December 15, 2010

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

Re: Exposure Draft – Leases (File Reference No. 1850-100)

Dear Technical Director:

The Walt Disney Company is pleased to have the opportunity to comment on the exposure draft, Leases (ED). We understand the boards’ intent with this project is to improve the financial statement presentation of rights and obligations of operating leases, which are an important source of “off balance sheet” financing for many lessee companies. Although we can understand the approach the boards have taken from a theoretical perspective, we believe our investor needs are being sufficiently met with the existing lessee accounting model (i.e., disclosure of committed operating lease payments). More importantly, the proposed model will create significant complexity and costs for preparers that we do not believe will be justified by an incremental benefit to users. If the boards believe the current disclosures are insufficient, we believe additional annual disclosures (e.g., related to renewal options and or contingent rents) may be a more cost effective approach to meeting user needs. Interestingly, we note that in eliminating the current bright line between operating and capital leases, this proposal creates a new bright line between lease contracts and other non-lease executory contracts. Given the potential burden on preparers from the number of projects on the boards’ agendas and the ongoing IFRS/U.S. GAAP convergence activities, we believe it would be better to defer this project than try to address either of these bright lines.

Assuming the boards believe it is critical to record operating leases on the balance sheet using a model such as the one proposed in the ED, we believe the boards should reconsider the following provisions of the ED.
Lease Term (Question 8)

If the boards’ objective is to reflect the debt inherent in an operating lease on the balance sheet, we believe the best measure of this debt is the net present value of the committed lease payments (i.e., those the lessee has little discretion to avoid). We are not supportive of including lease payments that may arise from the exercise of future renewals in the measurement as we believe it results in the recognition of a liability that does not meet the definition of a liability (i.e., the holder of such an option has a right but not an obligation to renew).

Additionally, we believe applying a “more likely than not” threshold for including lease renewals will lead to variability across companies, and over time, as different conclusions are reached on the same or similar lease arrangements. Finally, the ongoing need to track lease options, reassess renewal assumptions and make adjustments to recorded assets and liabilities will lead to significant administrative costs for preparers and financial statement variability with an unclear benefit to users of the financial statements.

Assuming the boards believe it is necessary to include renewal options in the asset/liability measurement, we believe it would be preferable from a cost benefit standpoint to use the current U.S. GAAP threshold of “reasonably assured”.

Lease Payments and Remeasurement (Questions 9 and 10)

We do not agree with the requirement in the ED to include contingent rentals in the measurement of the assets and liabilities arising from a lease (unless there is little discretion with respect to payment) as we do not believe contingent rentals clearly meet the definition of a liability. While we acknowledge that the fair value of a contingent rental stream could be measured on a theoretical basis similar to financial liabilities, we believe contingent rentals differ from most financial liabilities because the lessee retains control over aspects of the lease such that the liability can be avoided (e.g., closing a poor performing retail unit). Although we understand the ED approach was designed to eliminate the ability to structure an accounting outcome by shifting the mix of fixed and contingent rentals, we believe the approach doesn’t adequately consider the economics involved in a landlord forgoing an otherwise guaranteed rental stream.

In addition, the ongoing need to track contingent rentals, re-forecast rents (which, for example, requires re-forecasts of retail sales for several future years under multiple scenarios on a unit by unit basis), and make adjustments to the recorded lease assets and liabilities will lead to significant administrative costs and financial statement variability for preparers that is not justified by significant improvements for financial statement users. Finally, we believe that the measurement of the lease liability should be based on a best estimate rather than on a probability weighted approach (unless probability weighted analyses are prepared as part of a company’s normal leasing process). The effort required to create probability weighted analyses on a lease by lease basis each reporting period solely for the purpose of recording accounting entries is not justified by an incremental benefit to financial statement users.
If the boards decide to retain the approach to include contingent rentals in the measurement of the right to use asset and lease liability, we do not believe companies should be required to update their assessment each reporting period. We believe that an annual reassessment of contingent rentals is sufficient unless there are clear interim indicators that there have been material changes to the overall lease portfolio. The final standard should provide examples of such indicators. This would bring the lease accounting process more in line with long range planning and forecasting processes used by many companies and the model used for performing goodwill impairment assessments.

Contracts that Contain Service Components and Lease Components (Question 6)

Although we agree with the ED requirement to account separately for a distinct service component of a contract that contains both service and lease components, we believe the proposed guidance should be more clear, particularly with respect to whether “executory” costs in current U.S. GAAP as well as other common cost allocations related to real estate leases would meet the definition of distinct services. We recommend that the boards provide sufficient examples to ensure any final rules are applied consistently in practice. We also note that, as we stated above, the boards seem to be drawing a somewhat arbitrary bright line by determining that a fixed lease obligation gives rise to debt while a fixed service obligation does not. We believe this inconsistency supports deferral of the lease project.

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We appreciate that the boards have reached out to constituents in a number of industries to gain an understanding of the potential effects of implementing the ED. Due to the complexity of applying the ED model and the substantial resulting administrative costs, changes to financial statements and required system changes, we urge the boards to set an effective date for any final rule that provides sufficient time for companies to adopt in an organized and systematic way.

We would be pleased to respond to questions regarding our response as well as other aspects of the ED.

Sincerely,

Brent A. Woodford

Senior Vice President, Planning and Control

The Walt Disney Company

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