December 12, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

Dear Board Members and Staff:

We appreciate the opportunity to review and comment on the IASB’s and FASB’s (“the Boards”) exposure draft on Leases. CSC is a leader in the information technology (IT) and professional services industry with fiscal 2010 revenues of $16.1 billion and operations in 90 countries. CSC offers an array of services to clients in the commercial and government markets, including IT and business process outsourcing, and IT and professional services.

We support the Boards’ efforts to improve the accounting and financial reporting for leases. The accounting guidance on leases can be improved in ways that will increase the consistency of accounting treatments for economically similar transactions. There are critical issues, however, that need to be addressed in order for the guidance to be operational. The most important issues relate to lease term, contingent payments, disclosures and transition. We respectfully offer the following comments on these issues for your consideration.

Lease Term

The standard proposes 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. We believe that renewal options should be included only when it is probable that they will occur. If this modification is not adopted, it may result in the recognition of liabilities related to the extension option periods that do not meet the definition of liabilities within the conceptual framework, which may also cause accounting treatments to inaccurately reflect the economics of certain arrangements. We are also concerned that the approach is overly complex and subjective as it is very difficult to make estimates about the likelihood that renewal options will be exercised several or many years into the future. The significant uncertainty within such estimates will not improve the usefulness of information provided to users of the financial statements.

Contingent Payments

We do not agree that contingent rentals and expected payments under term option penalties and residual value guarantees should be included in the measurement of assets and liabilities using an expected outcome technique – as currently formulated. Significant uncertainty within estimates of payments will have a substantive impact on how lease arrangements are recorded, which will decrease the reliability of information for users of financial statements. The difficulties of
applying the guidance will likely lead to inconsistent application, which will affect the comparability and transparency of financial statements.

In addition, the requirement to use probability-weighted models for the analysis of all leases is not cost beneficial — it will add little if any decision-useful information for investors while significantly increasing costs. The complexity of the proposed model, in combination with the large scope of transactions to which it will apply, is onerous. We believe that only lease payments that represent a present obligation of a lessee should be included.

**Reassessment**

We agree that reassessment is needed when there are material changes to a lease. However, the overall model as currently proposed may make the reassessment provisions onerous. The evaluation of whether there has been a change in facts and circumstances regarding a lease may require nearly as much effort as reassessing the lease terms. And although there will be significant costs and extensive changes needed to information systems, the review of individual leases may have an inherently manual component that cannot be automated. We believe that reassessment should be required only when an indicator shows that a change in the lease term or payments will have a significant impact on the liability to make (or the right to receive) lease payments. The final standard should also include the clarification provided in the Basis of Conclusions, paragraph BC133, to clearly establish that a detailed examination of every lease in each period is not required unless there is an indication of a significant change in the terms of the lease.

**Disclosures**

We agree with the principles related to disclosures. The increased volume of disclosures, however, will require companies to track information that is not currently being tracked in sufficient detail to meet the requirements of the proposed standard. The additional disclosures will significantly impact our information systems, processes and controls. This will result in substantial increased costs, in addition to the increased costs that will occur if the lease provisions related to recognition, measurement and reassessment are adopted as proposed. Further, a large increase in the volume of disclosures will require more work to audit the disclosures, and we do not believe that all of the disclosures are necessary or useful.

**Transition-retrospective adoption**

We appreciate the Boards’ recognition that full retrospective adoption is not practicable. However, given the extensive volume of leases that will need to be analyzed, and the information systems, processes and controls that will need to be modified, the costs of the simplified retrospective adoption proposed method are still excessive and the value of the information obtained would not exceed the costs. We believe that the lease accounting standard should be adopted on a prospective basis (with the option to use the retrospective method) as was the case with Accounting Standards Update ("ASU") 2009-13, “Multiple Deliverable Revenue Arrangements,” and ASU 2009-14, “Certain Revenue Arrangements that Include Software Elements.”
We understand the Boards’ objective to maximize the comparability of information that would be achieved with retrospective application. However, this could also be achieved in ways that do not create the costs of the retrospective adoption method proposed. For example, the proposed standard could require entities to disclose information that provides investors with an understanding of the effect of the change in accounting principles (in the context of ASC 250, Accounting Changes and Error Corrections). Alternatively, this could be supplemented if entities were required to discuss these matters in management’s discussion and analysis (MD&A), providing one year of comparative financial information, which would provide users of the financial statements with additional information about the effects of the changes.

