December 16, 2010

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

Re: File Reference no 1850-100, Comment Letter on the proposed Accounting Standards Update: Leases (Topic 840)

Tyco International Ltd. ("Tyco") appreciates the opportunity to respond to the proposed Accounting Standards Update, Leases (Topic 840) ("Proposed ASU"). Tyco is a diversified publicly traded company that provides vital products and services to residential and commercial customers around the world. We are a leading provider of security products and services, fire protection and detection products and services, valves and controls, and other industrial products. Tyco had 2009 revenue of more than $17 billion and has more than 100,000 employees worldwide.

Overall, we are supportive of the proposed lease accounting model which provides for a single right to use asset and a liability to make lease payments. We believe however, that the challenge exists in operationally applying aspects of this model to certain transactions. We have included in Exhibit 1 our comments and suggested changes on the specific questions that were enumerated. In Exhibit 1 the italicized material sets forth the Boards' questions, followed by our comments.

Thank you for your consideration.

Sincerely,

Sam Eldessouky
Vice President & Assistant Controller, External Reporting
Exhibit 1:

The Board request that constituents provide comments on the following questions:

The accounting model
The exposure draft proposes a new accounting model for leases in which:
- (a) a lessee would recognize an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraphs 10 and BC5–BC12). The lessee would amortize the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.
- (b) a lessor would apply either a performance obligation approach or a derecognition approach to account for the assets and liabilities arising from a lease, depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraphs 28, 29 and BC23–BC27).

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?

We support the overall approach of the single right to use asset and obligation to pay liability with some exceptions:

- The lease term should be based on a probable instead of a more likely than not standard, as the current threshold proposed is too low and will result in significant variability. Therefore, the use of probable threshold that is also commonly understood through other accounting literature is more appropriate.
- For contingent rentals we believe that the current accounting model results in a more accurate representation of the underlying economics of the transaction. For example, contingent rentals that are based purely upon usage are not considered a liability under Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements ("CON 6"), but are in fact period costs of the current operations. These costs therefore should not be factored into a right-of-use asset and liability recognized at inception and subsequent to lease commencement.
- We believe that the value of a residual value guarantee should only be included for a lessee if they can be reliably measured and are probable of occurring.

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 a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments.

Question 2: Lessors
(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?
(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

We believe that the lessor should apply the performance obligation approach if the lessor retains all but a trivial (versus a significant) amount of the exposure to risks or benefits associated with the underlying asset. Conversely, we believe entities should only apply the derecognition approach when all but a trivial amount of the risks and benefits of ownership have been transferred to the lessee, such that the lessee has acquired an asset. This is consistent with the proposed approach for distinguishing between a lease and a purchase or sale (paragraph B9).

In addition, while we believe overall that there should be a goal of symmetry between lessor and lessee accounting, we believe that the measurement criteria for the inclusion of renewal options, contingent rentals, and residual value guarantees for the lessor only should be based on a higher threshold of virtually assured, as the current proposed criteria of reliably measured may result in prematurely recognizing revenue before its realization.

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).
(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 do not believe that a simplified approach for short-term leases as proposed will provide any measurable relief to preparers, and as such we believe that short-term leases for a lessee and a lessor should be scoped out of the rules. While the rights and obligations present in leases with short-term rental terms may be similar to those that exist in longer-term lease contracts, we believe that leases with a rental term of one year or less should simply be expensed as incurred. This would avoid the significant effort and costs associated with accounting for and measuring such short-term assets and liabilities, and would represent a practical approach to handling this class of lease transactions. This will also eliminate the potential diversity in practice between companies that would choose the simplified approach versus those that would not.

Definition of a lease
This exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). This exposure draft also proposes guidance on distinguishing between a lease and a
contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

Question 4
Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

Yes, we generally agree that a lease is appropriately defined within the exposure draft as it is substantially the same as the current definition of a lease. However, we believe the use of the term “but rarely does so in practice” inappropriately scopes in transactions that we would not consider a lease. Therefore, when determining whether an asset is implicitly specified, we would suggest removing the language within paragraph B2 “but rarely does so in practice” from the consideration that the underlying asset can be substituted for another asset. We do not believe a Company’s practice of replacing the asset is an accurate reflection of whether the lessee controls use of the asset. Rather if a potential lessor has the ability to replace or substitute the assets with similar assets, then the lessee does not have the ability to control the asset and thus the contract is not dependent on providing a specified asset. Therefore, in this situation, we believe the arrangement should not contain a lease.

(a) 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?

Yes, we agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale. Additionally, as noted in our response to question 2, we believe this criteria should also be utilized when determining whether a lessor applies the performance obligation or derecognition approach.

(b) 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?

With the exception of our suggested changes in a) and b) above, we agree that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient.

