December 15, 2010

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Board Members and Staff:

Quanta Services, Inc. appreciates the opportunity to comment on Proposed Accounting Standards Update of Topic 840 – Leases (the “exposure draft” or “proposed standard”). Quanta is a leading national provider of specialized contracting services, offering solutions to the electric power, natural gas, oil and telecommunications industries and is listed on the New York Stock Exchange under the ticker symbol PWR. As of and for the year ended December 31, 2009, we had assets of $4.1 billion and revenues of $3.3 billion. Our operational strategies require that we enter into a significant number of lease/rental arrangements for land, office real estate and construction machinery and equipment. Our operating lease expense for the year ended December 31, 2009 was $112 million.

Quanta supports the FASB and IASB efforts to improve the relevance and fair presentation of information provided to financial statement users through refinements to the current lease accounting standards. Although we agree in principle with the merits of establishing a lease accounting standard based on “right-of-use” assets and liabilities, we are concerned that the application requirements in the exposure draft may be conceptually inconsistent with other promulgated standards (current and pending) and that many of these requirements would be overly burdensome to financial statement preparers in relation to the benefits received by financial statement users. We respectfully request that further consideration be given to both the proposed scope and methodologies for measuring and recording rights and obligations associated with lease contracts.

**Question 1: Lessees**

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?

In principle, we agree with the Boards’ stated objectives for improving generally accepted accounting principles that apply to lease contracts and that there is a reasonable basis within current generally accepted accounting principles (FASB Concept Statement No.6) to present a discussion of whether or not an asset or liability requiring recognition is created as a result of the rights and obligations associated with lease contracts. However, we believe that the principles associated with recognizing right-of-use assets and liabilities are applicable to both tangible and intangible assets and that, as a result, further consideration should be given to providing a more comprehensive discussion of the accounting concepts...
that govern the measurement and recognition of assets and liabilities arising from contracts in general, including those associated with intangible assets, before a specific standard on lease accounting is issued. Most notably, it appears that a conceptual divergence has occurred among the various measurement thresholds that preparers should use in determining whether or not an asset or liability requiring recognition has been created. Specifically, we note certain application inconsistencies in this and other standards which require management’s evaluation of an event’s likelihood as being reasonably possible, more likely than not, probable or reasonably assured. In the absence of further refinements to the exposure draft’s conceptual basis, we are concerned that preparers will struggle to make appropriate and consistent judgments in the application of this and other principles-based standards.

(a) 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 agree that when a right-of-use asset has been recognized, it should be realized through an amortization method that best matches the financial statement expense with the period in which economic benefit is received. Similarly, we agree that there are elements of certain leasing transactions that represent financing activities and that generally accepted accounting principles support the recognition of related interest expense.

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 the 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).

(See also paragraphs BC41-BC46.)

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?

We agree that simplified requirements should be made available for short term lease contracts. However, we do not agree with the Boards’ conclusions discussed in paragraph BC43. We do not believe that a complete scope exemption for short-term contracts would cause the assets and liabilities in the statement of financial position to be incomplete or that it would introduce an artificial distinction between leases that are recognized and those that are not. Instead, we believe that further consideration should be given to the evaluation of short-term rental agreements as being fundamentally different from lease transactions
We make this request based on the view that it is not operationally feasible to include short term rentals within the scope of the proposed standard, as this process would be extremely onerous and expensive for companies to meet, and because of the conceptual inconsistencies that are created by recognizing right-of-use assets for economic events which would not otherwise meet a company’s capitalization threshold.

Fundamentally, short-term rental agreements represent an operating activity, similar to a service contract, as opposed to some other form of capital expenditure or financing activity. This operating activity concept is based on the fact that a company’s equipment needs may increase for only a short period of time associated with one or multiple unrelated projects and as a result, markets exist which allow companies to secure equipment for periods as short as a single day or for multiple weeks based on the operational needs of a project. In these circumstances, companies can arrange to have equipment mobilized to a project site for immediate short-term use just as easily as they might negotiate to have an owner/operator provide the same equipment functionality under a subcontractor service agreement. Various operational factors will influence a company’s decision to utilize rental equipment versus the services of a subcontractor; however, neither circumstance indicates a value in use associated with capital asset financing. A very simple example of this concept can be presented by considering rental agreements for passenger cars and hotel rooms associated with employee travel. Car and hotel rental agreements are often entered into based on daily or weekly rates, and normally include implicit renewal options. As of any given reporting date, a company could have hundreds or thousands of these agreements in place which extend for a period of a few days to several weeks or months. In the very simple example of a two-week car rental, companies have the option of achieving very economically similar results (employee transportation) by hiring a chauffeur service with a designated car and driver (essentially a subcontractor).

