December 15, 2010

Technical Director
Financial Accounting Standards Board
File Reference No 1850-100
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB’s Proposed Accounting Standards Update, Leases (Topic 840) – File Reference No 1850-100

We appreciate the opportunity to respond to the Board’s proposed Accounting Standards Update (ASU), Leases (Topic 840). Praxair, Inc. is a Fortune 300 public company that produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings with 2009 sales of $9 billion. About 60% of our sales are non-U.S. and we operate in over 40 countries.

We support the FASB and IASB (collectively “Boards”) efforts to converge accounting standards and, although we do not support many of the conclusions, we appreciate that the two Boards have generally proposed a consistent standard in this case. However, we consistently do not support changes that represent a completely new approach from existing U.S. GAAP or IFRS unless both accounting models are broken and need to be replaced.

While we understand the conceptual changes that the Boards are proposing, we are concerned with the accounting result, and the implementation and practical application of this proposal. Unless significant changes are made to “simplify” the accounting and scope, we do not support the issuance of the exposure draft. It has the potential to distort operating results as well as being very burdensome and not cost beneficial. Additionally, we do not have significant issues with the current U.S. GAAP accounting model for leases.

However, if the Boards decide to continue with the basic concepts that are included in the exposure draft, we have several suggested improvements that are needed to eliminate some of the earnings distortions and to make it less burdensome and costly to implement and maintain. Finally, as an attachment to this letter, we provide some additional comments on the questions included in the exposure draft. For ease of reading, we have also repeated the Board’s questions.
Lease Term

We disagree with the proposed lease term definition – *i.e.*, 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. Instead, extension options should be considered only when it is virtually certain that the extension option will be exercised. The definition of virtually certain can be debated but we believe it should have a high threshold *e.g.*, restricted to situations where economically the lessee does not have any other choice but to extend the specific lease. Otherwise it is not an asset or liability.

Short-Term/Smaller Value Leases

As a practical exception, we believe it is critical that short-term and small-value leases should be scoped out of the proposed capital lease accounting model and something equivalent to the current operating lease accounting model should be permitted for both lessees and lessors. The definition of short-term leases and small-value leases can be debated; however, we believe that short-term leases at least mean leases that are one year or less and small-value leases are a policy decision based on the reporting entity. We understand that this deviates from the pure conceptual conclusion that a liability should be recorded for all lease obligations; however, we believe this is a practical compromise that is critically needed. Also, an indication of the magnitude of such leases will be required to be disclosed in the footnotes.

Lease (Contingent) Payments

We believe the current proposal relating to contingent rentals needs be changed - otherwise it is too subjective and onerous to implement. We believe that the measurement of lease payments/receivables should include only contingent rent payments that represent current legally enforceable obligations of the lessee – not a probability-weighted estimate of possible outcomes. We do not believe that performance-based and usage-based contingent rents represent obligations of the lessee before the occurrence of the performance or usage trigger event. As an example, we do not believe that lease payments that a lessee can avoid by simply not using the asset represents a current obligation of the lessee or a receivable for the lessor. On the other hand, we believe contingent rents based on a contractually-stated rate or index changes should likely be measured at the prevailing rates rather than requiring an estimate of future amounts.

Income statement impacts (Earnings Distortion)

We believe there should be changes to the exposure draft to better match revenue and expense to be closer in line with the way that business is conducted and evaluated, especially as it relates to real “operating leases”. To accomplish this, the goal has to be to better match the “new” lease asset and the “new” lease obligation over the life of the lease. These two amounts get out of line over the life of the lease because of the “interest method” recognition of the PV discount component of the lease receivable/liability
versus the straight-line recognition of the depreciation expense and performance obligation.

As a lessee, like many other entities, we typically lease “generic” assets (e.g., autos, trucks, copy machines, office space, etc). These leases are not capital decisions, but instead are entered into to minimize operational and residual value risks, and to create flexibility - capital decisions would likely end up being purchases. Simply put, other businesses are better equipped to manage the life cycle of these assets. We do not take title and we do not lease the assets for substantially all of their economic life. Instead, we temporarily borrow the asset and look upon the payments similar to other operating costs.

