December 15, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT
06856-5116
Electronic Address: director@fasb.org

File Reference No. 1850-100

RE: Exposure Draft - Proposed Accounting Standards Update, Leases (Topic 840)

The Williams Companies, Inc. (Williams) appreciates the opportunity to provide our comments to the Financial Accounting Standards Board (FASB) on the Exposure Draft for Leases. Williams, through its subsidiaries, finds, produces, gathers, processes and transports natural gas. Overall, we support the FASB’s efforts to improve lease accounting and acknowledge that the current accounting model for leases could be improved. We further support an approach where the rights and obligations arising from leasing arrangements are recorded on the balance sheet. However, there are significant application matters that must be further addressed by the FASB for the proposed guidance to be practicable and operational. Following we discuss our significant observations that we have regarding the proposed lease guidance.

Scope

We believe the Board should provide further guidance to determine when an arrangement is or contains a lease. Given the significantly different accounting model for leases in the proposal and the fact that operating lease accounting will no longer be appropriate, the determination of whether an arrangement is or contains a lease becomes more critical and, therefore, we believe additional scope guidance is warranted. Below we note specific areas of concern.

Unit of account

We believe guidance should be provided to determine when a physically distinguishable component part of property, plant or equipment is itself considered property, plant or equipment and, therefore, within the scope of the lease guidance. For example, consider a scenario where a pipeline lateral connecting to the main pipeline system is dedicated to a single shipper, the mainline system has numerous shippers, the shipper on the lateral continues to transport the product from the lateral onto the mainline system and the lateral represents a very small portion of the total capacity of the mainline system. How should the right to transport on the lateral be assessed as to whether this segment of the transportation represents a lease? We believe the assessment of whether the physically distinguishable component part is itself considered property, plant or equipment should consider the functional interdependence of the component part to the entirety of the property, plant or equipment that is the underlying asset in the arrangement.
Right to control
With respect to determining whether a contract conveys the right to control the use of a specified asset, we believe the approach to this assessment should be principles based where all three criteria in paragraph B4 are considered collectively rather than individually as currently proposed where if any one of the conditions is met then the right to control exists.

Irrespective of our previous observation regarding the right to control, paragraph B4(e) states that if the entity will obtain all but an insignificant amount of the output or other utility of the asset during the term of the lease, and the price that the entity will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output, the right to control the use of the underlying asset has been conveyed. The “contractually fixed price per unit of output” guidance has historically been interpreted very strictly such that even a per unit price that increases annually based on an inflation index designed to address the increasing cost of providing the service would not be considered contractually fixed per unit. This strict interpretation does not appear to be consistent with the Board’s intent as expressed in paragraphs BC31 and BC32 that payments specified in terms of the output from the asset indicate the customer is paying for the product or service rather than the right to use the underlying asset. Long-term contracts in our industry rarely fix the per unit price of a service over the entire contract term. Inflation indices or similar per-unit rate changes are common and have no relation to the time that the underlying asset is made available for use. This right-to-use criterion should be revised to clarify the intent and eliminate the restrictive language.

Service arrangements
In arrangements that include both lease components and service components under the current proposal, the service component is accounted for separately if it is distinct and the lessee is able to allocate the payments, otherwise the entire contract is subject to lease guidance. We are concerned with an approach of defaulting to the conclusion the entire contract must be evaluated as a lease if the service component cannot be separately distinguished. This could result in overstating the right-to-use asset/lease receivable and lease liability/performance obligation on the balance sheet, particularly when the service component represents a significant portion of the contract. In many situations, the primary output of a contract may be the service being provided and the embedded underlying asset is merely a resource used to provide the service. We believe the Board should carefully consider this issue and allow for a facts and circumstances evaluation focusing on the significance of the underlying assets to the total arrangement before defaulting to a conclusion the entire contract must be evaluated as a lease. For example, if the underlying asset would not be leased without the corresponding service, therefore, indicating the service is the more significant component to the overall contract, then the entire contract should not be considered a lease.

Short-term leases
Under the proposal there would be modified guidance for short term leases where lessees could record the asset and liability in the balance sheet at an undiscounted amount. We believe after considering the costs and benefits of presenting information that cycles through the financial statements over a short period of time, short term leases, as defined in the proposal, should be excluded in their entirety from the scope of a new lease standard.
Purchase or sale of underlying asset
We believe the Board should not exclude from the scope of their proposal lease contracts that represent a purchase or sale of the underlying asset. We believe excluding leases that provide for the transfer of title to the underlying asset to the lessee or contain a bargain purchase option creates a problematic distinction among lease contracts. The accounting model for leases should be sufficiently encompassing to provide guidance for all lease contracts.

