December 15, 2010

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

File Reference: 1850-100 Exposure Draft of a Proposed Accounting Standards Update, Leases (Topic 840)

Dear Technical Director:

The Federal Home Loan Banks (the “FHLBanks”) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or “Board”) Exposure Draft of a proposed Accounting Standards Update: Leases (hereinafter referred to as the “proposed Update”). All 12 FHLBanks participate in lease contracts as lessees and certain FHLBanks participate as lessors. In general, the FHLBanks agree with the proposed right-of-use model for lessees. However, we have concerns with the proposed model for lessor accounting and some of the other key aspects of the proposed Update as explained below.

**Lessor Accounting**

The FHLBanks do not believe that the proposed model for lessor accounting is an improvement to the current accounting model for lessors. Specifically, the performance obligation approach creates an asset for the right to receive lease payments that is incremental to and separate from the underlying leased asset. This “double-counts” a lessor’s economic benefit from the asset. However, the derecognition approach would not be appropriate in all situations as it fails to recognize a lessor’s exposure to risks or benefits associated with an underlying asset (e.g., office space within a building). Therefore, the FHLBanks believe that lessors should continue to apply the current lessor accounting guidance until such time as the FASB and the International Accounting Standards Board (“IASB”) can work together to develop a consistent accounting model for lessors that is an improvement to the current accounting models.

**Lease Term**

The FHLBanks do not agree that the lease term should be determined 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. ASC paragraph 420-10-25-2 states, “An obligation becomes a present obligation when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability.” Assuming a term beyond the first option to extend or terminate would not recognize an entity’s discretion to avoid the future transfer or
use of assets to settle the lease liability. Accordingly, the FHLBanks believe the lease term should be determined as the initial lease period.

**Short-term Leases**

The FHLBanks do not agree that a lessee should record a liability to make lease payments and a right-of-use asset for short-term leases (i.e., leases with original terms of one-year or less). Any perceived benefits of requiring short-term leases to be recorded in this manner do not justify the operational and systems costs that would be incurred by lessees. Accordingly, the FHLBanks believe that lessees should be allowed to account for short-term leases under the current guidance for operating leases. Furthermore, the reason provided by the Board for not requiring lessors to recognize short-term leases in the statement of financial position also applies to lessees: a short lease period may make the assets and liabilities arising from short-term leases insignificant.

**Service Agreements**

The FHLBanks do not believe that the guidance in paragraphs B1-B4 of the proposed Update is sufficient for distinguishing leases from service contracts. A contract that primarily represents a service contract or outsourcing arrangement (e.g., outsourcing of information technology) should not be accounted for as a lease. In effect, the recipient of the services does not obtain exposure to significant risks or benefits associated with an underlying asset and the substance of the transaction is a service agreement. As a result, total costs incurred by the lessee should be recognized as expense when incurred. The FHLBanks believe additional guidance and practical examples illustrating the application of the right-of-use model to contracts that include service and/or maintenance agreements should be provided.

**Presentation**

For lessees, the FHLBanks agree that right-of-use assets should be presented within property, plant and equipment, in the same manner as tangible assets. However, separate presentation from assets that are not leased is not necessary. The FHLBanks believe that separate disclosure in the notes to the financial statements would provide sufficient information for financial statement users. Additionally, the FHLBanks believe that separate classification for liabilities to make lease payments should only be required if the amount of the liability is material, otherwise, classification within other liabilities and disclosure of the amount should be required.

For lessors applying the performance obligation approach, the FHLBanks believe that the underlying asset should continue to be presented in accordance with current guidance (e.g., within property, plant and equipment). The right to receive lease payments and the lease liability should be presented net as either a net lease asset or a net lease liability within other assets or other liabilities, as appropriate. Disclosure of the components of the net lease asset or liability should be provided in the notes to the financial statements. If a lessor is applying the derecognition approach, then the right to receive lease payments should be included in other assets and any residual asset should continue to be presented in accordance with current guidance (e.g., within property, plant and equipment). The FHLBanks believe that disclosure of these
amounts in the notes to the financial statements would provide sufficiently detailed information for financial statement users.

The FHLBanks also believe that separate presentation for lease income and expense should not be required for lessees or lessors. Again, disclosure in the notes to the financial statements would provide sufficient information.

We thank the Board for its consideration of the FHLBanks’ views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (214) 441-8535.

Sincerely,

[Signature]

Tom Lewis
Senior Vice President and Chief Accounting Officer
Federal Home Loan Bank of Dallas
(On behalf of the Federal Home Loan Banks as Chair of the Controllers’ Committee)