The proposed model would not only require us to record such “operating leases” as assets and liabilities, but more importantly, to significantly change the timing and classification of expenses within the income statement. Lease payments would be reported as an expense using the “interest method” in a different period from when it is currently expensed and/or paid, and would be reported as depreciation and interest, rather than as lease expense in the income statement – the related revenue would likely not change. The net effect would be to front-load lease expense and, therefore, understate earnings in the early years with offsetting overstatements in the later years of the lease. The issue becomes even more distortive over time if/when leases are replaced or renewed and the impacts jump around considerably.

To illustrate the problem that we have with the proposed standard as it relates to “operating-type leases” – the graph shows the expense recognition over the life of a hypothetical simple lease. We just do not believe the proposed expense recognition model (represented by the downward-sloping blue line) is better accounting than the current ASC 840 model (represented by the flat red line) – in fact the opposite. The earnings impact would be negative in the first years and positive in the later years of the lease.
We have a similar issue with the proposed lessor accounting in that the end result is to front-load income at the expense of the later years. Following is a similar graph that illustrates the income recognition by lessors over the term of a hypothetical simple lease.
Again, we do not see why the proposed income recognition model (represented by the downward-sloping blue line) is a better answer than the current ASC 840 model (represented by the flat red line) – in fact the opposite. Assuming the asset depreciation expense is unchanged, the earnings impact would be positive in the first years and negative in the later years of the lease (i.e., blue line less red line).

Alternative #1 - Fix the existing model

One solution is for the two Boards to maintain the existing lease model and work towards a common set of criteria to distinguish the two types of leases – either operating or financing. We note that the definitions are not totally dissimilar between U.S. GAAP and IFRS. To address the “off-balance sheet” issue, current disclosure requirements could be expanded to require the disclosure of the PV of “operating lease” obligations. ASC 840 and the proposed standard require the disclosure of future non-cancelable lease payments under operating leases for the next five years by year and in total thereafter. This could easily provide a basis for calculating the present value of these minimum lease payments. We believe this would provide users with information about the fair value of the lease payment obligation without distorting the income statement. If there are concerns with the definition of noncancelable lease payments, that can be addressed in the new standard. We prefer this approach.

Alternative #1a - Record lease assets and liabilities

If the Boards were uncomfortable with alternative #1 because the balance sheet does not reflect the present value of lease obligations, the balance sheet could be grossed up by the PV amount and then adjusted each year end – similar to what is currently done for the funded status of a defined benefit pension arrangement - without impacting the expense measurement. Again, under this approach the income statement would not be impacted and the balance sheet would reflect a liability for the fair value of lease obligations.

Alternative #2 – Better match the lease asset and liability

Assuming the proposed model where all leases are capitalized, the timing of expense/income recognition should be made similar to the current operating lease accounting. This could be accomplished by simply accreting the present value (PV) discount on the payable/receivable on a straight-line basis rather than using an “interest method”. Further, the “amortization” of the right-of-use asset and the straight-line interest accretion should be shown on the income statement and cash flows as rent expense – not as depreciation and interest. This would be much better understood by users of financial statements and would eliminate income statement distortions.

We are sure there are other options that can be explored to help address this problem in the context of the proposed model.

Transition

We are very concerned about the transition as it relates to leases and the interactions of the lease transition with other proposed standards (e.g., revenue, financial instruments,
financial statement presentation etc.) and the possibility of full IFRS for U. S. public
entities. We realize that this is the subject of another exposure draft with a comment
deadline period in January; however, it is very difficult to comment on transition for all
these proposals without knowing what we are transitioning to. Also, the system
implications, cost, and human resource implications are significant and cannot be over-
emphasized. Where system changes are needed, a piecemeal approach is not efficient.

As it relates to leases, we believe the transition implications are eliminated under our # 1
and #1a alternative proposal suggestions.

