounting Standards Board 401 Merrit 7 PO Box 5116 Norwalk, CT 06856 USA

International Accounting Standards Board First Floor 30 Cannon Street London EC4M6XH United Kingdom

Dear Board Members:

## Invitation to comment - Exposure Draft Leases

Hilton Worldwide, Inc. (referred to herein as we, us, our, Hilton or the Company) is pleased to respond to the Financial Accounting Standards Board's (FASB) and International Accounting Standards Board's (IASB) Exposure Draft *Leases* (the Lease ED or the ED).

As a global hospitality company, Hilton is engaged in the leasing of 80 hotel properties, as well as the use of leases to finance the use of operating equipment throughout our operations. The implementation of the new standard will have a pervasive impact on the Company's accounting processes, systems, and consolidated financial statements.

Overall, we support the efforts to improve lease accounting. In general, we believe that the key stakeholders who use the Company's financial statements have an ability to analyze lease obligations sufficiently based on the current accounting and disclosure requirements for leases under U.S. Generally Accepted Accounting Principles (US GAAP). From a practical standpoint, we do not believe that the implementation of this standard as described in the ED will provide alleviate supplemental disclosure and information to potential investors and other financial statement users in the investment community. However, from a conceptual standpoint, we agree that a right of use model does more accurately reflect the future benefits and obligations of financial statement preparers. To allow the proposed standard to be implemented effectively and consistently, we believe that there are certain key items which must be addressed in any final standard, which we have described in our comments.

First, we believe that a key to implementation is the alignment of the timing of the standard for purposes of IFRS and US GAAP. Implementation of this standard will prove challenging to the systems and processes of financial statement preparers in any case, but for a multi-national company such as Hilton, it is imperative for purposes of systems and functional implementation that the standard be applicable for statutory entity (which is done around the world, typically using IFRS) and consolidated (done under US GAAP) reporting at the same time, to allow for an appropriate roll out of the standard on a consistent basis.























Key elements in the standard include the determination of whether an arrangement is a lease and an on-going assessment of the lease liability upon the occurrence of a "significant change". We believe that the final standard should include further guidance on arrangements that are in scope. Currently, there is potential for service type contracts, particularly when such services are provided in conjunction with also being a party to a lease, to be construed as being included in the lease arrangement and subject to the lease accounting requirements as described in the ED. We do not believe that the inclusion of service type contracts is intended to be a part of the standard on leases, however we do believe that further clarification as to scope is required to ensure that these types of arrangements are not accounted for as leases. Further, regarding scope, the exclusion of the application of the lease accounting model to in-substance purchases would be a significant change from current practice, and would require significant judgment in its application under the standard as currently proposed. The definition and application of a standard of a "trivial amount of risks and benefits not being transferred" to qualify as an in-substance purchase or sale may cause substantial diversity in conclusions despite transactions being economically similar depending upon the application of the definition of "trivial" by one enterprise when compared to another. We believe that further definition of the intent of the exclusion of insubstance purchases/sales and the meaning of the term trivial in this context are required to allow preparers to have the ability to consistently address whether an arrangement is a lease. Further guidance should also be provided as to the accounting that should be applied if a conclusion is reached that a transaction is an in-substance purchase.

In addition to these considerations at the initiation of a lease, under current US GAAP, beyond the requirement to evaluate an arrangement at inception, there are certain triggering events requiring a re-assessment of whether an arrangement is a lease, which is not addressed in the ED. We believe that there are two facets to this issue that may have a pervasive impact on financial statement preparers. First, due to the frequent and recurring nature of re-negotiated arrangements or modifications of lease contracts based on changes in economic characteristics of a lessor or lessee, the Company believes that the absence of guidance on the instances where a re-evaluation of whether lease accounting or other applicable accounting guidance should be applied is a significant matter and would need to be addressed to allow for consistency among preparers in the application of this principles based standard. Highlighting the types of circumstances for which a re-assessment would be required would provide more consistency in the application of the standard. Second, is the requirement to measure lease liabilities subsequent to their inception in the case of a "significant change". Without further definition specifying the meaning of "significant change," diversity in practice could arise that would limit the comparability of information among financial statement preparers and would ultimately be a detriment to the objective of similar assets and liabilities relating to leases being reflected in similar manners in the context of financial statements. To address these issues, we would suggest an annual assessment, complimented by a triggering event model, similar to the constructs of existing US GAAP regarding goodwill, intangibles, and impairment of long-lived assets. Triggering events such as modifications prior to the end of a lease term, extensions, and other re-negotiated provisions of a leasing arrangement would be subject to an immediate re-evaluation at the time of the event, and otherwise, an annual assessment would allow for financial statement preparers to create a sufficient planning



and preparation mechanism that would be a more practical approach than to require a constant re-assessment of such issues, and would be one aspect that could lessen the judgment required in determining whether a change in a lease was "significant".