It is critical to assess all of the changes and costs of meeting the lease requirements in combination with those that will likely result from the proposed extensive changes in revenue recognition and other convergence projects. The method and timing of transition should also be considered in light of the comments that will soon be provided related to the FASB’s discussion paper on Effective Dates and Transition.

Thank you for your consideration of the comments discussed in this letter. The Boards’ actions to foster interactive exchanges of ideas, questions and suggestions have been exceptional. If you have any comments or questions about our assessment of the proposed standards, please do not hesitate to contact me at #703.641.2385 or ddebuck@csc.com.

Best regards,

Donald G. DeBuck  
Corporate Vice President and Controller
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

(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?

CSC Comments 1(a)

We support the Boards’ objective to improve the accounting for leases and believe this goal is attainable without undue cost or burden. The recognition of a right-of-use asset and a liability to make lease payments by a lessee will improve the consistency of accounting for economically similar transactions. We believe, however, that the accounting model for lessees as currently proposed is not operational; practical changes need to be made in order for the standard to:

- increase the quality, relevance and reliability of information for users of the financial statements
- ensure that accounting treatments reflect the substance of the underlying transactions
- ensure that the guidance can be applied consistently by all entities in all industries
- be sufficiently practical so that the benefits will outweigh the costs

It is imperative to highlight the complexity of the proposed standard as it is currently formulated as well as the critical issues and burdens that will be created if it is adopted as proposed. The current proposal would require significant new systems, processes and controls. CSC has thousands of leases that would need to be evaluated and monitored every reporting period.

This is the case not just from the perspective of financial accounting – since changes in financial accounting treatments will drive changes in deferred taxes, the scope of the accounting and tax analyses will be extraordinary. The accounting methodology would be changed in many respects for all leases; therefore, the analyses needed would not be restricted to operating leases – it would require assessments of all leases. The complexity and subjectivity inherent in key aspects of the
standard will not increase the consistency, comparability and transparency of the information provided to shareholders.

This is particularly true of the proposed threshold of "more-likely-than-not" related to the term of the lease and the probability-weighted approach proposed related to contingent lease payments (please also see our responses to questions #5, #8 and #9). It is essential to make key changes to prevent the subjective and uncertain estimates called for in the proposed standard, which could cause an accounting treatment to not reflect the substance of the transaction. For example, uncertain and subjective estimates of contingent rentals could cause the liability recorded to not accurately reflect an actual and present obligation of the lessee.

The significant increase in disclosures needs to be considered in connection with the substantial increase in disclosures that will likely result from the adoption of other convergence standards. We appreciate the Boards' sensitivity to these concerns and believe it is vital for the Boards to carefully consider the feedback provided via comment letters and roundtable discussions. We believe straightforward, significant changes to the proposed standard can be made that will address the issues noted above. In its present form, however, the proposed standard is not operational.

(b) 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?

CSC Comments 1(b)

Subject to the key changes above that are essential to make the proposed standard operable, we agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments as outlined in the proposed standard. This approach has a sound conceptual basis and is consistent with the current accounting for similar assets and liabilities.

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?
CSC Comments

We believe it is important to align the accounting for lessees and lessors to best reflect the economics of transactions arising from leases, as well as the presentation for financial reporting purposes. We also believe that a fully developed standard for both lessees and lessors will need to be based upon consistent accounting principles within the standard itself as well as in relation with other accounting standards (e.g., revenue recognition). As CSC is rarely involved in leasing transactions as a lessor, we have focused our comments on the accounting model for lessees.

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?