However, if the Boards move forward with its proposed lease model, this becomes a big
issue - because the model is completely changing for both U. S. GAAP and IFRS.
The purest method is full retrospective, however this is very onerous. The proposed
simplified retrospective approach is less onerous but has the potential to further distort
earnings upon adoption just because of the simplified approach which pretends that a
lease starts at the transition date. Some have suggested a revised simplified retrospective
approach which considers only existing leases at the adoption date, while others have
suggested prospective treatment only. Finally, many have suggested that companies be
permitted to select from two or more transition options.

To us, meaningful restatements that are comparable, no matter how well intentioned, will
be very difficult to achieve no matter what transition approach is selected. Historical
restatements would be very onerous and costly to prepare, and would likely require
analysis and judgments related to leases that no longer exist. Frankly, it would be a
significant waste of valuable time. Therefore, if the Boards continue with the
proposed lease model, we support a revised simplified retrospective approach which
considers only existing leases at the adoption date rather than as of the date of the
initial application. This approach would provide comparable information for leases in
existence at the date of adoption but would eliminate the wasted effort and cost of dual
financial reporting for earlier periods.

Lessor Accounting

We have read several comment letters and discussed the matter with other entities – many
indicate that lessor accounting proposals may not be fully developed as lessee accounting
and; therefore, requires more time and analysis before implementing a new accounting
model. We agree with this conclusion. We are not comfortable with the current
proposals, especially the income statement implications. Also, as previously stated, we
do not have a problem with the current lessor accounting requirements in accordance
with U. S. GAAP.

Therefore, we suggest the Boards either defer the entire project and allow enough time to
resolve the lessor accounting issues, or defer the lessor accounting proposals. If the
Boards decide to continue to address lessor accounting in the current proposal, we believe
there needs to be considerable more deliberations and analysis, including field tests, etc
before any final standard is implemented.
Disclosures

We believe the proposed disclosure requirements are too extensive. In general, we think that the level of disclosures should remain about the same or actually decrease from what is required today, simply because so much additional information relating to leases will be included in the financial statements under the proposed accounting. As an example, we do not believe the requirement in paragraph 80 for a reconciliation of opening and closing balances is needed and is not useful information for users of financial statements - we have commented on this same issue in several of the recent exposure drafts. We recommend the proposed disclosures be reviewed and reduced to more reasonable levels.

Cost/Benefit – Changes not justified

As proposed, we do not believe the benefits of the proposal outweigh the initial and ongoing costs. In fact, we believe the proposal, as written, will result in misleading amounts reported in the financial statements and will require many companies to maintain two sets of books – one for internal (and non-GAAP presentation) purposes and one to meet U.S. GAAP and/or IFRS requirements. Worse yet, some companies may choose to modify their leases simply to minimize the accounting impacts - at the expense of good business sense. We have suggested an alternative approach which would address the differences between U.S. GAAP and IFRS and would not result in a complete overhaul of the current accounting model - which is the root cause of the hugely significant costs and complications. We believe that entities can spend their time and money on more productive efforts than restatements of historical financial information, new leasing software, and increased bookkeeping and ongoing disclosure requirements.

Having said that, we and many other commentators have suggested changes to the proposed model that would make it less burdensome to implement and maintain than the proposal, yet still preserve the main concepts of the model for the more significant leases. Although not all inclusive, we believe these changes relate primarily to the broad areas of lease term, short-term/smaller-value leases, contingent payments, lessor accounting, disclosures and transition (see previous comments). Also, the many comment letters identify other areas that need to be considered. We believe it is important that the Boards listen to these suggestions and make appropriate changes that simplify the initial and ongoing accounting for leases.

EITF 01-08 and IFRIC 4 Related

We do not believe the Boards need to make additional changes to these pronouncements. Following are a few specific comments:

1. The new proposal should not require companies to evaluate customer purchase and supply contracts that were not required to be evaluated as a lease under the original standard – EITF 01-08 required prospective application only. We believe this was an oversight in the proposal.
2. We note that certain comment letters have recommended a re-evaluation of several areas related to EITF 01-08 and IFRIC 4. As a preparer, we believe the standards are effective principles-based documents as written and generally accomplish their goal. They do not require more rules.

