Ford Motor Company
One American Road
Dearborn, MI 48126

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

VIA EMAIL: director@FASB.org
commentletters@ifrs.org

File Reference: Comments on Exposure Draft, Leases (Topic 840)

Ford Motor Company ("Ford"), a global automotive industry leader based in Dearborn, Michigan, manufactures or distributes automobiles across six continents. Ford Motor Credit Company LLC ("Ford Credit"), an indirect, wholly-owned subsidiary of Ford, is one of the world's largest automotive finance companies, and has provided dealer and customer financing to support the sale of Ford Motor Company products since 1959. We file consolidated financial statements with the SEC reflecting two business sectors, Automotive and Financial Services. Ford Credit also files financial statements as a separate SEC registrant.

We use leasing as a way to finance assets or to obtain use of assets we cannot purchase. Our portfolio of leased assets includes company properties (distribution centers, warehouses and sales and administrative offices), computing equipment, and manufacturing equipment (forklifts and tow tractors). Our minimum rental commitments under non-cancelable operating leases at December 31, 2009 were approximately $1.2 billion.

Ford Credit offers lease financing options to auto dealers' retail customers under lease terms that range primarily from 24 to 48 months. Ford Credit's highest volume retail-leasing plan provides the lessee, or the dealer, with an option to purchase the vehicle at a price determined at the inception of the lease. If the option is not exercised, the vehicle is returned to Ford Credit. Returned vehicles are sold to dealers through auctions. Ford Credit's reported operating lease asset balance at December 31, 2009 was approximately $15 billion.

We strongly support the convergence efforts of the Financial Accounting Standards Board and the International Accounting Standards Board (the "Boards") to align their respective accounting guidance and we appreciate the opportunity to comment on the Proposed Accounting Standards Update, 'Leases' (the "proposed ASU"). Although we concur with many of the principles emphasized in the proposed ASU including the recognition by lessees of a right-of-use asset and a liability to make lease payments, we have specific concerns related to the guidance for identifying embedded leases in service contracts and the subsequent bifurcation of the lease and service components, measurement of the lease-related assets and liabilities, and transition. We have provided responses to specific questions in Attachment I.

We appreciate the Boards' consideration of these matters.

Sincerely,

Susan M. Callahan
Manager, Global Accounting Policies & Special Studies

Attachment
Ford Motor Company

Responses to Specific Questions for Comment

The Accounting Model

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?

Response: We encourage the Boards to adopt a single lessor accounting model to be used for all lease arrangements within the scope of the proposed guidance of this exposure draft.

As a lessor, the overwhelming majority of the Ford Credit vehicle lease contracts are accounted for as operating leases. The average original lease term for 2009 retail lease contracts in the United States (our largest retail lease market) is thirty-seven months. Under the present accounting model, we report an operating lease at the acquired value of the underlying asset, depreciate the vehicle to its expected residual value throughout the lease term, and then sell the returned vehicle at auction. Approximately 80% of the retail lease vehicles will be returned to us and will be sold at auction. We retain the risks or benefits associated with the difference between the amount actually received at auction and the recorded residual value.

We believe the proposed performance obligation model is inconsistent with the lessee right-of-use accounting. The performance obligation model will result in both the lessor and the lessee recognizing in their respective statements of financial position, the economic benefits associated with the same underlying asset during the lease term. Furthermore, we believe that if the lessor applies the performance obligation method, the related financial statement presentation will obscure the actual economics of many leasing transactions.

Under the proposed guidance, the vehicle lease contracts described above would be recognized under the performance obligation approach. At lease commencement, Ford Credit would recognize a lease receivable offset by a lease liability netting close to zero (with the exception of initial direct costs). In addition, Ford Credit would recognize the value of the underlying leased asset. This model would initially result in a presentation equivalent to the operating lease asset we record under present lease accounting. However, subsequent to lease commencement, the lease receivable would amortize under the interest method, the lease liability would amortize straight-line, and the operating lease asset would depreciate, resulting in a net lease asset that differs from the carrying value of the underlying vehicle.