CSC Comments

We do not agree with the proposed accounting treatment for short-term leases and believe a scope exception is needed for short-term leases. The scope exception could exclude: 1) immaterial leases, 2) leases less than a year in length, or 3) leases less than six months in length. It would not be more arbitrary to select a reasonable scope exception relative to the potentially arbitrary manner in which scope exceptions may be applied by entities (in the absence of any guidance). Tracking and evaluating a large number of short-term leases will not be cost-beneficial and will provide little if any additional information for users of the financial statements.

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?

**CSC Comments**

Each of the questions noted above is addressed in order.

(a) We generally agree with the proposed definition of a lease, which is substantially the same as the current definition of a lease in ASC 840/IAS 17. However, additional clarification and application guidance are needed to differentiate leases from executory contracts.

(b) Initially the criteria proposed for distinguishing between a lease and a purchase seem reasonable. We are concerned, however, that the concept related to transfer of control within the exposure draft on leases does not appear to be reconciled to the same concept within the exposure draft on revenue recognition.

To be specific, paragraph 8(a) indicates that “An entity shall not apply this guidance to... a contract that results in an entity transferring control of the underlying asset and all but a trivial amount of the risks and benefits.” The “risks and rewards” approach is specifically excluded within the exposure draft on revenue recognition. This issue could cause confusion for both preparers and users of financial statements and could potentially lead to inconsistent application in practice.

Given that the concept of transfer of control is vital to both the guidance within leases and revenue recognition – and is currently being reconsidered within the revenue recognition project – we find it challenging to conclude that this provision within the lease exposure draft should be adopted as currently proposed. We encourage the Boards to take more time to insure the principles within all of the convergence projects are consistent and well aligned. This matter is critical to creating an improved and high-quality set of accounting standards. There is no value in meeting a target date of June 2011 if the most important objective of the convergence projects is not achieved.
(c) We believe there is a considerable need and opportunity to improve the guidance for
distinguishing leases from service contracts due to the fundamentally different accounting
that will be applied to them.

Under the proposed lease guidance, the lease accounting model will need to be applied to
the entire contract if an arrangement is determined to contain a lease component that
cannot be separated from the service component(s). Therefore, it is critical for the
guidance to be clarified and expanded.

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?

CSC Comments

We believe that there should be a scope exception for immaterial and short-term leases (please
see comments related to question #3).

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?

**CSC Comments**

We agree that service and lease components should be segregated and accounted for separately if they are distinct. We have a concern with the issue of distinguishing lease components from service components, which is similar to our concern noted above related to leases and purchases (question #4b).

To be specific, in order to distinguish lease components from service components within a single contract, the lease exposure draft requires that all of the performance obligations first be identified and then evaluated to determine whether a service component is distinct. Further, a service component is distinct if either the entity sells an identical or similar service separately, or if the entity could sell the service separately because the service has both a distinct function and a distinct profit margin. But it is clear that there are significant questions related to how the new concept of “distinct profit margin” will be interpreted and applied in practice. As the Boards reconsider those issues within revenue recognition, the issues will be equally important to the proposed accounting for leases.

It is also worth noting that it may be difficult for a lessee to determine the cost of the services if the company does not purchase these services separately from the vendor or a third party. The lessee may need to rely on the information, if available or provided, by the vendor in order to segregate the cost of the service relative to the cost of the leased asset.

**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?

**CSC Comments**

We do not believe that purchase options should be accounted for only when exercised because it may be reasonably certain that a purchase option will in fact be exercised. If it is reasonably certain that a purchase option will be exercised, it is difficult to understand why this key information would not be reflected in how the transaction is recorded. Further, this approach would likely lead to economically similar transactions being recorded in different ways (example provided below). The reasons behind this view are outlined below.
Options, both purchase options and renewal options, grant a company the contractual ability to secure additional rights (e.g., the right to purchase the underlying asset or to extend the term of the lease). Naturally, if an option is just a possibility, it should not be reflected in the accounting treatment for a lease.