3. The meaning of ASC 840-10-15-5 should not be changed in the new proposal. More specifically, we do not believe the proposed new standard should add paragraph B2 (b) as follows: "(b) if a lessor can substitute another asset for the underlying asset but rarely does so in practice." Also, this change would be very burdensome to implement.

**Timing of Issuance**

We understand that the Boards are committed to issue a final standard in mid-2011. However, because this is such an important area of accounting with significant consequences to all entities, we recommend that the Boards be sure to take whatever time is needed to completely analyze the proposal and get it right. This may include additional field tests and re-exposure for comment, especially if the accounting by lessors is included?

**Effective Date**

Although influenced by the Boards' decisions, including transition, the effective date for any new leasing standard, that significantly changes existing accounting requirements, will need to be several years after issuance. The timing needs to allow entities enough time to develop the necessary systems support and parallel data accumulation for any retrospective adjustments that may be required in any new standard.

Thank you for the opportunity to express our comments. We would be pleased to discuss our views with members of the Board or with its staff. Please contact me at 203-837-2158 (chuck_jacobson@praxair.com) or Liz Hirsch (VP & Controller 203-837-2354, liz_hirsch@praxair.com) if you have any questions.

Very truly yours,

Charles L. Jacobson
Assistant Controller and Chief Accountant

CC: James S. Sawyer
Executive Vice President and Chief Financial Officer
Attachment – Praxair, Inc. Comments Re: FASB’s Proposed Accounting Standards Update, Leases (Topic 840) – File Reference No 1850-100

**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?

No, not for all leases. Refer to the attached letter for comments.

**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?

We believe the lessor accounting needs considerably more analysis before a final standard is issued. Refer to the attached letter for additional comments.

(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?

Although we do not necessarily disagree with the concept, we are not yet prepared to agree. Until more analysis is done, we believe the current lessor accounting model should be retained as is.

(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?

Yes.

**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?**

No. Short-term leases should not be capitalized. Also, we do not believe that low-value leases should be capitalized. These exceptions are needed in order to eliminate some of the burdens associated with the proposed accounting. Refer to the attached letter for additional comments.

**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**

(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 generally agree with the definitions in (a) and (b).

We note that certain comment letters have recommended a re-evaluation of several areas related to EITF 01-08 and IFRIC 4. As a preparer that has to work with these standards, we believe the standards are effective principles-based documents as written and generally accomplish their goal as set forth by the Boards. They do not require more rules.

Also, the meaning of ASC 840-10-15-5 should not be changed in the new proposal. More specifically, we do not believe the proposed new standard should add paragraph B2 (b) as
follows: “... (b) if a lessor can substitute another asset for the underlying asset but rarely does so in practice.”

Refer to the attached letter for additional comments.

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?

Agree, except that for practical reasons, short-term and small-value leases should not be subject to the proposed accounting model.

Refer to the attached letter for additional comments.

**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 Boards' proposals to account separately for distinct service components in a contract that requires both service and right-to-use components. We do not support the decision to apply the lease accounting requirements to the combined contracts.

**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?

Agree.

**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?

No. We disagree with the proposed lease term definition. Instead, extension options should be considered only when it is virtually certain that the extension option will be exercised. The definition of virtually certain can be debated but we believe it should have a high threshold e.g., restricted to situations where economically the lessee does not
have any other choice but to extend the specific lease. Otherwise it is not an asset or liability.

Also, refer to the attached letter for additional comments.

**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?

No. We believe that the measurement of lease payments/receivables should include only contingent rent payments that represent current obligations of the lessee – not a probability-weighted estimate of possible outcomes. We do not believe that performance-based and usage-based contingent rents represent obligations of the lessee before the occurrence of the performance or usage trigger event. As an example, we do not believe that lease payments that a lessee can avoid by simply not using the asset represents a current obligation of the lessee or a receivable for the lessor. On the other hand, we believe contingent rents based on a contractually-stated rate or index changes should likely be measured at the prevailing rates rather than requiring an estimate of future amounts. If the definition of lease payments continues to include the concept of a probability-weighted estimate, the resulting lease payments recorded as assets and liabilities will be very subjective and the recordkeeping will be very onerous, if not impossible, to do.

