



December 15, 2010

Sent via e-mail: director@fasb.org

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

Re: File Reference No. 1850-100

AT&T Inc. (AT&T) is pleased to provide comments on the Financial Accounting Standards Board's ("FASB") exposure draft on "Leases". AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry both in the United States and internationally. The proposed standard is of interest to us from both a lessee and lessor perspective.

We support the development of lease accounting standards that provide users of financial statements with more meaningful information regarding an entity's leasing activities and reduce the opportunities to structure and tailor transactions in order to obtain a desired accounting treatment. However, we believe a better approach would be to refine the existing rules to address these issues rather than propose an entirely different untested model for lease accounting. We are concerned that the new standard, as proposed, will require users to continue to adjust financial statements to meet their needs, and may ultimately result in new comparability issues and a disconnect from economic reality. If the Board chooses to go forward with the new model, we believe that a fundamental change to the definition of a lease and lease term in the proposed standard will be necessary to ensure that components of the statement of financial position have consistent meaning to financial statement preparers and users. Finally, we believe the costs of ongoing compliance with the proposed model exceed the expected benefits. We have outlined our specific concerns below and included reference to the Board's questions, where applicable.

Definition of a Lease

In question #4, the board asks for comments regarding the definition of a lease and the related guidance. As we assessed the impacts of the proposed standard, it became apparent that the definition of a lease needs to be changed to guide preparers in determining when to apply this standard. The significant changes proposed to the accounting treatment for operating leases under the new standard makes the distinction between a lease and a service contract far more important than under the current standard. For example, in the telecommunications industry, we provide many services that require the use of dedicated equipment located at the customer's premise to fulfill the service agreement that we do not believe are considered leases by the users of our financial statements. Based on the guidance found in the proposed standard regarding implicitly specified assets and control of specified assets, it is unclear whether these transactions will be required to be treated as a lease under the proposed model.

We believe a lease should be defined to include only those transactions where a lessee takes on significant risks and rewards specifically associated with the underlying asset. The proposed standard distinguishes between two possible approaches to lessor accounting. We believe the factors used to

differentiate between those two approaches would be useful in clarifying what constitutes significant risks and rewards. When a lessee does not take on significant risks and rewards related to the leased asset, we suggest that the “lease” is no different from any other executory contract that purports to obligate parties to provide and pay for services in the future and should receive similar accounting treatment. The Board has not proposed that contracts that guarantee minimum purchase amounts in future years or multi-year service contracts be accrued as liabilities by the purchaser. In our opinion, “lease” contracts that do not result in a transfer of significant risks and rewards to the lessee are no different than these contracts and should not be accounted for differently simply because they happen to involve property, plant and equipment.

We believe our proposed modification to the definition of a lease also resolves concerns around the need for two approaches to lessor accounting. The performance obligation approach would be effectively eliminated because transactions under that approach would no longer be considered a lease.

Lease Term

The current leasing standard defines a lease term to only include option periods with economic incentives to exercise. The proposed standard defines a lease term to include all option periods that are more likely than not to be exercised. The Board asks for comments on that concept in question #8. We believe that the current definition of a lease term should remain in place even under the proposed model of accounting. In our opinion, including options with no economic incentive to exercise results in assets on a lessors’ books and liabilities on a lessee’s books that do not meet the definitions of assets and liabilities as laid out in the existing concept statements.

We understand the Board’s concerns with the current standard, but we are concerned that the proposed standard fails to recognize the actual differences in economic substance among transactions. For example, a business may enter into a series of 15 one-year leases rather than a 15 year lease. While the proposed standard would seem to indicate that these two transactions should result in the recording of the same amount of assets, liabilities and expenses over the 15 year life of the agreement, this would be inconsistent with the objective of reflecting economic reality. The risk to a lessor of a series of 15 one-year leases is substantially greater than a 15 year lease. A lessor would only enter into such a riskier transaction if they were adequately compensated for the risk. The higher cost would be reflected in the operating results of the company choosing the 15 one-year option approach. That higher cost would also come with the benefit of more flexibility to the lessee. If a newer more efficient asset becomes available the lessee can more easily, quickly and with less cost terminate the existing leasing arrangement with the lessor and obtain use of the new more efficient asset. Under the proposed standard, the balance sheet of companies exercising the two different approaches would not reflect these two different economic realities.

We understand that another justification for including option periods is that a business may not be able to continue to operate without the leased asset. While the need to have an asset to stay in business maybe true, a company is not required to continue to lease that asset. As mentioned above, the company can choose to lease or purchase a different asset. In addition, a company is not only dependent on the asset to operate, but also on employees. The same logic for creating assets and liabilities for non-incentive option periods could be used to justify accruing employee costs for the foreseeable future because they are also necessary for the continuing operation of the business.

We believe the proposed model will be very difficult to operationalize and will require a significant amount of resources in order to develop and reassess the proposed estimates and capture the

associated data in our lease tracking systems. The requirements surrounding the estimation of lease terms and lease payments are complex when you consider the number of variables and possible outcomes that can exist in a typical lease arrangement. Continuing to use the existing definition of a lease term should still accomplish the Board's primary objective of reflecting the economic substance of leasing transactions, without relying so heavily on management's forecasts and judgments.

Reassessment

In question #10, the Board asks if we 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. While we agree with this in concept, we do not believe the guidance provided in the proposed standard is clear enough to limit the reassessment process. We believe the new standard should include more specific guidance such as what is contained in the current standard including a change in the contractual terms or substantial change to the underlying asset. Without this more specific guidance we believe there will be significant variability in practice including a number of preparers that will simply default to an annual or quarterly review process at significant cost.

Benefits and Costs

In response to question #17, we believe the proposed standard would require significant systems changes for most entities. Specifically, lease management and revenue systems would need to be significantly modified. For example, these systems would need to be enhanced to include the original assumptions and judgments for items such as lease term and contingent rent as well as each iteration of changes based on reassessments that occur during the life of the lease. The costs associated with the implementation of such system modifications would be significant and do not justify the incremental benefit of moving liability information that can be obtained in a footnote to the face of the Balance Sheet. In addition, we believe the costs of managing the reassessment process to periodically review multiple judgments on thousands of leases would be beyond any potential benefit. If the Board decides to move forward with imposing this new accounting model for leases, the cost can be reduced to a level more commensurate with the benefits by clarifying the definition of a lease, simplifying the measurement requirements and limiting the need for reassessment as addressed in this letter.

We would be pleased to discuss our comments with the FASB or its staff at their convenience. If you have questions, or need additional information, please contact James Lacy, Senior Executive Director-Accounting, at (214) 757-4693 or me.

Respectfully,



Paul W. Stephens

Vice-President – Reporting