But when a purchase option or a renewal option is reasonably certain to be exercised, it would not be consistent to treat them differently, as indicated in the following example. Under the guidance proposed in the exposure draft, if an eight-year lease included the option to purchase the asset at the end of four years (and it is not a bargain purchase option; however, it is reasonably certain to be purchased), the purchase option would not be reflected in how the transaction is recorded. Yet, if the same lease instead had a four-year renewal option at the end of year four (instead of the purchase option) that was also reasonably certain to be exercised, then most if not all of the rent payments related to the renewal period would be included in the amounts recorded for the right-of-use asset and liability. Therefore, the economic substance of the transaction could be substantially similar or identical, yet result in very different accounting treatments.

The Boards reached a preliminary conclusion within the discussion paper on leases that purchase options should be accounted for in the same way as options to extend or terminate the lease. Since we believe that rental payments, renewal options and purchase options should only be accounted for if they are reasonably certain to occur, we continue to support the approach that purchase options and renewal options should be treated in a consistent manner.

**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). Lessor's 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?

CSC Comments

We do not 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, as currently proposed in the exposure draft. In accord with our comments above, we do not believe that renewal options should be accounted for when they are merely general possibilities and may not even be probable to occur (e.g., there is only a 30% chance that a given renewal option will be exercised). This has a direct impact on the amount of rent payments that would be recorded for a right-of-use asset and liability. If it is not probable that a portion of the rent payments will be made, then we do not believe that it meets the definition of a liability within the conceptual framework.

The proposed approach is needlessly complex and subjective. Under the methodology proposed for determining the lease term, a company will need to estimate the economic and financial outlook for the business as well as a myriad of other factors. For example, many leased facilities are used in support of a specific contract/project for a finite contract period. The term of the lease is set for the initial contract period and contains options should the follow-on contract be won (for example, a governmental entity with multiple contract renewal options and a contractor who synchronizes the term of a leased facility with the term of the contract).

Under the terms of the proposed guidance, the probability of winning the follow-on contract would need to be calculated to determine if it is more likely than not that the lease would be extended into the option periods. This would require a significant amount of work and would be quite subjective. Further, these estimates would add unnecessary volatility to the amounts related to the asset and liability as well as amortization and interest expense.

The proposed guidance should be amended so that the lease term only includes optional renewal periods that are probable (U.S. GAAP) or virtually certain (IFRS). This approach is much more practical, particularly in light of the extraordinary volume of additional work that will be required by the adoption of the proposed standard. This approach will result in recording right-of-use assets and liabilities that are most fully in accordance with the definitions of assets and liabilities established within the conceptual framework.

This is also more cost beneficial because the methodology proposed would add very little, if any, additional useful information to users of the financial statements. In fact, by eliminating the significant uncertainty inherent within these estimates, it will increase the reliability and accuracy of information provided to users of the financial statements.

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?

**CSC Comments**

We do not agree that contingent rentals and expected payments under term option penalties and residual value guarantees should be included in the measurement of assets and liabilities using an expected outcome technique – as currently formulated. Significant uncertainty within estimates will have a substantive impact on how lease arrangements are recorded, which will decrease the reliability of information for users of financial statements. The difficulties of applying the guidance will likely lead to inconsistent application, which will affect the comparability and transparency of financial statements.

The requirement to use probability-weighted models for the analysis of all leases is not cost-beneficial — it will have little if any value to investors while significantly increasing costs. The sheer complexity of the proposed model, in combination with the large scope of transactions to which it will apply, is onerous. We believe, however, that the proposed standard can be modified in ways that will make the guidance operable, and we note suggestions to this end below.

It is extremely difficult to accurately and reliably make estimates of events that may or may not take place many years into the future. The likelihood that those events may occur can be influenced by any range of other factors (e.g., the chances that a client renews and extends a contract) that are equally hard to predict. The requirement to make estimates of this nature will reduce the reliability of the information within the financial statements and decrease the utility of the information for users of the financial statements.

Probability-weighted models, which are currently required in a few other areas of GAAP, are very challenging to use in practice. In evaluating a given situation, there are times when a team of accounting, operations, finance and contract personnel conclude that there are at least ten or more outcomes that have a realistic possibility of occurring. That may be true, and analyses may be built to reflect that understanding. However, these analyses clash with the fact that working with ten or fifteen realistic possibilities is not feasible. There is no objective way to support, for example, that option “X” has an “11.5%” or a “7%” chance of occurring. There is no doubt that such estimates are subjective, uncertain and probably not supportable.