On the other hand, the proposed derecognition model will retain certain symmetry between the model to be applied by a lessor and the proposed right-of-use model to be applied by the lessee. The derecognition approach acknowledges that the lessee controls a portion of the utility of the underlying asset during the term of the lease (the lessee’s right-of-use asset); accordingly, the lessor should derecognize the economic benefits associated with the rights that have been transferred to the lessee.

If Ford Credit were to apply the derecognition approach described in the exposure draft, it would report a lease receivable for an amount equivalent to the present value of the expected future rental payments to be received from the retail customer and an asset for an amount representing the expected residual value. The residual asset would not be revalued unless the lease term is reassessed or the residual asset is impaired. The combination of the lease receivable and the residual asset will result in an accounting model that is similar to Ford Credit's current presentation. However, application of the derecognition approach to vehicle lease
contracts will likely result in income statement volatility related to gains and losses recognized upon disposal of returned or repossessed vehicles.

For example:
A lessor expects to receive $12,000 for a vehicle when it is returned in 36 months under a lease at 6.9%; the residual asset was calculated to be $9,762. Under the proposed derecognition model, the asset of $9,762 does not change unless it is impaired or the lease term is reassessed. Assuming the lessor receives at auction exactly the $12,000 that was originally expected, the lessor would recognize a gain of $2,238 at the end of the lease term.

We recommend that under the derecognition model the residual asset should be accreted through income during the term of the lease contract so that by the end of the contract, the residual asset is carried at the expected proceeds to be received at auction. We believe this alternative derecognition model will more accurately reflect the economics of leasing transactions like Ford Credit’s.

**Definition of a Lease**

**Question 4: Definition of a Lease**

(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?

**Response:**
The proposed guidance distinguishing a lease from a contract that represents a purchase or sale and the proposed guidance distinguishing a lease from a service contract should be focused on elements of control of the underlying asset, either in its entirety or during the contract term. In that regard, the elements of control should be aligned with the exposure draft for Revenue Recognition.

**Distinguishing a Lease from a Contract that Represents a Purchase or Sale**

We agree with the criteria for distinguishing a lease from a contract that represents a purchase or sale. We encourage the Boards to include additional principles to determine whether control has transferred from one entity to another. We also suggest that the Boards include an example illustrating how an entity should assess a contract that explicitly transfers control over an underlying asset, and an example that does not explicitly transfer title to the assets, but implicitly transfers control and risks of the underlying asset. Examples might consider the following fact patterns:

**Example 1:** An auto manufacturer negotiates a contract with a supplier who will provide certain components to be used in the assembly of its vehicles. The terms of the agreement require the supplier to construct and use unique tooling to produce the components. The tooling cannot be used to produce parts for any of the supplier’s other customers. Title to the tooling and/or other assets will pass to the auto manufacturer at the end of the contract.

**Example 2:** A lessor negotiates a lease agreement with an industrial lessee for a piece of equipment. The terms of the agreement provide the lessor with access to the equipment, the responsibility to maintain the equipment and the right to either remove the equipment at the lessor's expense or abandon the equipment in place at the end of the lease term. At the end of the lease term, legal title does not transfer to the lessee; however the equipment can only be recovered by the lessor if the roof on the lessee's facility is removed. The estimated cost of removing and replacing the roof exceeds the expected salvage value of the equipment.

We believe both examples represent an in-substance purchase. In the first example, the agreement limits the supplier’s use of the tooling and eventually transfers title of the underlying asset to the lessee. In the second example, the location of the equipment and the impractical condition for its removal imply that control of the
underlying asset transfers to the lessee. Accordingly, we believe in both examples, the arrangements would be scoped out of the guidance under the exposure draft and the transaction would be recognized as a purchase and a corresponding financing.