Measurement

Lease term
Determining a lease term that is the longest possible term that is more likely than not to occur as currently proposed will lead to greater variability and a higher degree of uncertainty in the recorded amounts of the asset and liability. A probability assessment of the occurrence of each possible lease term is not only cumbersome due to the possible number of leases with differing lease terms that an entity may have, but it may also be cost prohibitive due to the amount of work required to estimate such information. We suggest a more simplified assessment of lease term should be considered, such as a lease term that includes all non-cancellable periods and renewal periods likely to be exercised.

Variable payments
We believe estimated future lease payments should only include payments representing present unconditional obligations and, therefore, should exclude certain estimated variable payments such as contingent rentals based on future usage or performance of the underlying asset. Estimating contingent rentals will also present significant challenges to preparers. We understand the rationale for including payments for residual value guarantees and index-based payments where they represent a present obligation. We would suggest index-based payments be measured using prevailing rates or indices.

When estimating contingent rentals under the proposal, if the contingent rental depends on a rate or index, the lessee and lessor shall use readily available forward rates or indices or, if not available, use prevailing rates or indices. This guidance is not consistent with the proposed guidance in the revenue recognition exposure draft. That proposal notes that an entity shall recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Factors in the revenue recognition proposal indicating the ability of an entity to make a reasonable estimation may be limited include when the rate is highly susceptible to external factors and when uncertainty about the amount is not expected to be resolved for a long time such as a forward rate. The two proposals should be consistent as it relates to the use of forward rates or indices in estimates.

Subsequent re-measurement
Additional guidance needs to be provided regarding what constitutes a significant change in the liability to make lease payments or in the right to receive lease payments and thus requires a reassessment at each reporting period. We believe this requirement is not practicable and suggest this assessment be required annually or only as facts and circumstances warrant.
Presentation

The proposed presentation requires the classification of lease expenses by lessees that results in their exclusion from EBITDA and requires lessees classify the lease payments entirely as a financing activity on the cash flow statement. We recommend the amortization of the right-to-use asset be classified as lease expense and that lessees split the lease payments between operating and financing activities on the cash flow statement. By classifying the lease payments made by the lessee as amortization and interest expense, the lessee’s measure of EBITDA, a widely-use financial metric, will not include any expense related to the lease, making this financial metric less meaningful.

Transition

While we understand the rationale of trend preservation in the proposed transition guidance, Williams does not believe the proposed guidance should require a retrospective application. Retrospective application has numerous operational challenges and will be onerous to implement. The potential benefit of retrospective application does not sufficiently outweigh the significant time and costs required to provide such information. Furthermore, the proposed disclosures are sufficient for a reader to obtain a qualitative understanding of the impact of the new accounting standard for leasing arrangements that existed during prior periods.

We recommend a prospective transition as of the beginning of the period the standard is effective by applying the new standard to leases existing at that date. The effective date should align with that of the proposed standard for revenue recognition. We also recommend the Board allow adequate time to make operational adjustments, develop appropriate systems and establish process controls required for transition.

Disclosures

The proposal requires a significantly increased number of qualitative and quantitative disclosures. We understand the need for certain disclosures such as key assumptions and judgments, a maturity analysis of the lease liability, and significant restrictions imposed by lease agreements, but we question the need for certain other disclosures. Specifically, we do not see the benefit of balance sheet rollforward information, nor the need to describe the nature and key terms of lease arrangements. We believe the benefits of certain additional disclosures exceed the cost of preparing those disclosures. If the Board reduced the complexity of the lease accounting model in such a way that lessens the reliance on estimates and judgments, we believe that required disclosures could be reduced.

Complexity of Proposed Accounting Model

Overall, we recommend making the proposal more practicable and operational. The proposed guidance for measurement and subsequent re-measurement relies on a significant number of estimates and judgments that create uncertainty in the resulting recorded amounts and would not only be difficult to implement and presents significant on-going accounting challenges, but could potentially result in unreliable estimates. We are also concerned about the significant costs to the preparer of complying with the proposed accounting guidance, including costs of employee
resources, new proposed accounting systems, revising internal controls and processes, and information gathering and analysis.

We appreciate the opportunity to comment on this matter and voice our concerns. We would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,

[Signature]

Ted Timmermans
Controller and Chief Accounting Officer
Williams