Also, refer to the attached letter for additional comments.

**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 support the proposal to remeasure assets and liabilities when there are new facts and circumstances that indicate that there are significant changes to the amounts recorded. This would eliminate the need to review many thousands of leases each quarter.
However, our support is contingent on the Boards making appropriate changes to the lease term definition, short-term and smaller-value leases, and contingent payments as discussed in question Nos. 3, 8, and 9. Otherwise the proposal would be too burdensome to maintain.

**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?

Agree.

**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?

(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, 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?

(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 support the conclusion that, if material, lease-related assets and liabilities should be shown identified separately. However, the face of the balance sheet should not be overburdened with insignificant or detailed information that could be effectively disclosed in the footnotes. Therefore, we believe preparers should have an option of presenting such information in the notes to the financial statements.

**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?

See comments to No. 12 above. We do not believe that lease income should be required to be reported separately on the face of the income statement, unless it is material (note: current SEC rules require lease revenue to be disclosed separately if the amount meets certain thresholds).

If the proposed leasing model for lessees is implemented, the presentation of lease expense becomes very complicated. In accordance with the proposal, lease expense will show up on the income statement as depreciation and interest expense – but not as lease expense. Further, when/if an exception is made for short-term and smaller-value leases, a certain portion of lease expense will be recorded similar to current practice. Therefore, we believe footnote disclosure is the only realistic place to disclose lease expense – similar to current practice. Also, refer to the attached letter for suggested alternative approaches to lease accounting, all of which would simplify these disclosures in the notes.

Additionally, see comments to No. 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?
No. Refer to the attached letter which sets for an alternative model for lease accounting – similar to the current model. Adoption of that approach would maintain the current cash flow presentation.

Assuming the Boards continue to pursue the proposed model, we have the following comments:

- Cash Flow Presentation - General. We do not believe that amounts related to leases should be required to be presented separately either on the face of the statement of cash flows or in the footnotes. If required to be disclosed, there should be an option to present amounts in the footnotes.

- Lessee accounting. Assuming the Boards proposed leasing model (which we do not agree), we agree that cash flows should be financing. However, we note that U.S. GAAP requires similar cash payments for interest on debt to be shown as an operating cash flow. As stated above, we do not believe such amounts should be required to be shown separately.

- Lessor accounting. We agree that cash flows should be operating. As stated above, we do not believe such amounts should be required to be shown separately.

**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 noted in the attached letter, we believe the proposed disclosure requirements are too detailed and extensive. In general, we would have thought that the level of disclosures would remain the same as they currently are or actually decrease from what is required today, simply because so much additional information will be included in the financial statements under the proposed accounting. As an example, we do not believe the requirement in paragraph 80 for a reconciliation of opening and closing balances is needed and is not useful information for users of financial statements - we have commented on this same issue in several of the recent exposure drafts. We recommend the proposed disclosures be reviewed and reduced to more reasonable levels.
Refer to the attached letter for additional comments.

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?

Refer to the attached letter for our comments.

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 noted in the attached letter and throughout the Q&A, we do not believe the benefits of the proposal outweigh the initial and ongoing costs.

Having said that, we and other commentators have suggested changes to the proposed model that would make it less onerous to implement and maintain than the proposal, yet still preserve the main concepts of the model for the more significant leases. Although not all inclusive, we believe these changes relate primarily to the broad areas of lease term, short-term/smaller-value leases, contingent payments, lessor accounting, disclosures and transition. Also, the many comment letters identify many other areas that need to be considered. We believe it is important that the Boards listen to these suggestions and make appropriate changes that simplify the initial and ongoing accounting for leases.

Other comments

Question 18

Do you have any other comments on the proposals?

Refer to our attached letter.
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?

No. They should be the same.