December 15, 2010

VIA e-mail to: director@fasb.org

Financial Accounting Standards Board
Technical Director
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File Reference: No. 1850-100 – Exposure Draft of the Proposed Accounting Standards Update of Leases (Topic 840)

FedEx Corporation has reviewed the Exposure Draft of the Proposed Accounting Standards Update of Leases (Topic 840) (the “Exposure Draft”) issued in August 2010, and we appreciate the opportunity to comment on the proposal.

We present our views from the perspective of a financial statement preparer, but also as a lessee with a significant volume of property and equipment leases. We currently have a global inventory of approximately 14,000 leases, with total future commitments in excess of $14 billion. Our leases, which are substantially all operating leases, include leases for aircraft, facilities, land, retail locations and equipment in over 70 countries throughout the world. More than half of our lease volume is associated with the operations of FedEx Office, which provides retail access for our customers to our package transportation businesses, so our views on the Exposure Draft should also reflect the issues facing many companies in the retail industry.

We support the fundamental proposal in the Exposure Draft to reflect the obligation associated with long-term lease commitments in the balance sheet. However, we do not support some of the specific proposals in the Exposure Draft to achieve that objective based primarily on the significant operational challenges associated with implementing the new requirements, the practical issues associated with on-going accounting for such items and the auditability of certain aspects of the model set forth in the proposal. Specifically, we do not agree with the proposed accounting for contingent rent, the model set forth for reassessment of the lease liability or the treatment of short-term leases. In these areas, we believe there are opportunities for the Board to provide more practical solutions while maintaining the overall objectives of the Exposure Draft. We have described our perspective on these issues in the following sections of this letter.
Contingent Rent

We do not support the proposal to include contingent rent in the measurement of the lease liability as we do not believe many forms of contingent rent are consistent with the definition of a contractual liability. While we believe that some contingent rent payment may likely be due in many cases under these arrangements, the potential liability is conditioned upon the occurrence of future events. Therefore, we believe that it is inappropriate to include an amount in the calculation of the long term lease liability for most forms of contingent rent. We also note that the accounting model proposed for contingent rent is inconsistent with the proposed treatment of purchase options. In circumstances where lease contracts contain purchase options that are not considered bargain purchase options, the Exposure Draft specifically prohibits the presumption of the future exercise of the purchase option in the evaluation of the lease liability, regardless of its likelihood. Furthermore, the Exposure Draft implies that the model proposed is not intended to result in fair value accounting for leases. We believe the model proposed for contingent rent is closer to a fair value calculation of this aspect of the lease which is inconsistent with the rest of the accounting model described in the Exposure Draft.

In addition to the technical considerations, there are significant operational issues with the contingent rent model included in the proposal, as it will require companies to forecast activities in periods well beyond their normal planning cycle. For example, much of our contingent rent is associated with copier usage ("clicks") at FedEx Office, which is difficult to forecast over an entire lease term in a market with technological advances that can quickly alter demand for this service. Including an estimated liability for future clicks is not practical and by its very nature will be subject to ongoing revision and adjustment without a commensurate return in value. We expect many companies with contingent rents based on similar measures will also find this aspect of the proposal troubling. Treating contingent rent as a period cost would represent far better accounting in our view.

The time periods involved and the inherent difficulties in predicting the myriad of future events that may be involved in rent contingencies will make this aspect of the proposed accounting model extremely difficult to audit. The level of documentation available and the inability to independently verify contingent rent predictions will drive up audit costs, increase audit risk and reduce the reliability of the financial statements. Moreover, contingent rentals are not material to our total rent payments representing only 7%, 8% and 10% of our total rent expense over the past three fiscal years.

In addition to the forecasting and audit challenges, the Exposure Draft recommends using a probability weighted technique for measuring contingent rent. Despite the assertion in the Exposure Draft that an expected outcome technique need not consider all possible scenarios for contingent rent, it will likely need to consider a number of scenarios for each lease. With an inventory of leases as large as ours, this exercise will be
cumbersome and costly to maintain. We question whether this overly complex method meets the cost-benefit test. Should the Board conclude contingent rent does meet the definition of a liability, we recommend the Board consider a “more likely than not” threshold for the inclusion of contingent rent in the lease liability which would be more practical to administer and apply for preparers and more auditable for independent auditors.

**Reassessment of Liability**

We do not believe the guidance described in the Exposure Draft covering reassessment of the liability at each reporting period is sufficiently operational in its present form. In the Exposure Draft, the Board suggests leases are only required to be reassessed if facts or circumstances indicate that there would be a significant change in the liability (implicitly, at each reporting period). More specificity is needed about what events trigger the need to remeasure the liability. Otherwise, preparers will be put in the position of having to prove a negative in each reporting period the lease liability is not reassessed.

We believe it is important for the Board to consider carefully the operational challenges of liability reassessments for large global companies. For example, with a global inventory of leases as large as ours, we would need to capture information on a continuous basis to identify whether a significant change occurs, particularly with respect to lease terms and renewal options. To achieve this outcome, we will likely need to make significant system investments to track information timely, completely and accurately and incur extensive efforts to educate operations personnel on the specifics of lease accounting. We believe the costs to verify and maintain a complete and accurate repository of the best information available at each reporting period outweigh the benefits associated with the reassessment on a quarterly basis. Absent a triggering event (for example, an event that would cause an impairment test to be conducted on the right to use asset), the Board should consider requiring only an annual reassessment of the lease liability. Also, companies should have the option of making a policy election to evaluate a portion of their lease population each reporting period to meet the annual reassessment requirement.

**Short-term Leases**

The Exposure Draft proposes that short-term leases (12 months or less with no renewal features) be shown on the balance sheet at the undiscounted amount of the lease payments. We believe the scope of the lease accounting model proposed in the Exposure Draft should be modified to include only those leases with a term in excess of one year, including renewal periods. We believe the payments associated with non-renewable short-term leases are period costs and should not be included in the right to use asset. The nature of our business requires us to enter into numerous short-term leases for equipment to provide shipping capacity as demand fluctuates. A requirement to account for these agreements as a lease would be impractical to administer. We also believe daily
or monthly leases with no set termination date should be included in the short-term lease exemption criterion and not included in the maximum possible lease term.

We appreciate the opportunity to comment on these proposed rule changes and thank you for your consideration of our comments. If you have any questions, please contact Bert Nappier at 901-818-7068.

Sincerely,

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Corporate Vice President
and Principal Accounting Officer

Herbert C. Nappier
Staff Vice President and
Corporate Controller