December 15, 2010

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

Subject: Proposed Accounting Standards Update, Leases

Dear Board Members and Staff:

CVS Caremark Corporation (“CVS Caremark” or the “Company”) appreciates the opportunity to comment on the Proposed Accounting Standards Update, Leases (the “Proposed Update”) recently published by the Financial Accounting Standards Board (“FASB”).

CVS Caremark is the largest pharmacy health care provider in the United States. CVS Caremark is a market leader in mail order pharmacy, retail pharmacy, specialty pharmacy and retail clinics, and is a leading provider of Medicare Part D prescription drug plans. As one of the country’s largest pharmacy benefits managers, the Company provides access to a network of more than 65,000 pharmacies, including our more than 7,100 CVS/pharmacy® stores. CVS Caremark is listed on the New York Stock Exchange and is headquartered in Woonsocket, Rhode Island. For the year ended December 31, 2009, the Company had consolidated net revenues and net income of $98.7 billion and $3.7 billion, respectively. As of December 31, 2009, the Company had consolidated total assets, total liabilities and shareholders’ equity of $61.6 billion, $25.8 billion and $35.8 billion, respectively. CVS Caremark is currently ranked 18th on the domestic Fortune 500 list.

CVS Caremark is a lessee under numerous agreements involving retail stores, distribution centers, mail order pharmacies, office space, land, vehicles and equipment. The Company leases approximately 95% of its retail stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. As of December 31, 2009, the Company had noncancelable operating lease commitments of approximately $26.9 billion.

CVS Caremark is supportive of the FASB’s continuous efforts to improve financial reporting and its efforts to develop a new lease accounting model. However, we have significant concerns about whether certain aspects of the Proposed Update are operational and whether the perceived benefits of certain aspects of the Proposed Update justify their costs.
Our comments have generally been made from the perspective of a lessee. Our responses to the specific questions asked in the Proposed Update that are of particular concern to the Company are set forth below.

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 the lease term should be 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. A “more likely than not” threshold does not provide a reasonable amount of assurance that an option to extend or terminate a lease will ever be exercised. Further, we believe that an option to extend a lease that is not a bargain renewal option does not meet the definition of a liability. The definition of a liability can be found in FASB Statement of Financial Accounting Concepts No. 6 Elements of Financial Statements (“CON 6”). Paragraph 35 of CON 6 states that “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.” Paragraph 36 of CON 6 further states that “A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened.” We believe that a renewal option that is not a bargain renewal option does not meet any of these three essential characteristics of a liability. For renewal options that are not bargain renewal options, we believe that the “obligating event” is the exercise of the renewal option and not the execution of the lease agreement, since prior to the exercise of the renewal option the lessee is not bound to make a payment.

We have grave concerns about whether the proposed definition of the lease term results in a workable solution. We disagree with the view that using the longest possible more likely than not lease term is a practical approach to accounting for leases with options. We believe this provision of the Proposed Update is impractical from both a financial and operational standpoint, particularly for companies that have thousands of leases with renewal options that will periodically have to be reassessed. We believe renewal options that are not bargain renewal options should be excluded from the determination of the lease term as they are today. The proposed model overly complicates the issue and replaces one perceived problem, the transparency of renewal options, with an even greater problem. The proposed definition of the lease term may result in less accurate financial statements due to the inherent difficulties associated with assessing whether or not a renewal option will ultimately be exercised many years in the future. To put this in
some context, many of our retail store leases have initial noneancelable lease terms of 25 years with multiple renewal options thereafter. It is extremely difficult to assess the probability of a renewal option being exercised 25 years in the future for numerous reasons, many of which are beyond our control.

We believe the current definition of a lease term in Accounting Standards Codification ("ASC") 840-20-20 should be used in a right to use approach to lease accounting. We do not believe there is a current problem associated with the accounting for renewal options that are not bargain renewals. Lessees are seeking flexibility when they enter into leasing arrangements with renewal options. They are not seeking to obligate themselves when they enter into such renewal option arrangements.

If there is a perceived problem associated with the transparency of renewal options, then we believe the best approach to addressing the matter is through the "disclosure approach" discussed in the Proposed Update, not by recording renewal options on the balance sheet that do not meet the definition of a liability. We believe that recognizing assets and liabilities for renewal options that may or may not be exercised (sometimes decades later) could potentially be misleading because it would present optional periods as if they were fixed. Furthermore, the proposed accounting associated with the more likely than not lease term would be very onerous for many companies to implement and sustain and would come at a significant cost. We disagree with the assertion that the disclosure approach could be lengthy, complex and difficult to understand for an entity that has many leases. We believe any necessary transparency could be obtained with a reasonable amount of effort from financial statement preparers.