**Distinguishing Leases from Service Contracts**

The consequence of identifying an embedded lease contained within a non-lease contract is much more significant under the proposed guidance provided in this exposure draft. Given the relevance of separating a lease from a service component, its impact on financial reporting, and the expected operational complexities of applying the principles in the exposure draft, we encourage the Boards to modify the guidance provided in paragraphs B1-B4.

We recommend that the Boards consider adding a third criterion to the definition of a lease in paragraph B1. We suggest that paragraph B1 be written as follows:

> At the date of inception of a contract, an entity shall determine whether the contract is, or contains, a lease on the basis of the substance of the contract, by assessing whether:
>  
> a) fulfillment of the contract depends on providing a specified asset or assets (the 'underlying asset') (paragraphs B2 and B3), giving special consideration to a unique asset;
> b) the contract conveys the right to control the use of the specified asset for an agreed period of time (paragraph B4), considering the location of the asset and whether there is a viable opportunity to provide output or services to an alternative customer; and
> c) if the contract is other than a lease contract (i.e., a supply or services contract that includes a lease component), the contract transfers to the lessee all but an insignificant amount of risk related to the recovery of the investment in the asset(s) used to fulfill the contract.

We believe that the inclusion of this additional criterion will facilitate appropriately identifying the existence of a lease asset and an unavoidable obligation for the cost of the asset embedded in a service contract. We also believe the application of paragraph B1, amended as suggested, continues to meet the Boards' objective and is consistent with the proposed lease accounting framework.

In addition, we request the Boards provide additional clarity regarding certain concepts used in paragraphs B3 and B4.

- Paragraph B3 describes a situation in which the supplier of a specified quantity of goods or services has the right and the current ability to provide those goods or services using assets not specified in the arrangement. We ask that the guidance be modified to clarify whether the Boards intend that a supplier have the alternative asset in place at the time the contract is effective, or that a supplier have the economic means to be able to acquire the asset, or that another asset must be available somewhere in the market and that the supplier has access to the market.
- Paragraph B4(e) describes a situation in which the entity will obtain all but an insignificant amount of the output of the asset and the price is neither contractually fixed per unit, nor equal to the current market price at the time of delivery of the output. Based on the proposed guidance, it is unclear whether arrangements with step pricing (e.g., $100 per unit for the first 100,000 units and then $90 for each unit thereafter) would be considered contractually fixed per unit. It is also unclear whether prices that may be contingent on volume, output dependent on external factors to the reporting entity, contract termination penalties, or make-up provisions should be considered contractually fixed per unit. The guidance should be modified to clarify whether the term "contractually fixed per unit" means that each individual unit of output has the same price throughout the contract period or whether it means the arrangement is designed so that substantially all of the counterparty's investment in the asset is recovered through the contractual pricing formula.
Scope

Question 5: Scope Exclusions
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?

Response: We disagree with the scope exclusion for intangible assets. We view the exclusion as unnecessary and believe it will cause confusion with existing guidance in Topic 350, *Intangibles – Goodwill and Other* that states:

"Entities often license internal-use software from third parties. Though Subtopic 840-10 excludes licensing agreements from its scope, entities shall analogize to that Subtopic when determining the asset acquired in a software licensing arrangement." (ASC 350-40-25-16)

If a licensee applies the existing lease guidance in Subtopic 840-10, the licensee will capitalize internal-use software if it meets the requirements for a capital lease. We view the recognition of a right to use an intangible asset and the contractual obligation to make payments for its use to be similar to the same rights and obligations for tangible assets. Therefore, we encourage the Boards to eliminate the scope exception and include intangibles in the proposed guidance. We believe including intangibles in the proposed guidance is consistent with the Boards' conceptual framework because an entity may control a resource by way of entering into a licensing agreement from which future economic benefits are expected to flow, and an obligation to make license payments is expected to exist.

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?

