December 15, 2010

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

Via email: director@fasb.org

File Reference: No. 1850-100

Re: Proposed Accounting Standards Update, Leases (Topic 840)

Dear Technical Director:

State Street Corporation ("State Street") appreciates the opportunity to comment on the FASB’s Proposed Accounting Standards Update, Leases (Topic 840) (the "Proposed ASU"). With $20.2 trillion in assets under custody and administration and $1.9 trillion in assets under management as of September 30, 2010, State Street is the world’s leading provider of financial services to institutional investors. This comment letter is written from State Street’s perspective as the preparer of its own consolidated financial statements.

Although generally we agree with the overall objective of the FASB to improve transparency of lease accounting and create a “principles-based” accounting approach rather than the current “rules-based” model, we have a number of comments and proposals regarding the proposed ASU that we believe need to be addressed, in order to reduce complexity in lease accounting and provide more reliable financial information to the financial statement users.

Executive summary

We believe that the proposed lessee accounting is meant to provide more transparency to the users of financial statements. However, as discussed below, we have a number of comments and proposals to improve and enhance the new standard. In summary we think that:
Lessees should disclose their non-core asset leases instead of recording them on balance sheet. We propose enhanced disclosures around the type of non-core asset and the contractual payments of the lease.

A consistent approach to estimate the lease term and variable lease payments should be used instead of using an “expected outcome” method to determine lease payments and “more-likely-than-not-to-occur” threshold to determine the lease term. We believe that the both lease term and lease payments that will be an integral part of the “right-of-use” model should reflect the lease term and payment that is “probable” to occur.

We believe that the lease liability should be amortized using the straight-line method as this will be consistent with the right-of-use asset amortization, and it will also be a better reflection of the economics of a lease transaction.

We believe that the periodic reassessment of certain key inputs to calculate the lease liability and right-of-use asset will create a considerable amount of complexity and operational burden to the financial statement preparers. In addition, we believe that it will hinder comparability and create confusion to the users of financial statements.

Non-core assets

We agree with the Board’s proposal on the simplified accounting for short-term lease contracts. We think that the simplified accounting approach will ensure consistency with the general rules set out for all lease contracts without the complex estimations and calculations. However, we propose that the Board consider a scope exclusion for non-core asset leases that are not critical to the operations of a company. We believe the cost of measuring and reassessing them might outweigh the benefits to the users of financial statements. We agree that some of the non-core assets might have material value relative to the entity’s financial statements and therefore, we propose additional disclosure which would address the types of asset classes that the entity views as non-core and the lease payments by maturity to ensure transparency to the users of financial statements.

Comments from the perspective of a Lessee

Determining the lease payments and lease term

The Board proposes that both fixed and variable rentals should be included in the entity’s analysis to determine the lease payments. The total of these lease payments are discounted to present value at the estimated lease term using the lessee’s incremental borrowing rate or the rate that the lessor charges (if it can be determined). There are two significant inputs in this computation in which the entity is obligated to use judgment and estimation: lease term and variable rentals. The Board is essentially proposing two different methodologies to estimate the lease term and variable rentals: expected outcome method to estimate the variable rentals and “more-likely-than-not-to-occur” probability for the lease term. We believe the dual method structure in
estimating key inputs to the right-of-use model creates inconsistency and significant complexity.

i. Comparison of the two models

The expected outcome method that is proposed to estimate variable (contingent) rentals does not necessarily result in the most reasonable outcome compared to the probability approach that is used to estimate the lease term. The expected outcome approach might have unreasonable results, especially, when the probability of one outcome is relatively much higher than the others. For example, consider a lessee that agrees to pay the lessor $20/hour for the usage of copier in addition to fixed rentals. The possible outcomes are:

<table>
<thead>
<tr>
<th>Copier Usage hour/year</th>
<th>Probability</th>
<th>Expected Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>90%</td>
<td>450</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>465 hours</strong></td>
</tr>
</tbody>
</table>

In the example above, the expected outcome approach will result in 465 hours/year as opposed to 500 hours/year if the entity used more-likely-than-not approach. The 90% probability indicates that the entity is “reasonably certain” that they will use 500 hours/year. 10% probability of using the copier 150 hours/year is very remote and unlikely that it is unreasonable to address as part of this estimate when the entity has an estimated outcome that is reasonably certain. We believe that estimating the possible outcomes, assigning probabilities to each one of them and choosing a cumulative probability that is “more-than-likely-to-occur” or “probable” is a more reasonable approach to estimate the lease term and contingent rentals.

