

Federated Investors, Inc.
Federated Investors Tower
1101 Liberty Avenue
Pittsburgh, PA 15222-3779
+12-288-1900 Phone
FederatedInvestors.com



December 15, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

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

Dear Technical Director:

Federated Investors, Inc. (Federated) appreciates the opportunity to comment on the exposure draft of the proposed Accounting Standards Update on Leases (the Proposed ASU). Federated is one of the largest investment managers in the United States of America with \$341 billion in managed assets as of September 30, 2010. The majority of Federated's revenue is derived from advising and administering Federated mutual funds and separate accounts in both domestic and international markets. Federated's primary lease arrangements relate to renting office space.

We understand that the US Financial Accounting Standards Board and the International Accounting Standards Board (collectively, the Boards) took on this joint project in order to develop a new approach to lease accounting that would result in on-balance-sheet treatment of all leases by lessees. This letter outlines the areas where we have concerns regarding specific concepts, implementation and the operationality of the right-of-use model proposed by the Boards.

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?

(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 method would you propose and why?

We do not agree with this methodology specifically with respect to facility leases. We acknowledge the view that leases should be treated as financings and in many cases, we agree

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with the concept. However, in the case of rented office space, presentation as a financing is not appropriate. The lessee is not effectively financing the purchase of the office space or the right to use the space for a period of time. Rather, the lessee is simply renting the space for a fee. We support the alternative model discussed in paragraph BC8 of the Proposed ASU. We believe there may be some circumstances where financing treatment is most appropriate but we believe there are also cases where it makes no sense. This alternative model allows for this distinction and would more accurately depict the substance of the transaction in the case of rented office space. In addition, we much prefer the result on the income statement which allows for even recognition of rental expense throughout the lease term. We continue to hear from users of our financial statements that they are interested in the “cash earnings” of investment advisors. The Proposed ASU’s income statement recognition model would render our GAAP financial statements less useful to our users by requiring them to make adjustments to the income statement to reverse the effect of the accelerated income statement recognition. We recommend that the Boards reconsider the merits of the alternative model described in paragraph BC8.

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. If the service component in a contract that contains service components and lease components is not distinct, the lessee should apply the lease accounting requirements to the combined contract. Do you agree with the approach? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

The Proposed ASU requires companies to distinguish lease and service components contained in a lease. For some services, this may be relatively straight forward (such as maintenance and cleaning services specific to rented office space). However, for other services and certain executory costs, the Proposed ASU is unclear as to the treatment. We recommend that the Boards expand paragraph B7 of the Proposed ASU to enhance the discussion regarding distinct services and include clear and robust examples that deal specifically with typical services included in facility leases (including shared service costs for such services as HVAC, snow removal of shared parking areas, and building security to name a few) as well as executory costs.

From an implementation standpoint, distinguishing between lease and service components may be difficult to apply for historical leases should the simplified retrospective approach be required and we do not believe that the benefits would outweigh the costs of obtaining that information. Going back several years and trying to allocate the payments under the contract

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between the service and lease component will likely be tedious. This provision may be less of an issue if the Boards decide not to require a retrospective transition of the rules.

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?

The Proposed ASU defines the lease term as “the longest possible lease term that is more likely than not to occur.” We oppose this definition because the use of this definition will result in the creation of a liability that does not necessarily meet the definition of a liability under FASB Concept 6, *Elements of Financial Statements*. That is, the mere existence of a renewal option does not create a present obligation to transfer assets in the future as a result of past transactions or events. Further, a significant amount of subjectivity and judgment would be required to predict the likelihood of renewing a lease term at some future point in time which may be many years out. At best, this prediction is a guess and may oftentimes be far from reasonably estimable. A wide spectrum of financial and nonfinancial variables factor into that prediction and would all be subject to change over the years leading up to the renewal date. With the level of subjectivity and judgment that must be used to determine the lease term under the proposed definition, we are concerned that the reliability of Federated’s balance sheet will be compromised as a result.

