December 15, 2010

Technical Director
File Reference No. 1850-100
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update – Leases

Dear Technical Director:

Thank you for the opportunity to offer comments on the Financial Accounting Standard Board’s (the “Board”) August 17th, 2010 Exposure Draft of a Proposed Accounting Standards Update on Leases (the “Exposure Draft,” or “ED”). We provide our comments on behalf of Ascension Health, the nation’s largest not-for-profit Catholic health care system (“System”), with annual operating revenues of over $14 billion and approximately $4.2 billion in tax-exempt debt in the public markets. Our System is a party to a significant number of leasing transactions, including acting as a lessee, a sub-lessee and a lessor. As of our most recent fiscal year ended June 30, 2010, Ascension Health reported over $800 million in non-cancellable lease commitments and over $400 million in non-cancellable future lease receipts, where Ascension Health is a sub-lessee or lessor.

Our organizational structure consists of hundreds of separate legal entities, primarily not-for-profit hospitals and healthcare entities (with a few for-profit entities), located in 20 of the United States and the District of Columbia. Our legal entities are organized into approximately 30 reporting units for financial statement reporting purposes, each of which receive some level of external audit review. Furthermore, certain of these reporting units receive separate audit reports, either on a consolidated basis or on a stand-alone hospital basis based on regulatory requirements. For the most recent fiscal year, over 30 separate full scope and limited scope audit reports were issued within our System. Additionally, we file interim quarterly financial statements publicly via the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system.

We appreciate and are supportive of the Board’s continued efforts to promote projects and issue standards to ensure an organization’s financial statements accurately and comprehensively reflect its financial position, including its specific assets and liabilities, as well as those which result in more relevant and useful financial statement disclosures for readers of the financial statements, including the investment community. Regarding the current Exposure Draft, for which we offer our comments herein, we acknowledge the Board’s continued efforts to bring off-balance sheet transactions onto the balance sheet, including leases currently classified as operating leases, and that the guidance proposed within the ED will eliminate current off-balance sheet accounting for all leases. However, we have certain fundamental issues with the theory underlying the proposed accounting for leases included in the current ED, as well as significant concerns with how to appropriately apply certain elements of the proposed guidance to lease transactions.
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A high level summary of our most significant concerns is presented below, followed by additional detail in response to specific questions for which the Board is seeking responses. At the end of our letter, we also identify certain issues relevant to lease accounting for which we would appreciate the Board providing additional guidance and clarity, as the ED does not appear to fully address these identified items.

Our most significant concerns with the guidance proposed in the ED are as follows, including support for our position on these items. It should be noted that the collective discussions below underlie, or are related to, several of our responses to the specific questions being sought by the Board.

1. We do not believe all leases represent liabilities that should be recognized on the balance sheet. Specifically, we do not believe cancellable leases should be recognized liabilities and associated assets on the balance sheet.

Based on the definition of a liability as “probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events,” as well as the three characteristics of a liability, as included in FASB’s Concept Statement No. 6 – Elements of Financial Statements (CON 6), we do not agree that cancellable leases meet this definition of a liability. The three characteristics of a liability from CON 6 are as follows: a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand; b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and c) the transaction or other event obligating the entity has already happened.