Scope

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?

Yes, we agree with the scope of the proposed guidance for the reasons discussed within paragraphs BC33 – BC46 of the exposure draft. However, as the Boards recognized within paragraph BC 36, we believe consideration should be given to the accounting for intangible assets more broadly as the accounting for licenses of intangible assets and leases of tangible assets should be consistent as these arrangements are economically similar. Additionally, we ask that the Boards consider the potential impact on an
intermediate lessor in a restructuring action, specifically as it relates to the inclusion of potential sublease income in the calculation of early termination costs.

**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 with the IASB’s approach on the accounting for non-distinct service components in a contract that contains both service and lease components. We are especially supportive of the IASB’s approach in the situation where a lessor applies the derecognition approach. That is, we believe a lessor applying the derecognition approach should account for the non-distinct service components in accordance with the exposure draft on Revenue from Contracts with Customers. As the services underlying the contract will be provided in future periods, we do not believe recognizing the income on the service component at the inception of the lease (as would be required under the derecognition approach) would appropriately reflect the economics of the transaction. However, we request the Boards consider providing additional guidance on the allocation of contractual values to service components that are not distinct under the exposure draft on Revenue from Contracts with Customers.

**Question 7: Purchase options**

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree that a lessee or a lessor should account for purchase options only when they are exercised due to the potential for fluctuations in the financial statements of both the lessee and lessor. For example, at the inception of a lease, an entity may believe it will likely exercise an option to purchase the underlying asset at the end of the lease. However, several years later, this same entity decides to no longer exercise this option due to a decline in market conditions. If the lessor had initially considered the contract as a purchase based on the intent to exercise, then their subsequent decision not to purchase would create large
swings in the financial statements of both the lessee and lessor which may be confusing to users of the financial statements.

**Measurement**
This exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

(a) assumes 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 (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).

(b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be reliably measured.

(c) is updated 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 (paragraphs 17, 39, 56 and BC132–BC135).

**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 believe that the proposal to include the effect of any options to extend or terminate the lease based on a more likely than not threshold is set too low and the threshold should be raised accordingly to probable. Inclusion of renewal options at a level any lower than probable unnecessarily adds significantly to the complexity of tracking and considering the information, without additional benefit to the shareholder.

**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?

We do not agree with the proposed treatment of contingent rentals and expected payments under term option penalties and residual value guarantees.
With regard to the treatment of contingent rentals, we believe the accounting should be based on a principle which follows the nature of the contingency to which the payment is linked. For example, when the payment is linked to usage or performance of the lessee, the obligation to pay rentals should exclude the contingent element that should instead be recognized as a period charge. However, when the payment is linked to an index, the contingent payment is recognized based on the index at inception of the lease contract, with subsequent changes recognized through earnings. We believe that by including contingent rent and expected payments regardless of the nature of the contingency increase the complexity in measuring the right to use asset and obligation. We believe this proposal would be especially challenging on the lessor side, as they would need to base accounting on the variable use of the lease by the lessee. Lastly, we believe the proposed treatment potentially mismatches the timing of the income and expense by not including within period of usage. This could potentially result in misleading presentation of net income, as the related asset amortization expense would be reported in advance of the contingent rental usage. With regard to residual value guarantees, we believe that value of a residual value guarantee should only be included for a lessee if they can be reliably measured and are probable of occurring.

We are also concerned with the proposed use of an expected outcome technique (i.e. probability weighted average) in these areas. If the Boards decide to proceed with an approach requiring the lessee to include contingent rents in the lease liability, we recommend that the measurement of this obligation be based upon the most likely outcome vs. expected outcome, as this would be the most operational alternative. Alternatively the Boards could allow a choice of either expected or most likely outcome.

Lastly as a related item, we would appreciate clarity as to whether tenant incentives should be accounted for as part of lease payments.

**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 greatly appreciate the Boards changes in these areas from the original proposal in the Discussion Paper. We support the proposed reassessment criteria at each reporting date only when there is a “significant change” vs. “any”. We would appreciate, however, similar to the requirements of ASC 360-35 regarding impairment of long-lived assets that the Boards provide clarity (i.e. examples of such events or changes) as to what are “significant” changes or triggers for reassessment. Such clarity would assist in streamlining a Company’s reassessment process and provide boundaries to simplify the process.

**Sale and leaseback**

*This exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents a sale of the underlying asset, the leaseback also would meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).*

**Question 11**

*Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?*
Sale-leaseback arrangements do not represent a material part of Tyco’s business transactions. We do not have any significant concerns at this time with the proposed criteria from that perspective.