Over the course of an operational year, an active company is very likely to enter into thousands or tens of thousands of short term equipment rental agreements for operational and administrative activities with terms ranging from a few days to several months. These activities are conducted without any bearing on the company’s overall capital equipment needs and financing options. Because most short-term rental contracts turnover multiple times during a reporting period, any balance recorded as of a specific reporting date will represent only a fraction of the probable future cash flows associated with those types of activities. We do not believe that the presentation of such rental activities in the company’s statement of financial position would provide a faithful representation of the company’s assets or provide any meaningful measure of the probable future economic benefits and cash flows associated with subsequent period operations. We note the concepts addressed in paragraph BC3 and believe that the Boards may have included this discussion as a means of providing some distinguishing factors between short-term rentals and lease contracts; however, a more thorough discussion of this topic is necessary before a final standard is issued.

With respect to the operational feasibility of including short-term rental agreements within the scope of the proposed standard, we note that the Boards have concluded that the simplified approach for such contracts is for preparers to use undiscounted cash flows, yet all other provision of the standard continue to apply. We believe the cost burden of performing detailed short-term lease reassessments and the related accounting procedures on a monthly basis will be exponentially higher than the benefits realized by our financial statement users. These activities would require the specific attention and judgment of both operations and accounting personnel across hundreds and sometimes thousands of agreements on a monthly basis. For example, as addressed in our response to Question 8, the high turnover and significantly varying operational initiatives associated with short-term rentals makes a regular reporting period assessment of lease terms based on the currently contemplated “more likely than not” exceptionally onerous and as written, potentially not operationally feasible. We acknowledge that this population of agreements already exists within the company’s monthly transaction cycle for activities.
such as accounts payable, however, this does not contribute any efficiency towards the information processing objectives of a monthly reassessment and estimation process.

We request that the Boards give further consideration to providing a more meaningful simplification regarding short-term rental agreements and that further discussion be provided regarding the business factors which distinguish short term rentals from long-term leases.

**Question 5: Scope exclusions**

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

As noted above, we believe that further consideration should be given to the impact of the proposed standard on short term rental agreements which are entered into for operating purposes.

Additionally, we believe that any exceptions provided for in the scope of the proposed guidance (intangible assets, leases of biological assets and leases to explore for or use minerals, etc.) are indicators that the concepts underlying the proposed standard may require further development and that further deliberation should occur in order to develop a conceptual framework that the Boards and practitioners are comfortable with applying on global basis. As example, we note that the requirements of the current revenue recognition exposure draft does not contain similar scope exceptions for selected industries or types of transactions, and instead sets out principles and concepts that attempt to provide a global approach to rights and obligations associated with customer contracts. We hope that the Boards will continue in that effort by expanding the current lease accounting refinements to better establish the authoritative concepts for accounting methods that apply to executory contracts in general. We believe that such a framework would allow for a more meaningful development of specific principles based standards and will also allow companies to better anticipate and prepare for changes in how transactions and financial performance are to be measured and reported.

**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?

We do not believe that a lessee or 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. We note that existing accounting principles use the different thresholds of “probable” for contingent liabilities and “reasonably assured” for contingent assets, and that both of these measures represent higher levels of probability than “more likely than not”. As the threshold for measuring and recognizing all other assets and liabilities is higher than “more likely than not,” we believe that the thresholds to recognize a “right-of-use” asset and liability arising from lease transactions should at least be conceptually consistent. Because the Boards have linked the recognition of lease assets and lease
liabilities, a common threshold must now be determined which is appropriate for both. As such, we would encourage the Boards to provide a more comprehensive consideration of existing related accounting concepts to support the methods and manner in which this new standard is to be applied. For purposes of responding to the Question 8 above, we note the following description of assets and liabilities is included in FASB Concept Statement No.6:

--- Assets are **probable** future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

--- Liabilities are **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.

We do not believe that lease renewal options, at their basic level (disregarding bargain renewal options and other incentives), represent a liability or the **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.

We believe the proposal requires amounts that do not meet the definition of a liability to be included within the lessee’s liability to make lease payments. Additionally, we have significant concerns regarding whether companies would be able to appropriately estimate lease terms, particularly for renewals in the distant future. As such, we believe that the lease term should only include optional lease periods that are at least probable, if not reasonably certain, of occurring. We view this threshold as higher than more likely than not and consistent with the threshold used under current accounting when determining the existence of a liability. Under this approach, only optional lease periods for which a lessee is likely to exercise its extension, due to the existence of a significant economic incentive to renew or penalty for non-renewal, should be included in the lease term.