Cancellable leases, including those that contain a stated (“expected”) term, cannot be assumed as “probable” future sacrifices of economic benefits by the lessee due to the existence of the cancellation feature. Leases are negotiated between two parties – a lessor and a lessee – and if both agree that the lease can be cancelled and include such a provision in an executed agreement, a conclusion cannot be drawn that execution of the lease throughout the stated term, and therefore payment, is “probable,” for the lessor OR the lessee. We are also not of an opinion that the existence of penalties, even if significant, in such cancellable lease agreements lead to a different conclusion. Those penalties cannot be assumed to ensure, with “probability,” that the lease, and associated payments, will continue through its stated term. Lessees make decisions to lease based on a variety of factors and, likewise, base decisions to terminate on a variety of factors – not primarily or only based on the impact of penalty features. Said differently, the mere existence of a penalty is not the only (probable) factor being considered in any decision to terminate. Therefore, in light of the second characteristic of a liability, a cancellable lease with a penalty does not result in “little or no” discretion to avoid the future sacrifice. While there is potentially a high cost to terminate a lease, the choice to do so still exists.
2. We are of a strong opinion that certain elements of the proposed guidance require far too much judgment and estimation in calculating the recognized assets and liabilities. As a result, we firmly believe that any resulting calculation of the lease liability (and right-of-use asset), at inception, cannot be deemed to be “probable,” as the underlying definition of a liability requires. Furthermore, from a pure operational perspective, estimating lease terms on longer term leases, such as real estate, would often be ‘a best guess,’ and therefore also not “probable.”

The proposed guidance that calls for the lease liability and related asset to be calculated based on a more likely than not lease term could result in an under- or overstatement of the liability, as a “more likely than not” level of probability is not materially consistent with a liability’s underlying requirement, by definition, that payment is “probable.” Furthermore, estimating a “more likely than not” lease term at inception, particularly for leases that are generally longer term in nature, such as real estate leases, is highly judgmental and would be operationally difficult to determine with relative certainty. In addition, it appears that the related asset could also potentially be overstated based on the proposed measurement methodology, as the asset equals the liability at inception, which value could exceed the asset’s “fair value.”

Additionally, the proposal requires that contingent rentals be included in the present value calculation of the lease liability, and furthermore that if such contingent payments are based on rates or indices, forward rates or indices should be used as a guide in determining such amounts. Furthermore, penalties are also to be estimated and included. The inherent judgment required in estimating the value of so many contingencies as well as their probability is also not expected to result in a “probable” payment liability estimate – it will be a collective guess, at best.

We feel the cost of applying the guidance (e.g. the reassessment processes) will likely far outweigh the benefit of such. Furthermore, we also believe that an organization’s credibility could be unfairly disadvantaged from the perspective of users of financial statements, as a result of potentially frequent adjustments in lease liabilities and assets resulting from initial estimates that later change, as a result of the required reassessments.

3. Changes in authoritative accounting guidance should not result in undue economic harm to an entity relative to existing contractual obligations or in costs that exceed benefits.

Financial statement reporting under the ED could impact several of an organization’s existing legal agreements. The time to identify those impacts and to comprehensively address them cannot be underestimated and must be considered. Most notably, the tax exempt bond market functions in such a way that “changing” bond financing covenants, in many cases, is virtually impossible. The changes, as proposed, could negatively impact certain debt covenants.

In addition, due to the requirement to initially measure the lease liability at a present value based on the lessee’s incremental borrowing rate, it appears that financially strong, highly
rated organizations will be disadvantaged when compared to lower rated (higher incremental borrowing rated) peers from the perspective of the amount of the recognized lease liabilities. The lower borrowing rates afforded to such highly rated, financially strong entities will lead to HIGHER recognized liabilities than organizations with higher incremental borrowing rates.

4. We are not in favor of the existence of "options" for the application of lease guidance, and therefore feel that lease guidance should be standardized as much as possible for all entities. Doing so can be expected to lead to the highest degree of application consistency among all organizations, as well as provide for accurate financial statement comparisons among peer and similar industry organizations.

The ED, as proposed, would provide an entity the option, on a lease by lease basis, to apply a practical expedient for the recognition of short term leases. It also appears the Board is considering more than one transition provision for the initial application of lease guidance – both a simplified retrospective approach and potentially a full retrospective approach. We feel that the existence of options may lead some organizations to make choices that result in more favorable financial statement outcomes than others, thereby decreasing consistency between peers. Accordingly, we feel lease guidance should be standardized for all entities as much as possible.