ii. Higher threshold for the probability approach

Under the current US GAAP guidance, ASC 450 Contingencies, a contingency is recognized when it is “probable.” The proposed “more-likely-than-not” is the longest term or variable rental that has more than 50% cumulative probability of occurring. We believe that the threshold in the proposed guidance is relatively low and that raising the threshold to “more than likely” or “probable” which will represent 70% or more probability of occurrence will provide more accurate estimates. As these, often very long-term in nature, estimates are used in computing the “right-of-use” asset and lease liability that are recorded on balance sheet, it is essentially important that the entity uses a higher threshold in order to be more precise. We believe that increasing the probability level will result in fewer revisions to the estimates during the periodic reassessment process.
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Although we believe that using a probability weighted is preferable, we believe that management should be responsible for determining the appropriate methodology for making such estimates. The use of various techniques would be consistent with ASC 820 Fair Value Measurements and Disclosures where management uses its own discretion in determining the model or approach to be used when estimating key inputs to its fair value measurement of various financial assets and liabilities. We believe that this will enable management to choose a method or approach that will be in line with their own business model. Under this approach, we propose that the companies make qualitative disclosures describing the techniques and approaches utilized when they make estimates around key inputs to their lease accounting model.

*Amortized cost approach - effective interest rate method to measure the lease liability*

The current proposal for subsequent measurement of the right of use asset on a straight-line basis and the lease liability on an effective interest rate method impacts the entity’s statement of income simply by difference in measurement methods. Although the right-of-use asset represents the lessee’s ability to use the leased asset over the lease term and the lease liability represents the lessee’s financial liability under the lease contract, they are both linked to the same contract and they will not be settled independently from one another. Therefore, we believe that the subsequent measurement for both the asset and liability should follow the same measurement methodology.

*Periodic reassessment of judgments and estimates*

We believe that the requirement to reassess the certain key considerations over the lease term could be a very onerous process for the entities. Key inputs to calculating the lease liability and right-of-use asset that are based on estimates and judgment are variable rentals (contingent rents, residual value guarantees) and lease term (renewal options). If certain facts become available over the life of the lease that change the initial assessment of these inputs, then the entities are required to adjust their initial measurements. Our main concern with this new requirement is that it will lead to financial information that will be less comparable and more confusing to the users of financial statements. In addition, the cost of performing this analysis periodically will outweigh the benefits as some of the lease contracts are long-term in nature and year over year, fact patterns might constantly vary and result in significant changes to the financial statements.

In order to avoid this inconsistent financial information amongst filers and the highly possible operational burden, we propose that the inputs to calculating the right-of-use asset and lease liability to be adjusted when there is an actual modification to the terms of the lease contract as opposed to changes in management estimates and judgment.

**Further Clarification Required**

*Time lapse between inception and commencement dates*
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Most of the time, the inception date and commencement date in a lease transaction are the same. However, there are certain cases, such as built-to-suit leases, that the inception date might be significantly different from the commencement date. In such cases, the Board proposes that lessees not recognize the transaction before the commencement date unless the contract is onerous. The measurement of the lease liability (estimating the lease term, determining the lease payments and discounting these payments) takes place at the inception date. The proposed ASU lacks guidance on the accounting treatment of the transactions that takes place between the inception and commencement dates, such as up-front cash payments and changes in present value of the lease liability due to time.  

The current U.S. GAAP, ASC 840, *Leases* provides detailed guidance on such transactions and whether a lessee should be considered the owner of the leased asset throughout the construction or not. To eliminate this guidance and not recognizing the lease contract until the commencement date would be a considerable amendment to the current U.S. GAAP guidance. We request further clarification on this particular matter.  

*Lease Incentives*  

We believe that the proposed ASU lacks the necessary guidance on “lease incentives” both for lessor and lessee accounting. We request further clarification on this particular matter.  

*Conclusion*  

We support the FASB’s goal of seeking a single set of high-quality, international accounting standards that companies worldwide would use for both domestic and cross-border financial reporting, and its collaborative efforts with the IASB. We urge the FASB to continue its efforts toward convergence and consideration of our points above prior to issuance of the final standard.  

We appreciate your consideration of these matters and welcome the opportunity to discuss them with you.  

Sincerely,  

James J. Malerba  
*Executive Vice President and Corporate Controller*