**Presentation**

This exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

**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 agree that an entity should present the obligation to make lease payments, as well as the right-of-use asset, separately from other financial liabilities and property, plant and equipment, respectively. The financial obligations under a lease contract are distinctly tied to the related right-to-use asset and should therefore be viewed separately from other financial obligations and owned assets. As a result, it would be appropriate to present lease obligations and right-of-use assets separately within their respective categories in the statement of financial position. However, we believe any final determination in terms of classification and presentation should also be consistent with the ultimate decisions for the financial statement presentation project.

(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, totalling 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?

Under the performance obligation approach, we agree that the lessor should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position. However, we disagree with totalling to present a net lease asset or liability as this is inconsistent with the proposed presentation for lessees. We believe the Board should provide clarity regarding the current or non-current classification of leased assets and liabilities on the statement of financial position.

(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, BC154 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?

Under the derecognition approach, we agree that a lessor should present the rights to receive lease payments, as well as residual assets, separately from other financial assets and property, plant and equipment, respectively. This approach is consistent with the approach for lessees. We believe the Board should provide clarity regarding the current or non-current classification of leased assets and liabilities on the statement of financial position.
(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 disagree with a distinction between assets and liabilities that arise from a lease versus a sublease in the statement of financial position. We believe that disclosure in the notes will be sufficient in this regard.

**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 disagree with disaggregation of lease income and expense from other income and expense as it may not reflect true operational performance and impair comparability among companies. We do not believe presentation separate from other income and expense provides additional shareholder value, especially as it may be an insignificant amount relative to other items in “other” category. Any further segregation of “other income and expense” should be considered in the broader financial statement presentation project. We alternatively suggest that lessees and lessors disclose the required information in the footnotes.

**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 agree that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows for the reasons discussed in Question 12 (a). However, we believe any final determination in terms of classification and presentation should also be consistent with the ultimate decisions for the financial statement presentation project.

**Disclosure**

**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?

As we consider the proposed disclosure requirements related to leases we are concerned with the significant increase in both the level of qualitative and quantitative disclosures. Many of the proposed disclosures are focused on the variable features in a lease contract (i.e. renewal options, contingent rentals and residual value guarantees) which may not be meaningful due to the significant use of estimates and resulting volatility.

Based on our review of the exposure draft, it appears that the proposed disclosures would be required on both a quarterly and annual basis. As noted above we are primarily concerned overall with the number of disclosures. If these requirements are not reduced overall, we believe the Board should consider only requiring them on an annual basis, and update on a quarterly basis for significant changes only.
Lastly, as we consider all of the proposals requirements for both accounting and disclosure, we need to consider current system capabilities in gathering this data and whether significant upgrades or new systems would be required.

**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?

We support the simplified retrospective approach as we believe that the full retrospective application is impracticable.

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

We believe that if a Company should want to apply full retrospective application, they should be allowed the option to do so. In doing so, however, we recognize that this may impact the comparability in accounting upon adoption, but not the ongoing accounting requirements.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We believe that any transition to a new lease accounting model, such as those contemplated within this exposure draft, will require adequate lead time to implement. For example, this exercise cannot be achieved on spreadsheets and currently there are no software tools in the marketplace that can help with such a project which will be developed in due course. We support the FASB’s consideration of the transition and effective date of this standard in conjunction with the other major convergence projects as we believe a coordinated effort for transition is critical to success of the standards.

Additionally, we ask the Boards to consider what the appropriate transition or treatment should be for a lease that was originally long term in nature that upon transition has less than one year remaining term.

**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?

As previously noted, we support the Board’s overall approach to a revised lease model. However, due to the pervasiveness of leases throughout most companies, we are concerned that the administrative burden and implementation costs of the proposal as currently drafted outweighs any potential benefit to the shareholder. Such implementation costs include the following:

- Cost of modifying multiple lease databases and accounting systems in order to track additional information inclusive of option terms, interest rates, probabilities, etc. for all leases
- Cost to invest in new software that has not yet been developed to capture this information
• Internal cost associated with incremental staff needed in order to meet the requirements for additional documentation, periodic reassessment, etc.
• External cost for additional resources driven by increased impairment analyses that may be required
• Cost to modify existing processes and internal controls in order to comply with new requirements.

As noted in our responses to earlier questions, we believe that further modification and simplification of the lease accounting model, in the areas such as renewal options in lease term determination and contingent rentals in lease payment consideration, could help to reduce implementation costs to the company while still achieving the Board’s objectives. In addition, an extended implementation time can assist in reducing cost.

Other comments

Question 18
Do you have any other comments on the proposals?

We do not have additional comments on the proposal at this time.

Non-public entities

Question 19
Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

With regard to the application of this proposed guidance for non-public entities, we believe that while we are a “for profit” company, that non-public companies should follow same basic model of the guidance requiring recognition of a lease asset and liability.