In response to the specific questions posed in the exposure draft, we would like to offer the following comments. We have limited our responses to those questions that are related to the overall issues we discuss above as well as those questions which we believe would result in potential inconsistencies or which would result in the greatest degree of difficulty to apply.

**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 model would you propose and why?

As discussed above, we do not agree that cancellable leases, regardless of the existence of penalty features or the amount of such penalties, represent liabilities by definition that should be recognized on the balance sheet. Generally speaking, with an understanding that leases will no longer be allowed to remain largely off balance sheet, we believe that only non-cancellable leases are appropriate to recognize in the balance sheet as right-of-use assets and associated liabilities.

**Question 4: Definition of a Lease**

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
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(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We believe the definitions of both a lease and of a purchase/sale require additional clarity from several perspectives, including the following:

1. In order to provide for consistency in accounting for two contracts which in substance are almost identical but which in form are not, the current definition of a lease requires more clarity from the perspective of using the specified asset for an agreed period of time. More specifically, certain lease agreements, most notably equipment leases, may include a defined (cancellable or noncancellable) term for the use of such equipment, or may provide for the use of the equipment on a “pay as you use” basis, with no required or specified term. Both agreements provide for the right to use such equipment where payments will be made; however, the agreement without a specified term could be interpreted to be outside the scope of a lease, while the nearly identical agreement with a specified term would be within the scope of a lease. Related, we feel it is reasonable to expect that entities who negotiate lease contracts may attempt to draft agreements that would fall outside the scope of a lease, as defined, thereby inviting the development of complex agreement structures that remain difficult to account for, and which would lead to financial statement recognition inconsistencies for similar contracts.

2. In the healthcare industry, agreements that provide for both equipment and related “disposables” / supplies to use on such equipment are common. Due to anticipated technological advances, the underlying equipment in such agreements can often be ‘replaced’ with equipment that will perform the same or similar function; however, such replacement equipment will likely be different due to those technological advances which are not known at the outset of the agreement. We feel that these types of arrangements should be considered in the context of the definition of a lease whereby an asset must be “specified.” Furthermore, the cost associated with these agreements includes both the cost of the equipment and the disposables, which may not be explicitly stated. It is requested that the Board consider and provide additional clarifying guidance on this element within these types of agreements, in the context of both the definition of a lease as well as accounting for such. (See also our response to Question 6: Contracts that contain service and lease components.)

3. Relative to the criteria to distinguish a purchase / sale from a lease, as discussed in paragraphs B9 and B10, for a lease that contains an initial term with (potentially multiple) options to extend, where “transfers” of such leased assets may be provided for at the end of any of (one or more of these) extension options taken, it is not clear how the assessment of the transaction as a purchase or sale can be made at inception and never reassessed. This guidance would also seem to be inconsistent with the proposed guidance which states that purchase options should only be accounted for when taken.

4. We also believe additional clarity is needed in paragraph B9 relative to the time at which the “end of the contract” is deemed to occur, as well as whether the transfer of control is
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“required” or is at the option of the lessor. Specifically, it is not clear if the “end of the contract” is the end of its initial (non-cancellable) term, at the end of the “more likely than not” lease term identified and associated with the measurement of the liability, or at the end of all potential extension options. Relative to the transfer of control, it is not clear if such transfer must be certain at the inception of the contract, or if a transfer can be optional at inception or during the term of the contract.

**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 (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) The IASB proposes that:

i. A lessee should apply the lease accounting requirements to the combined contract.

ii. A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

iii. A lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We do not agree that contracts that cannot reasonably distinguish between the inherent leased asset component and the service component should be recognized as the Board suggests – with the entire contract being recognized as a lease. The proposed guidance focuses on identifying whether the service component is distinct, and if not, then the contract constitutes a lease. It does not seem appropriate to conclude on lease accounting based on an identification of the service component within the contract. It would appear more reasonable to identify the “fair value” of the equipment inherent within the contract, and if the overall contract meets the definition of a lease, account for that component as the lease, with any remainder representing the service component.

