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Technical Director
Financial Accounting Standards Board
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Via email: director@fasb.org

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

McKesson Corporation ("McKesson" or the "Company") appreciates the opportunity to comment on the Proposed Accounting Standards Update, "Leases," (the "Proposed Update"), issued by the Financial Accounting Standards Board (the "Board").

McKesson is a healthcare service and information technology company that delivers medicine, pharmaceutical supplies, information and care management products and services designed to reduce costs and improve quality across the healthcare industry. Our fiscal 2010 total revenues were $108.7 billion and our assets were $28.2 billion.

We understand and concur with the Board's objective to create a lease standard that establishes principles for lessees and lessors for recognizing, measuring and presenting assets and liabilities arising from leases and disclosing information about leasing arrangements and the assets and liabilities arising from them. We agree with the Board's asset and liability approach to lease accounting and generally with most principles of the Proposed Update. However, we believe that there are areas that require further consideration and/or additional implementation guidance. Select comments are as follows:

1. **Question 8 - Measurement / Lease Term**

   (a) Measuring the liability to make lease payments using the longest possible term that is more likely than not to occur does not meet the definition of a liability and will not reflect the economic substance of the lease.

   • Statement of Financial Accounting Concept 6, "Elements of Financial Statements," defines liabilities 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." According to this Concept, an essential characteristic of a liability is that "the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice."
• We agree that a lease contract represents an obligation. However, a more likely than not threshold will require us to include future lease payments that are neither contractually required nor reasonably assured of occurring. Whether or not we renew leases depends on various factors including business requirements, pricing, general economic conditions and reasons that may not be readily determinable at the inception of a lease. The proposed guidance will require us to forecast activities in periods far beyond management's existing strategic planning or budgeting cycles. In addition, we are generally able to cancel leases without penalty after initial lease terms have lapsed. This contradicts the premise that we have little or no discretion to avoid future sacrifice. We believe that it is inappropriate to recognize a liability in the statement of financial position that is based upon uncertain future events and conditions.

• We believe that the threshold to record a lease liability should be increased such that the lease term is defined as the longest possible term that is virtually certain, which corresponds more closely to the definition of a liability according to the conceptual framework. We believe that a virtually certain threshold would provide a more accurate depiction of the economic realities for each lease, assure consistent treatment by all affected companies, and consequently improve financial statement comparability by investors.

(b) Using a probability approach for estimating and re-assessing lease terms under a more likely than not scenario would create a significant burden to the preparer without a corresponding benefit to the user of the financial statements.

• Developing a probability approach for estimating lease terms for numerous and varying leases would be impractical as would re-evaluating these assumptions at each reporting period (see also our response to question 10 below).

• If the Board adopts a more likely than not threshold for estimated lease terms, we believe that the use of management's best estimate of the most likely outcome should be allowed, which would provide decision-useful information to the users of the financial statements and be less burdensome to the preparers.

2. Question 10 - Reassessment

(a) Additional implementation guidance is needed as to when reassessment of the lease asset and lease liability for every lease is required.

• The Proposed Update requires re-measurement of the lease asset and liability 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 each lease. However, determining whether or not a significant change in facts or circumstances has occurred is subjective and requires the discretion of company management. Without more clarity in the final standard, diverse accounting practices may result, which in turn will create financial statement reporting inconsistencies among similar companies. We recommend that the Board provide additional guidance, such as a set of indicators to help companies to determine what constitutes triggering events for reassessing right-of-use assets and lease payment liabilities. Such indicators may include execution of new contacts, renewal or termination of existing contracts, acquisition of new businesses and exit or disposal activities.
(b) Grouping of leases with similar characteristics should be permitted for reassessment of all lease assets and lease liabilities.

- Paragraph BC132 and BC133 of the Proposed Update require that an entity reassess the lease term at each reporting date but state that detailed examination of every lease is not required unless there has been a change in facts or circumstances that would indicate that there is a significant change in the lease asset or lease liability. It is operationally difficult for preparers of financial statements to comply with this requirement because we believe “significant” cannot be determined without actually doing the work.

- McKesson has thousands of individual leases for similar assets that are contracted under various master agreements. If the Proposed Update does not state otherwise, we will be required to reassess each asset’s lease to determine whether or not it needs to be remeasured. Due to the sheer number of leases that would need to be evaluated, reassessment at each reporting date will create an unnecessary administrative burden on our organization in light of required regulatory reporting deadlines and will be costly.

- We suggest that individually immaterial assets with materially similar characteristics such as functionality (asset class), lease term, useful lives, economic values and payment terms be assessed together at each reporting period as a group, similar to how assets are combined in a disposal group and treated as a single transaction in assessing the impairment or disposal of long-lived assets in accordance with ASC 360, “Property, Plant and Equipment.” We suggest yearly reassessments of these lease right-of-use assets and lease payment liabilities if it is concluded that triggering events occurred at the group level. We believe that reassessment of the leases with similar characteristics as a group would provide decision-useful information that reflects current conditions to the users of the financial statements.

In summary, we appreciate the Board’s efforts in developing the Proposed Update. We look forward to receiving a robust framework and implementation guidance for addressing lease accounting issues that satisfies the requirements of various constituents. If requested, we would be happy to discuss these matters further with you at any time.

Sincerely,

Jeffrey L. Campbell
Executive Vice President and Chief Financial Officer

Nigel A. Rees
Vice President and Controller