December 15, 2010

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

Sent via email to director@fasb.org

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

IHS Inc. appreciates the opportunity to respond to your request for comment on this proposed lease accounting standards update ("ASU"). IHS is a leading source of comprehensive content and expert analysis in the energy, economics, geopolitical risk, sustainability, and supply chain management fields. We have been in business since 1959 and became a publicly traded company on the New York Stock Exchange in 2005. We employ over 4,400 people in more than 30 countries around the world, and we have approximately $1 billion in annual revenue.

We support the FASB’s and IASB’s efforts to improve lease accounting. We have reviewed the proposed guidelines and attached an appendix to this letter that provides our detailed responses to the questions posed by the Exposure Draft that are of particular relevance to us.

We appreciate the opportunity to share our views on this important subject, and thank you for your consideration.

Sincerely,

Heather R. Matzke-Hamlin
Senior Vice President and Chief Accounting Officer
Appendix
Comments on Proposed Lease Accounting Standards Update

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?

We support the proposed right-of-use model, as we believe that entering into a lease contract creates a liability that the company will need to pay, as well as a corresponding asset representing the right to use the property over the contract term. We believe that this approach will provide users with a more complete picture of the company’s financial position.

We believe that leasing transactions are effectively the purchase of an asset with financing, and therefore, do not take exception to the principle that the lessee should recognize interest on the liability, even though it will result in higher interest costs in the early years of the lease. We also believe that amortization of the asset over its expected useful life is reasonable.

We expect that if these changes are implemented as proposed, investors and analysts will be required to add another adjustment to their EBITDA and cash flow calculations in order to fully understand the impacts of leasing on the operations of the business.

Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-
term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

For ease of administration, we believe that short-term leases should be afforded the same treatment as operating leases today, without having to recognize and track an asset and liability on the balance sheet. For our business, these short-term leases are de minimis, and therefore, we don’t believe that there would be any significant detriment to the investor of not including these leases on our balance sheet.

For clarity, we recommend that the Boards state how short-term lease payments should be classified for income statement presentation.

**Question 4**

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(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 that a lease is reasonably defined; however, we think that additional clarification and examples would be helpful in appropriately applying the term to individual contracts. While the criteria in paragraphs B9 and B10 are consistent with previous lease accounting guidance, we believe that the proposed revenue recognition standard should be used to determine whether a purchase or sale has occurred rather than introducing additional guidance that may cause unintended interpretations. For our business, we believe that the criteria for distinguishing leases from service contracts are sufficient.

**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 agree that distinct service components should be separately evaluated and recognized in accordance with the proposed revenue recognition standard. We are unclear about non-distinct service or lease components, particularly executory costs such as common area maintenance, insurance, and tax costs that are typically included in our facility contracts. We do not believe that such costs should be capitalized on the balance sheet as part of the right-of-use asset or associated liability, but we do not believe that they should be considered a service, either. We would propose that executory costs be addressed separately within the standard to avoid being inappropriately classified as services or as part of the right-of-use asset.

**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?*

In our facility leases, we typically seek maximum flexibility through the use of termination or extension options. As many of these leases are long-term contracts and we evaluate exercise of the options in the later years of the contracts based on then-current business needs, it would be difficult for us to apply the more likely than not criteria in determining the appropriate lease term at lease inception. We believe that the simplest approach would be to evaluate the lease term without consideration of any termination or extension options unless the
consequences of not exercising those options would virtually assure that the options would be exercised.

**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?*

To the extent that contingent rentals do not represent a present obligation of the lessee, we believe that they should not be included in the measurement of assets and liabilities arising from the lease. For example, we believe that usage-based contingent rentals should not be included in the measurement, but index-based contingent rentals would. If there is a material impact associated with future contingent rentals, reasonable disclosure of the range of possible amounts to be paid may be appropriate. We believe that residual value guarantees should be accounted for as part of the initial measurement of assets and liabilities.

We believe that a best estimate approach is much more practical and cost-effective than using the expected outcome technique. While the expected outcome technique may provide a reasonably close approximation, it is more time-consuming and will not likely produce a significantly different result from best estimate.

**Question 10: Reassessment**

*Do you agree that lessees and lessors should remeasure 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 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?*

We find it difficult to operationalize the proposed reassessment guidance, particularly due to the short quarterly reporting cycles we currently follow. Quarterly evaluation of each lease arrangement for significant changes would be cost-prohibitive for many companies; therefore, we would propose that there be an annual review of lease arrangements for significant changes, unless a reassessment was required based on certain triggering or reconsideration events similar to current impairment guidance.
Question 12: Statement of financial position

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

We believe that liabilities to make lease payments may appropriately be combined with other financial liabilities in the statement of financial position, with appropriate disclosure in the notes to describe the characteristics of the various types of financing.

We believe that the right-of-use assets should be included within the appropriate category of PP&E as if they were tangible assets, but would again propose that the breakout of leased vs. owned property be separately disclosed within the notes to the financial statements. This information could then be summarized in a tabular format that allowed the reader to easily see and understand the company’s use of leases in the operations of the business.

Question 13: Income statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We believe that disclosure in the footnotes would allow for a more detailed reconciliation and discussion of the income and expenses associated with lease transactions.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We don’t believe that cash flows arising from leases, particularly lease payments, need to be separately disclosed in cash flows from financing activities, as we do not perceive that they are substantially different than other debt financing activities. However, disclosure about the cash flows could be summarized in the notes to the financial statements if significant.
Question 15

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

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

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

(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We believe that quantitative and qualitative information about leases is appropriate, but we believe that the list of disclosures is more extensive than is necessary. We support the flexibility provided to determine the level of disclosure required to meet the objectives, including the aggregation of similar leases in order to minimize the length of disclosure while still providing relevant information.

We believe that by simplifying the accounting treatment for various lease elements (as described elsewhere in this letter), the amount of disclosure required could also be simplified and reduced.

Question 16

(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 (paragraphs 88–96 and BC186–BC199). 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?

We support the use of the simplified retrospective approach outlined in the proposed guidance.
Question 17

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?

We believe that as currently proposed, the benefits would not outweigh the costs; however, using some of the simplifications described in this letter, we believe that the benefits could more reasonably outweigh the costs.

Question 18

Do you have any other comments on the proposals?

We would request additional guidance on sublease accounting. We do not engage in a significant amount of sublease activity, but rather seek solely to meet our current business needs and anticipated future demands. Therefore, we would propose simplified sublease accounting in situations that involve insignificant activity or immaterial amounts.

We would also seek clarification on accounting issues related to the time between lease inception and lease commencement, particularly in the case of build-to-suit/turnkey arrangements or allowances for leasehold improvements or other similar incentives.