We feel the proposed guidance, where an underlying assumption is made that an entire contract is a lease when it is known to include service or other components, is inaccurate and an overly conservative approach, which would result in an overstated lease liability.

As discussed above, we would also appreciate the Board’s expansion of the concept and related guidance for leases that have non service “components” in addition to the provision of an asset - specifically, for agreements that provide for both equipment and supplies/disposables, which in the healthcare industry are common.
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**Question 7: Purchase options**

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) when the purchase option is exercised.

Do you agree that a lessee or lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree with the Board that to recognize a purchase option at any time before it would be exercised would not result in the accurate recognition of any related leased asset or liability. Our agreement on this item is consistent with our collective discussions herein that including significant estimates based on judgment do not result in an appropriately valued lease liability in the financial statements.

**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?

As discussed above, this element of the lease guidance is perceived to be one of the most problematic elements to apply, as well as not completely consistent with the underlying premise that a recognized lease liability should represent “probable” payment.

From a resource perspective, applying such a requirement, by lease, can reasonably be expected to require significant additional resources. While historical lease terms and renewal experience may provide some basis for making these determinations, thereby reducing the effort involved to make future determinations, in the healthcare industry, particularly for equipment leases, historical terms cannot be expected to apply due to relatively rapid technological advances in equipment. The existence of such can be expected to require continual re-evaluations of leased equipment asset terms. For real estate, each lease of space is for a unique use, and as such, each lease will need to be evaluated individually for an expected term. Furthermore, because of such inherent estimates, the effort required to reassess the accuracy of those estimates and make resulting changes in recognized asset and liability amounts is expected to be extensive.

We also reasonably anticipate that certain organizations could take broad liberties in the evaluation and identification of lease terms, such that similar organizations with current similar levels of leasing (as evaluated by reported future minimum rental commitments) could have vastly different levels of recognized liabilities if the proposed rules relative to lease term would
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be applied. We are also concerned about the effort and expense anticipated with getting auditors of financial statements confident with such estimates, and in turn our recorded liabilities for such commitments.

As such, and as discussed more fully in our general comments above, we would suggest recognizing lease liabilities only for the non-cancellable terms associated with non-cancellable lease agreements. We believe a liability calculation based on this premise is most closely in alignment with the definition of a liability, as discussed above.

In summary, we feel strongly that the Board should provide much more specific guidance surrounding any final “definition” of the lease term, which will limit the amount of interpretation required to identify the term. Not only will this greater clarity and lease term ‘certainty’ allow for entities to apply the concept as we believe the Board intends, but it will also to promote the most consistent application across all entities.

**Question 9: Lease payments**

*Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?*

Consistent with our comments above, whereby significant judgment is involved in estimating all ‘contingencies’ for the calculation of lease payments, the proposed guidance with respect to lease payments is not deemed to be consistent with a “probable” payment nature of a liability. We would suggest that only non-contingent payments for non-cancellable leases over the initial non-cancellable lease term would be the only appropriate measure of a liability to recognize in the balance sheet. In consideration of our conclusion, we believe disclosures, however, should provide a financial statement reader with enough information to understand the entity’s “total” lease commitments; both those recognized and those not recognized.

*Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?*

We believe contingent rentals should only be recognized by lessors if reasonably assured (equivalent in concept to non-cancellable from the perspective of the lessee), AND reliably measured.

**Question 10: Reassessment**

*Do you agree that lessees and lessors should re-measure 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 arising from changes in the lease term or contingent payments (including expected payments under term option penalties*
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and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

As discussed above, we are of a general opinion that the inclusion of a variety of estimates that require significant judgment and estimation are not appropriate to include in the calculation of a recognized lease liability. As also discussed above, we are of an opinion that non-contingent payments for non-cancellable leases over the non-cancellable lease term would be the only appropriate measure of a liability to recognize in the balance sheet. Utilizing this recognition criteria would significantly reduce the effort involved in any reassessment process, making application of the guidance much more operationally manageable utilizing existing resources. To effect the guidance as proposed, which entails a reassessment when circumstances change that would result in a significant change in the liability, regular reassessments would be required. For public entities that issue external quarterly financial statements, including Ascension Health as a conduit bond obligor, the resources required to make these regular (quarterly) reassessments would be considerable.