Response: We believe the application of this proposed guidance will be overly complex. We believe that applying this guidance when an entity cannot identify distinct leasing and service elements in contracts that include variable consideration could result in contracts that contain an immaterial lease component being accounted for on the balance sheet at a value significantly in excess of the underlying asset. We understand that this particular provision is the result of an effort to appropriately report on balance sheet, rights and obligations that are presently off-balance sheet. However, we believe the application of the guidance will result in a level of false precision; it will result in an accounting distinction that is not relevant, may not be reliably measurable, and that may result in the recording of assets and obligations that do not meet the conceptual definition of assets and liabilities. Furthermore, it will result in costs that far outweigh the benefits to users of the financial statements.

We believe however, that if the Boards amend the definition of a lease in paragraph B1 to include the additional criterion we propose in our response to Question 4, a reporting entity will already have determined that the
arrangement includes the economic dedication of assets. We recommend that the Boards consider eliminating the further requirement to determine whether the service is distinct from the lease for non-lease contracts determined to contain an embedded lease. Instead, we recommend that if an arrangement meets the definition as we propose in Question 4, a lessor would apply the derecognition method for the assets utilized under the arrangement, and the lessee would record an asset and a corresponding liability or the lease component. The asset and corresponding liability should be measured by applying a residual method, whereby a factor representing the contractual term of the lease compared to the estimated useful life of the assets would be multiplied by the estimated market value of the assets used. The service component would represent the residual and be recognized as services/products are provided/received.

For example:
An entity negotiates an agreement with a supplier and evaluates the agreement using the three criteria in an amended paragraph B1. The entity determines the agreement contains an embedded lease. The entity determines that the service component is not distinct. The present value of the contractual cash flows expected under the arrangement is $1,000. The lease term is for eight years and the expected useful life of the assets to be used by the supplier to produce the parts is estimated to be ten years. If the entity were to acquire a similar asset, it estimates the cost would be approximately $600.

Under the proposed residual method, the entity would record a lease asset and liability for $480 (8/10*600) and the remaining $520 would be attributable to the service component.

We believe that because the application of proposed guidance will inherently represent a "best effort" in identifying distinct components and assigning value to those components, the guidance should provide a simpler method of allocating value to the elements rather than the one proposed or defaulting to accounting for the entire arrangement as a lease.

Measurement

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?

Response: We believe the lease term should be determined in a manner similar to the determination made under the existing FASB guidance. We support the requirement that additional consideration needs to be given to situations involving a specialized asset and we agree that when specialized assets are leased, the lessee has an economic incentive to extend the lease to avoid additional costs to obtain a substitute asset with similar utility.

We recommend that the FASB definition of lease term found in Topic 840, which includes the fixed non-cancelable lease term plus renewal periods that are reasonably assured because of bargain renewal options and/or significant economic penalties, should be substituted for the proposed guidance in this exposure draft. Under the proposed lease accounting, purchase options (other than bargain purchase options) are considered only when they are exercised. Similarly, we believe only renewal options and termination options that are reasonably certain of being exercised should be considered in the measurement of the lessee's liability to make lease payments or the lessor's right to receive lease payments.

If the Boards amend the exposure draft and substitute the determination of the lease term with the guidance in FASB Topic 840, the application of the other requirements included in this exposure draft will be simplified and the Boards' objective met. On the other hand, if as proposed in this exposure draft, the lease term considers the longest possible term that is more likely than not to occur, entities will require extensive forecasting capabilities and documentation of probability assessments for each lease. Furthermore, we believe a more-likely-than-not assessment is more subjective than a reasonably-assured assessment and is no more representative of the underlying economics. We do not believe that the benefit of a more-likely-than-not measurement of lease
payments will outweigh the significant costs and considerable human resources that will be necessary to ensure a consistent global application of the guidance.

**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 lessor 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?

**Response:** We do not believe that all contingent rentals should be included in the measurement of assets and liabilities arising from a lease. We acknowledge the Boards' view expressed in paragraph BC123 of the proposed ASU which states in part, "...the liability to pay contingent rentals and the right to receive lease payments exist at the date of inception of the lease. Such contingent rentals meet the definition of a liability for the lessee and an asset for the lessor. It is only the amount to be paid that is uncertain." The liability would seem, from the Boards' perspective, to arise from entering into the lease, even though the contingent rentals may only be payable based on the performance or usage of the underlying asset.