In addition, using the Proposed ASU’s definition of a lease term, we are concerned with the arbitrary nature of the right-of-use asset following remeasurements. Consider the following example: A company enters into a 10-year lease with two 5-year options to renew. Based on the application guidance example in paragraph B17 of the Proposed ASU, at initial measurement the company assigns a 15-year life and records an asset and liability that contains lease payments for 15 years. To further this example, assume that in year 3, a company estimates that it will not exercise its renewal option. In accordance with paragraph 17(a) of the Proposed ASU, the company would reduce its liability and right-of-use asset by the same dollar amount upon reassessment to reflect the shortening of the lease term. Because the asset has been amortized independently of the liability since inception of the lease, this reduction of the asset will result in a recorded asset balance that is an arbitrary mathematical result and not necessarily reflective of amortized cost or the present value of the future economic benefit associated with the remaining right-of-use asset.

We recommend that the Boards consider defining the lease term as the minimum non-cancelable period within a lease agreement and perhaps only require the consideration of a renewal option to the extent it is almost certain of being exercised. Using this definition would result in a liability that represents a current obligation to pay and reduces the significant level of

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subjectivity and judgment that would be required under the Proposed ASU with respect to trying to predict the likelihood of renewing lease terms years into the future. Additionally, using this definition would minimize if not eliminate the issue illustrated in the aforementioned example with the arbitrary recorded balance for the right-of-use asset subsequent to a remeasurement.

Question 16: Transition

(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach. Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

The simplified retrospective approach requires that companies measure and record the liability and right-of-use asset based on assumptions available as of the beginning of the first comparable period presented. For publicly held companies, this might be a period five years earlier than the most recent period being presented. It is unrealistic to think that companies will be able to estimate the assumptions that would have been used five years earlier without being biased by hindsight. We oppose this transition method as we believe it will produce unreliable results and may prove to be overly burdensome for preparers. We recommend that the Boards consider a prospective transition that would require all leases to be accounted for under the new rules beginning in the current year. In so doing, although lack of comparability would exist, it would be limited to a few years until all periods presented reflect the new lease accounting treatment.

Question 18: Other comments

Do you have any other comments on the proposals?

Subleases

We are concerned regarding the application of the Proposed ASU in connection with the accounting for subleases, particularly facility subleases. The Proposed ASU requires a sublessor to apply lessee accounting for the original head lease and lessor accounting for the sublease. The Proposed ASU further requires that a company separately present on the balance sheet the liability for the lease payments under the head lease and to present the right-of-use asset for the head lease together with the receivable and liability for the sublease. We strongly recommend that the Boards consider retaining the provisions under current US GAAP which require a company to net the sublease income with the liability for future lease payments under the head lease. Although the lease and sublease are two separate arrangements, they are very interrelated and to present one without the other is potentially misleading. We believe that presenting the fair value of a lease liability as of the cease-use date as required currently under ASC Topic 420, *Exit or Disposal Cost Obligations*, is a much more accurate accounting presentation and gives the users of the financial statements the whole picture very effectively.

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The Boards' model will be much less understood and more cumbersome for the users of our financial statements to understand as it presents a very disjointed picture of the remaining future cash outflow potential under the lease and sublease. We recommend that the Boards reconsider the appropriate treatment of subleases.

Lease Incentives

We are concerned regarding the lack of guidance in the Proposed ASU regarding the treatment of lease incentives received from landlords, specifically build-out allowances. In Federated's facility leases, it is common for the landlord to provide Federated with an allowance for leasehold improvement costs to renovate or build the space to suit. The Proposed ASU does not include any guidance on how to account for these arrangements. In 2005, the SEC staff reaffirmed the appropriate accounting treatment for landlord incentives under FASB Technical Bulletin 88-1, specifically stating that "it is inappropriate to net the deferred rent against the leasehold improvements." It is unclear whether this accounting treatment would still be appropriate under the Proposed ASU. We recommend that the Boards provide specific guidance on the accounting for lease incentives to avoid confusion and diversity in practice that may otherwise result.

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We appreciate your consideration of this letter and we welcome the opportunity to talk through our comments and observations with the FASB Staff. Please contact Stacey Friday at (412) 288-1244 to discuss any questions you may have regarding the comments in this letter.

Sincerely,

/s/ Denis McAuley III
Denis McAuley III
Principal Accounting Officer

/s/ Stacey H. Friday
Stacey H. Friday
Director, Accounting Policy