In summary, we disagree with the proposed definition of the lease term for the following primary reasons:

- the more likely than not threshold is too low of a threshold to provide a reasonable amount of assurance that a renewal option will ever be exercised,
- the more likely than not threshold would lead to renewal options being recognized as obligations to make lease payments on the balance sheet when they do not meet the definition of a liability, and
- the proposed lease term definition results in an impractical answer from both a financial and operational standpoint.
Question 16: Transition

(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 BC 186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

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

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

We believe entities should be permitted to choose from one of three different transition approaches and apply that same approach to all of their leases. The approaches are as follows in order of their preferability:

- **Full retrospective approach** - We believe this approach is the most theoretically sound, but would be burdensome to many companies. We believe the full retrospective approach should be permitted for companies who are able to readily determine the incremental borrowing rates used for the minimum lease payment tests at the date of inception of their leases. This approach would be the most accurate way to reflect the economics of such lease arrangements. One drawback with both the modified retrospective and simplified retrospective approaches discussed below is that they use incremental borrowing rates that are derived from current interest rates at the date of initial application of the Proposed Update. These rates could vary substantially from the actual incremental borrowing rates at the inception of these lease arrangements. Prohibiting companies from using the full retrospective approach would seem to penalize them for keeping good historical records. Furthermore, the full retrospective approach is consistent with the preferred method for reporting the adoption of a new accounting principle in ASC 250.

- **Modified retrospective approach** - This approach is not discussed in the Proposed Update and is an alternative approach we are recommending. Like the simplified retrospective approach discussed below, for practical reasons this approach would use the incremental borrowing rate at the date of initial application and would determine the right-of-use asset and lease liability using such rate. Under this approach, at the date of initial application, the lease liability would be the same as it would be using the simplified retrospective approach as both methods compute the net present value of the same cash flows using the same incremental borrowing rate. The right-of-use asset at the date of initial application would be computed differently under the modified retrospective approach than it would be under the simplified retrospective approach. Under the modified retrospective approach, the right-of-use asset at the date of initial application would be the unamortized balance of the net present value of cash flows determined at the inception of the lease, computed using the straight-line method over the lease term. We believe this approach is more preferable to the
simplified retrospective approach because under the simplified retrospective approach, the right-of-use asset is computed assuming that the lease began on the date of initial application and assumes the right-of-use asset should be equal to the lease liability on that date. Simply put, the right-of-use asset should be amortized at a different rate under the straight-line method than the lease liability under the effective interest method and therefore the right-of-use asset and lease liability should be different at the date of initial application. From both a balance sheet and statement of operations perspective, the modified retrospective approach more closely resembles the proper relationship of the amortization of the right-of-use asset and the lease liability regardless of what incremental borrowing rate is ultimately applied.

- *Simplified retrospective approach* - This approach is the most practical to apply and should be permitted for companies that find the full retrospective and modified retrospective approaches to be impractical to implement. As stated above, a drawback to this approach is that it assumes that the right-of-use asset and the lease liability are the same on the date of initial application. Because the effective interest method is used to amortize the lease liability and the straight-line method is used to amortize the right-of-use asset, regardless of what incremental borrowing rate is applied, the right-of-use asset and lease liability should only be the same at the inception of the lease. We do not believe the date of initial application is akin to the date of inception of a lease.

**Question 17: Benefits and costs**

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?

With respect to the proposed change to the definition of the lease term, we believe any possible benefit associated with implementing and maintaining such accounting would not outweigh the costs. The Proposed Update as currently drafted, will undoubtedly require many companies to hire additional finance personnel to implement and maintain the proposed revisions to lease accounting. In addition, in order to comply with the accounting in the Proposed Update, existing lease management information systems will require either a substantial upgrade or will need to be replaced altogether, as there does not appear to be a current technology solution available for the proposed accounting at this time. These costs are coming at a time when companies are still struggling to recover from a severe economic downturn. Many companies have reduced their work forces and overall cost structures in response to the sluggish economy and do not have the desire or ability to add overhead to implement such a complex new accounting standard at this time.

Given the number of leases that CVS Caremark is involved in, we believe the proposed accounting in the Proposed Update will take us at least two years to fully implement from the date a final accounting standard update is issued. We also believe the cost of
implementing and maintaining the revised lease accounting in the Proposed Update could be quite significant to our company.

**Question 18: Other comments**

Do you have any other comments on the proposals?

We believe the FASB should consider the following:

- Addressing the accounting for lease incentives received by a lessee. This topic, which was the subject of some controversy several years ago, is not addressed in the Proposed Update.
- Clarifying the definition of “lease payments” and/or supplementing it with application guidance in order to avoid inconsistent application.
- Providing additional application guidance throughout the Proposed Update.

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Sincerely,

[Signature]

James D. Clark
Vice President, Finance and Accounting
CVS Caremark Corporation