We are concerned that by creating a requirement that a lessee estimate the probability that a renewal option will “likely” be exercised and continuously reevaluate that agreement at every reporting period will bring too much subjectivity into the process and result in a reduction of comparability for similar transactions between companies. Again, we believe this will create more opportunity for economically similar transactions to be accounted for differently. It is our opinion that a more appropriate model would require that lessees be required to capitalize and recognize the actual contractual obligation for lease payments at the inception of the lease, after taking into consideration any significant economic incentives or penalties associated with option periods. Subsequent renewals would be accounted for as a new lease asset and liability based on the contractual nature of those new rights and obligations at that point in time.

**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?

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?
As described in our response to Question 8 above, we believe the measurement of right-of-use assets and liabilities should be based on the initial contractual terms that give rise to both parties’ rights and obligations.

We appreciate that one of the goals is to increase comparability of financial information. However, given the high level of judgment required to determine the lease term and contingent rentals, we believe that there is substantial likelihood that the proposed standard will result in disparity in practice for similar contracts.

**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?

Please see our related comments in Questions 8 and 9 above related to determination of the lease term and lease payments

**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 BC 143-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?

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC 154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

We believe that standards already exist for determining whether or not specific assets or liabilities should be presented separately within a primary set of financial statements and that good judgment with regard to the disclosure of material items within a company’s footnotes supplements this presentation. If the items referenced in Question 12 above are required to be disclosed separately on the face of the financial statements from other traditional assets and liabilities so as to prevent the current financial statement
captions from being misleading, we would encourage the Boards to give further consideration as to whether or not these items meet the Boards’ conceptual definitions of assets or liabilities and explain why a discrete presentation from other assets and liabilities is necessary for the fair presentation of a company’s assets and liabilities as a whole, while at the same time asserting that such items are conceptually similar.

**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 BC 158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

Please see our response to Question 12 above.

**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?

Please see our response to Question 12 above.

**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 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?

BC177 states that the lessee would be required to reconcile the opening and closing balances of right-of-use assets and liabilities and that a lessor should provide similar reconciliations. If the right-of-use model is required, we believe that the disclosure requirements should be consistent with those for property, plant and equipment in Topic 360 and debt in Topic 470. We believe that requiring this more detailed disclosure is of little value to users and would be burdensome for preparers. We encourage the Boards to remove these reconciliation disclosure requirements.
Transition

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?

Although we have commented on various concerns above regarding the proposed accounting standard related to leases, we believe that a simplified retrospective approach would be much more realistic for entities to implement than a full retrospective approach and that the option of which implementation method to use should be left to the financial statement preparers.

As far as additional transitional issues, we believe that it would take years for systems and processes to be put into place in order to gather, evaluate and report this information in the manner currently proposed. This will be an extremely burdensome and costly process. Please see related response to Question 17 below.

Benefits and costs

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 agree with the Boards’ objective of establishing principles so that lessees and lessors report relevant and representationally faithful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from leases. We also agree with the Boards’ comment that the costs of providing such information to users will not be borne evenly, and to this point we believe that further consideration is required by the Boards in developing a principled standard that balances any new requirements for additional information with the standing requirements that information provided by a company to its users should be sufficiently relevant when considering the cost of obtaining it.

We believe that if the Boards were to adopt the proposals to modify the guidance in the exposure draft that we outline in this comment letter (most significantly those relating to concept statements, short term rentals and lease term determinations), the costs to preparers would be significantly reduced, while not reducing the benefits to the user community. These efforts would also go a long way in improving the value assessment for those companies that will bear a disproportionally higher portion of the implementation costs relative to the financial user benefits created.

We commend the Boards on their efforts to consider and analyze the costs of implementing the proposed standard; however we do not believe the Boards have captured all of the costs associated with the proposal. The impact of the proposed standard has been evaluated by members of our executive management team, our treasury and finance team and our field operations leadership and we have summarized the following key areas in which we believe preparer cost will be significant.
Contracts with business partners – The proposed standard will trigger discussions with our suppliers, lenders and employees and will likely result in the re-negotiation of certain contracts.

Human capital – The information reporting requirements of the proposed standard are immense, both at adoption and on an ongoing basis. Most companies that actively lease assets (both short term and long term) as part of their operations will likely expend significant time and resources to effectively respond to the new requirements. Additionally, existing employee compensation arrangements, such as bonuses and share-based payments based on existing performance measures, will need to be evaluated and appropriately revised to ensure equitable treatment of our company and its employees upon adoption of the proposed standard.