It should not be overlooked that the proposed guidance would likely also, for those entities who do not currently utilize lease software and/or a database to manage leases, require the acquisition of such, to appropriately manage this reassessment process. For entities with more than an immaterial amount of lease transactions, this cost could be significant.

**Question 15: Disclosure**

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

(a) identifies and explains the amounts recognized in financial statements arising from leases; and

(b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows?

Why or why not? If not, how would you amend the objectives and why?

We do not take general exception to the concepts provided above regarding lease disclosures in the financial statements. However, the ED goes on to provide specific disclosures that would be required to meet these requirements, which are extensive. We believe that the Board should re-examine the specific disclosure requirements (as contained in paragraph 73-86) and identify which of those proposed requirements would collectively, and most comprehensively, meet the general disclosure guidance above. If the disclosure requirements as stated within these paragraphs are not simplified, we are of an opinion that significantly more, and like confusing, disclosures will be made than a user of financial statements could collectively comprehend. We also question the overall usefulness of such expanded disclosures.

As far as general disclosure guidance is concerned, as included in paragraph 70 of the ED, we feel that it is most important to provide a reader with a comprehensive understanding of total commitments that will be paid under transactions that qualify, by definition, as leases. This would include certain additional qualitative information about leases recognized in the balance
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sheet and some combination of quantitative and qualitative disclosures for any leases that would not be recognized in the balance sheet (based on our conclusion that not all leases should be recognized in the balance sheet). As to the latter, at a high level, providing the reader with some information regarding amount and timing of unrecognized lease commitments would appear to provide the most meaningful information. However, lengthy discussions about the uncertainty in lease amounts would be deemed to be confusing to a reader, and difficult for an entity to accurately estimate and describe.

**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?*

(b) *Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?*

(c) *Are there any additional transitional issues the boards need to consider? If yes, which ones and why?*

As discussed in our general comments above, we are not in favor of the provision of entity elections “options” for transition, primarily for consistency reasons across all entities, but also from a perspective of consistency among related organizations (e.g. same industry or entities with similar volumes of leasing transactions).

We believe the Board should also consider its proposed transition approach, whereby the guidance would be assumed to have applied at the earliest period presented. Based on the proposed guidance relative to interest expense recognition on the liability, effectively interest expense will be altered for an historical period. It is not understood how this type of transition would work, as it could effectively lead to an inability to meet legal agreement requirements and/or affect bond covenant calculations for an historical period. We believe this transition approach requires further analysis based on this anticipated outcome.

Last, we feel the Board should consider providing additional guidance surrounding the transition for leases currently recognized as “capital” leases, that may no longer meet the definition of a lease under proposed guidance (e.g. capital leases identified as such do to the existence of a bargain purchase option).

**Question 17: Costs and Benefits**

*Paragraphs BC200 – BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?*
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We believe that the level of judgment and estimation required to calculate lease liabilities and regularly reassess them, and the resulting amount of resources to effect such, will far outweigh the benefits of these elements of the proposed guidance. We believe the most significant reduction in costs can be achieved by limiting the leases recognized on the balance sheet as liabilities to noncancellable leases, as discussed above. This conclusion is also deemed to be most in alignment within the definition of a liability.

Question 18: Other comments
Do you have any other comments on the proposals?

As discussed above, there are certain aspects of lease accounting for which we would appreciate the Board providing additional guidance or clarification in any final Accounting Standards Update on Leases. These items are as follows:

1. The establishment of a limit on the recognition amount for the leased asset.

   It is noted that, at initial recognition, the measurement of the leased asset will equal the measurement of the liability. This methodology can be expected, in certain situations and based on the proposed measurement criteria provided in the ED, to lead to the recognition of an asset value that would exceed the asset’s fair value, resulting in the overstatement of the asset. We feel the Board should consider this potential outcome and provide related guidance for such.