However, we respectfully disagree that an entity has automatic rights to an asset or has incurred a liability for contingent rents by entering into a lease agreement. We believe that such a view is inconsistent with existing guidance regarding the recognition of contingent gains and losses. Furthermore, we believe it is inconsistent with the concept of a constructive obligation as used by International Accounting Standards.

We urge the Boards to amend the proposed guidance such that a lessor recognizes contingent rental payments in the measurement of assets and liabilities only when the amounts are reasonably assured and that a lessee only includes contingent lease payments that are outside the control of the lessee. We also request that if, at the outcome of your redeliberations, the proposed guidance for contingent payments does not change, the Boards provide additional guidance to clarify whether the probability of recognizing contingent rentals, expected payments under term option penalties, and residual value guarantees are required to be measured on an individual contract level.

**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 lessee 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?

**Response:** We agree that lessees and lessors should remeasure assets and liabilities arising under a lease based on new facts and circumstances. Due to the significant level of judgment, estimation, and number of assumptions used to measure the lease-related assets and liabilities recognized in the statement of financial position, the subsequent accounting would not be relevant without reassessment when there is a significant change in facts and circumstances.

Furthermore, as we have noted in our previous responses, we encourage the Boards to reconsider the guidance for determining the lease term and lease payments. Modifying the proposed guidance (i.e., determine the lease term that includes renewal periods and contingent payments that are reasonably certain to occur, and exclude contingent lease payments that are within the lessee's control), the volume of reassessment events will be reduced. The reassessments events themselves would be less subjective and would be based on actual
triggering events (i.e., the exercise of a renewal option). We believe this would provide financial statement users with relevant and timely information regarding changes in the assets and liabilities related to leases and would avoid the significant resources that would be required under continuous reassessment and contemporaneous documentation.

Transition

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 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?

Response: The proposed guidance allows the use of a simplified retrospective approach to transition from the existing leasing model to the one described in the exposure draft. A retrospective approach would provide a degree of consistency and comparability between the reporting periods and between reporting entities; however, we believe that the proposed transitional guidance, even a simplified retrospective approach, would create significant operational challenges that will outweigh the benefits, especially for companies with an extensive volume of leasing transactions.

We presently are party to over one million lease contracts as either lessee or lessor. Extensive resources will be required to evaluate the contracts and measure lease-related assets and liabilities in accordance with the proposed guidance, particularly the guidance related to contingent rents, renewal periods, and lease rates. Over half of our total minimum rental commitments under non-cancelable operating leases (as lessee) relate to contracts originated outside of North America; in addition, responsibility for the lease commitments within North America is spread over nearly twenty different organizations. Ford Credit's operating lease and direct financing lease contracts will also need to be reviewed. We believe the cost of such an effort would far exceed the minimal benefit the information may provide the users of our financial statements.

We recommend modifying the transition guidance in the exposure draft. We recommend that upon transition, lessees record a right-of-use asset and a corresponding obligation measured at the minimum rent commitments for all existing contracts. The asset and liability would approximate the minimum lease payments that are disclosed presently in the notes to the financial statements. We also recommend that the Boards modify the transition guidance such that the proposed measurement provisions apply to the lessor and lessee on a prospective basis for all new leases or renewed contracts that occur after the effective date. While acknowledging there would be a period of inconsistency, allowing for a transition to the new guidance as we suggest would achieve the Boards' objective that all leases be recorded on the balance sheet and will enable entities to do so in a cost efficient manner.

Other

- We request the Boards to address embedded derivatives that need to be bifurcated from the host contract under Topic 815, Derivatives and Hedging, and whether there is any impact on lease-related assets and liabilities.
- We request the Boards to clarify whether the lease receivable recognized by lessors is within the scope of any of the finance receivables disclosures (including impairment disclosures) under Subtopic 50, "Disclosure," of Topic 310, Receivables