Accounting systems – Systems designed to meet our company’s needs in light of the proposed rules have not yet been identified or developed. New systems or system upgrades will need to be implemented to ensure our company’s ability to capture and report information in accordance with the new requirements. Presently, we do not have information systems capable of capturing and continuously tracking the necessary information associated with individual lease agreements in a manner that will support a process of developing and reassessing estimates of likely lease terms, considerations of related renewal options and contingent rents or meet the significant new disclosure requirements.

Internal controls and processes – Initial recording and periodic reassessment of lease terms and payment estimates will require significant and complex changes to existing internal control processes and procedures to ensure the completeness, accuracy and validity of amounts recognized as result of these judgments. Significant efforts will be required to effectively design and document these new business processes as well as to validate the effective execution of the related control procedures.

Information gathering – The proposed model does not permit grandfathering of existing leases. Management will need to catalogue existing leases and gather data about lease terms, renewal options, contingent payments and guarantees in order to measure the amounts to be included in the statement of financial position. If an entity has a significant number of leases, the efforts to locate and review all such agreements that may have been negotiated over the course of many years will take considerable effort and resources.

Tax impact – The proposed model might have a broad impact on the tax treatment of leasing transactions, as tax accounting for leases is often based on accounting principles. It is likely that significant additional effort and resources will be required to evaluate and develop an appropriate response to the tax impact of the proposed standard on the Company.

Stakeholder communication – Financial reporting is expected to provide information about an enterprise's financial performance during a period and about how the management of an enterprise has discharged its stewardship responsibility to owners. Because the proposed standard will have a significant impact on a company’s reported financial results and disclosures, the attention of operational and financial executives must be directed toward responding to this change. Consideration must be given to educating stakeholders on the impact of the proposed standard and how this new financial reporting landscape might impact their ability to form expectations about future performance. At a minimum, companies will need to invest resources to determine how to best align their operational and administrative strategies in advance of these changes and how these changes impact their performance measurement landscape.
**Question 18**

*Do you have any other comments on the proposals?*

**Discount rate**

With regard to the requirement in paragraph 12(a) for the lessee to use its incremental borrowing rate or the rate the lessor charges the lessee. For entities with numerous lease arrangements, determining the incremental borrowing rate for each lease would be an extremely cumbersome and costly process. We recommend that the Boards reconsider this proposed requirement and require the use of some readily-available rate or index or some other objective measurement to apply to all leases.

**Impairment of right-of-use asset**

Paragraph 24 states that a lessee shall apply Topic 350 (Intangibles) at each reporting date to determine whether the right-of-use asset is impaired and shall recognize any impairment in accordance with Topic 350, while paragraph BC82(b) states that entities should apply the impairment requirements of Section 360-10-35 (Property, Plant and Equipment). Please clarify which guidance should be applied and whether it should be applied at each reporting date or only if there have been events or changes in circumstances which would indicate that the right-of-use asset’s carrying value may not be recoverable. The proposed standard implies that right-of-use assets represent a future benefit more similar to tangible assets than intangible assets, and accordingly, we believe that impairment evaluations for right-of-use assets would be more appropriately performed in accordance with Section 360.

**Application guidance**

We believe that additional application guidance and examples are needed to ensure the consistent application of the proposed standard. The proposed right-of-use model represents a substantial change from current accounting and further guidance is needed to more fully explain the application of the proposals. For example, the principles of paragraph BC3 could be interpreted to indicate that certain rental activities may not qualify as leases within the scope of the proposed standard, however, absent further clarifying guidance with regard to this matter; disparate interpretations of how users should apply such concepts are likely to result.

**Principles based approach**

We note that the lease exposure draft presents a highly prescriptive standard on how transactions are to be accounted for. We believe that this represents a divergence from current standard setting objectives and a matter that may cause greater confusion among preparers and users. We encourage the Boards to consider the conceptual consistency of the proposed lease standard in relation to other pending and established standards before any final conclusions are reached. Without further understanding of the Boards’ underlying premise of accounting for contractual rights and obligations in general, we are unable to completely reconcile the proposed models for lessee and lessor accounting.

**Redeliberation timeframe**

We strongly encourage the Boards to further evaluate the proposed timeframes for issuance and adoption of a final leasing standard. Because of the far reaching impacts that any comprehensive revision to lease accounting will have on the community and based on the significant changes that are necessary to make the proposed standard operationally acceptable, we believe that more time than what the Boards have currently allowed will be necessary for companies to properly respond.
We thank the Boards for the opportunity to comment on the proposed accounting standard on leases and would welcome the opportunity to discuss these views in further detail. If you have any questions regarding our comments, please do not hesitate to contact us.

Sincerely,

[Signature]

Derrick Jensen
Chief Accounting Officer
Quanta Services, Inc.