2. Additional guidance relative to the accounting for a “lease contract” that meets the definition of a purchase or sale, as defined in the ED.

   While, as defined, purchases and sales are outside the scope of the proposed lease guidance, it is not clear how the Board intends for contracts identified as purchases or sales to be accounted for, where legal title for such assets does not change at inception, but for which payments are made over the course of the agreement and title transfers at the end of such an agreement. Said differently, it appears the Board is providing the definition of an “in substance” purchase or sale (i.e. similar to a current “capital” lease where current guidance does exist), but the form of such agreement is more similar to that of a lease.

3. Accounting for tenant improvement allowances inherent in many real estate leases.

   It is not clear within the proposed guidance if owner-lessee incentives for entering into a lease (e.g. tenant improvement allowances) should be accounted for separately from the right-to-use leased asset and liability. We would appreciate clarifying guidance for how the Board intends for such lease incentives to be accounted for in the future – i.e. as a component separate from the right-to-use leased asset and liability, or comingled into the calculations for such right-to-use asset and associated liability.

4. Transition guidance for existing sale-leaseback transactions.
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The proposed guidance discusses how to evaluate a transfer of an asset, with an associated lease back of that asset, as a sale or as a financing, and additionally, that such determination is made at the inception (of the lease) and is not subsequently reassessed. In light of this guidance, it is not clear if existing sale-leaseback transactions recognized in the financial statements at the transition date to any final lease guidance should be de-recognized, or if sale-leaseback accounting for such transactions should continue as such. Furthermore, it is not clear what, if any, ongoing disclosure requirements would apply. We would appreciate additional transition and disclosure guidance for these existing transactions within final lease guidance issued.


It is not clear if the existing guidance relative to lessee involvement in asset construction will be eliminated upon transition to any new lease guidance. Also, it is not clear how, at the transition date to any final guidance, a then current transaction that has failed the provisions of this guidance should be accounted for through the end of the construction period and thereafter. Ascension Health does not believe that current guidance for these transactions provides for the recognition of an appropriate amount of asset and liability associated with these transactions, and as such, fully supports the elimination of this current guidance and the de-recognition of all assets and liabilities currently recognized in financial statements for such. We support recognition of the non-cancellable right-of-use leased asset and associated liability for leases inherent in these transactions. It is also not clear what, if any, changes in disclosures for these transactions would apply.

6. Treatment of change in assumptions between lease inception and commencement dates.

The proposed guidance calls for the calculation of the lease liability and right-of-use leased asset as of the lease inception date; however, recognition of the asset and liability is not until lease commencement. It is not clear how, if at all, changes in assumptions (e.g. contingent rents, discount rates) should be accounted for under the proposed rules, and as such, we would appreciate clarifying guidance on this matter. It should be noted that transactions that fall under existing guidance discussed in item 5 above frequently encounter long periods of time between lease inception and lease commencement.

7. Accounting for transactions that involve both a lease as a lessee and as a sub-lessee.

It is not clear based on the guidance in the ED how an entity should account for the lease of an asset as a lessee coupled with the lease of the same asset as a sub-lessee. It is not considered appropriate that multiple assets and liabilities should be recognized for the same leased asset in the entity’s financial statements. We would appreciate the Board’s provision of more specific guidance as well as examples of how such transactions are anticipated to be reflected in the financial statements.
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We greatly appreciate the opportunity to provide our comments on the proposed Accounting Standards Update for Leases, and would also welcome any opportunity to participate in upcoming roundtable meetings relating to the ED.

Sincerely,

[Signature]
Barbara L. Potts
Senior Director – System Accounting and Financial Reporting

[Signature]
Elizabeth C. Foshage
Vice President - Finance