Beyond the initial and on-going evaluations of an arrangement as a lease, we believe that the recognition of all leasing arrangements on the balance sheet must be done in a manner that can be measured and applied consistently to enhance the comparability of financial statements for all users. Under the proposed model, the significance of the estimation process is one that could result in significant diversity despite arrangements that are substantially alike. Specifically in this area, we believe that there are significant further impacts over the application of contingent rentals and renewal options. The level of subjectivity and estimation required for a lease that has terms that are based upon a long-term lease that is driven off of a variable measure such as revenues of an operation would have the potential to cause inaccuracies in estimation regardless of the capabilities or precision by which a company may be able to estimate results of operations. The underlying methodology and assumptions for determining a contingent rental stream for a long-term lease would provide considerable challenges with respect to implementation, as well as with respect to audit would inevitably prove to be a substantial challenge and constraint on resources. Likewise, the estimation of the use of a renewal option also provides significant potential variability and modes of interpretation which may cause substantial differences in reporting. In reviewing the ED, the cases of both contingent rentals and renewal options, the Company considered whether the use of these items in the determination of the right-of-use obligation would meet the definition of a liability, in that considering a full-term or an assumed stream of future cash outflows in a variable payment lease. In our consideration, the Company did not necessarily agree that an estimation of a contingent future rental payment or lease term would meet the definition of a liability, as outlined in FASB Statement of Concepts 6, Elements of Financial Statements (CON 6). In the case that an obligation is not known or reasonably estimable due to uncertainty in the future results driving such contingent payment, such as in the case of a lease with variable rentals, we believe that these items are not necessarily, "probable future sacrifices of economic benefits arising from present obligations," in that a lessee does not have a present obligation to fulfill an unknown obligation relating to a contingency. We believe that the standard should be clarified to provide more guidance as to the threshold for inclusion and/or recognition of future contingencies in the determination in an overall liability, using a framework that is more consistent with the definition of a liability, such as the payment stream used to calculate the liability being equal to the amount that "more likely than not" will be paid under the current terms of the lease. We believe that similar requirements be considered regarding lease terms consisting of a non-cancellable term and optional lease periods that are in control of the financial statement preparer, and some measure of extension periods that are reasonably certain of exercise. At a minimum, computational guidance on the terms expected to be used in the determination of the lease should be provided to drive consistent, accurate financial reporting across entities.

Another issue that is not specifically addressed in the standard is the concept of depreciation of leasehold improvements and the period over which such items would be amortized. Under current practice, the amortization of leasehold improvements is recognized over the shorter of the useful life of the individual asset or the lease term. In implementing the proposed lease model, we believe that further guidance is required



in the consideration of how leasehold improvements should be amortized with respect to renewal periods that are more likely than not to be exercised. The potential for diversity in practice on this matter could also have a substantial impact on the presentation of the financial results presented. We believe that the standard should have clarification on this point to allow for the implementation of the amortization period on a consistent basis among all financial statement preparers, and an appropriate modification to the amortization period as necessary.

In addition to the concepts regarding the application of the standard, the Company's fundamental analysis is that there are certain lease transactions that are routine in nature, and insignificant to the overall operations of the Company in any one individual instance, but are agreements in place for a period of greater than one year. While relief for leases with a maximum aggregate term of one year is helpful, we believe that the proposed model for the types of administrative items described above would continue to be extremely burdensome for financial statement preparers in that the items are immaterial both individually and in the aggregate. A prime example of such a concept is copy machines located in our corporate headquarters. The Company generally has a three-year lease on such machines and turns such machines over every three years. The use of these machines are necessary for the Company to conduct its day-to-day operations, but in terms of dollar magnitude and significance to our core business of operating hotels, are clearly inconsequential to the operating results of the Company in any period, and these lease items are regularly updated and renewed at the end of any lease term resulting in no significant changes to any financial results on a period-over period basis. The recognition of a liability and an offsetting right of use asset for such an item in conjunction with the application of the terms of the Lease ED would require an investment of time by a trained accountant or finance professional who could be otherwise deployed if not invested in implementing the requirements of the ED as proposed for an item that is insignificant to financial statement users. In such instances, the costs of employing this standard, including the quantification of the asset and liability and the application of sufficient internal controls to verify the accuracy of such an item clearly outweigh any benefit that a financial statement user might obtain out of the Company including in its disclosure an obligation that is clearly insignificant to any potential financial statement user. We strongly encourage that the final standard broaden the "Short-Term Lease" scope exception to potentially allow for some concept of non-core assets or non-operating assets to be removed from the scope of this project if they meet characteristics such as those employed for operating leases in existing US GAAP. While this may prove challenging from a definition standpoint, we believe that the practicalities of the breadth of the ED's requirements could result in a continued burden on financial statement preparers that would outweigh the benefits gained by financial statement users.

Lastly, despite the desire for forthcoming accounting standards to be principles based, in any final standard, we strongly encourage application guidance and examples to provide sufficient, thorough detail to allow for financial statement preparers to be able to effect the substantial transition required to apply this proposed standard. Further, we believe that the transitional guidance that is proposed in the standard be reconsidered to reflect a cumulative effect of adoption for leases that are in effect at the time of the standard relating to results of such leases through the date of the implementation of the standard. Based on the current transitional guidance, the treatment of all leases as if they were new arrangements on the date of adoption would significantly skew



operating results during the early years of the standard. A modification to present a cumulative effect adjustment based on the historical results for the leases at the point that they exist in their life cycle would be a more fair presentation of how financial statements would be impacted by this standard on a go-forward pasis. This would provide a more realistic representation of the impact of the standard on the period of implementation as opposed to the current proposal which would essentially treat all leases as new arrangements on the date of implementation, resulting in significant impact on the results of operations of financial statement preparers in the year of implementation.

We appreciate the opportunity to comment on this Proposal. We would be pleased to discuss our views with you at your convenience.

Very truly yours,

/s/ Paula A. Kuykendall

Paula A. Kuykendall Senior Vice President and Chief Accounting Officer Hilton Worldwide, Inc.