We do not agree that this highly complex method for estimating rental payments — which would be applied to every single lease — will result in more decision-useful information for financial statements users. The inherent uncertainty of making estimates related to multiple possible events that may take place many years in the future is certain to decrease the accuracy and reliability of this financial information. This could result in recording liabilities at amounts that never actually occur. Moreover, this process would be very time-consuming and costly, particularly as these probability-weighted estimates would need to be reevaluated when there is a change in the facts and circumstances related to a lease arrangement.

Far more effective and practical approaches are available and should be considered. We believe that lease payments should only include payments for the recognized lease term that represent a
present or probable obligation of the lessee. The scope of the changes in systems and processes that will be required for companies to meet the central objective of the proposed lease standard, taken together with the changes that will be required if the converged standard on revenue recognition is adopted, make it imperative for the lease model to be made operable.

**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?

**CSC Comments**

We agree that reassessment is needed when there are material changes to a lease. However, the overall model as currently proposed – particularly in regard to the definitions of lease term and lease payments – makes the reassessment provisions onerous. The evaluation of whether there has been a change in facts and circumstances regarding a lease may require nearly as much effort as reassessing the lease terms. We believe that reassessment should be required only when an indicator shows that a change in the lease term or payments will have a significant impact on the liability to make (or the right to receive) lease payments. The final standard should also include the clarification provided in the Basis of Conclusions, paragraph BC133, to clearly establish that a detailed examination of every lease in each period is not required unless there is an indication a significant change in the terms of the lease.

**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?

**CSC Comments**

We have noted some concerns related to the criteria for in-substance sales/purchases criteria in our response to question 4(b) above. It is not clear why the determination of whether a sale has occurred would be based on criteria within the guidance for leases that may not be fully aligned
with the proposed guidance for revenue recognition. We believe it would be more efficient and effective for the determination of whether a sale has occurred to be based on the principles within the revenue recognition proposals.

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?

CSC Comments

We agree that right-of-use assets should be presented as if they were tangible assets within property, plant and equipment. We believe that right-of-use assets and lease liabilities should be presented separately only if they are material.

(a) 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?

(b) 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?

(c) 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?

CSC Comments on 12 (b), (c) and (d)

We believe it is important to align the accounting for lessees and lessors to best reflect the economics of transactions arising from leases, as well as the presentation for financial reporting
purposes. As CSC is rarely involved in leasing transactions as a lessor, we have focused our comments on the accounting model for lessees.

**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?

**CSC Comments**

Similar to our views on the statement of financial position, we do not believe the lease income and expense (amortization and interest expense) should be presented separately on the income statements unless they are material.

**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?

**CSC Comments**

We do not believe cash flows arising from leases should be presented separately in the statement of cash flows unless they are material.

**Disclosures: 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?

**CSC Comments**

We agree with the principles related to disclosures. Preparers need to disclose useful quantitative and qualitative information about the amounts related to leases that have been recognized in the financial statements. Our goal and practice are to provide users of the statements with useful information on the amounts, timing and uncertainty of cash flows.
There is a significant increase, however, in the volume and scope of new disclosures required under the proposed standard. This volume of disclosure could cause issues for the users of the financial statements if too much information results in obscuring information that is truly important and useful.

The increased volume of disclosures will require companies to track information that is not currently being tracked in sufficient detail to meet the requirements of the proposed standard. The additional disclosures will significantly impact our information systems and processes. This will result in substantial increased costs in addition to the increased costs that will occur if the lease recognition, measurement and reassessment provisions are adopted as proposed (i.e., because the complexity of accounting for leases is much greater). A large increase in the volume of disclosures will require more time, effort and cost to audit the disclosures.

It is critical to assess all of the costs of meeting the lease requirements in combination with the required changes and costs that will likely occur as a result of the extensive changes in revenue recognition. As noted above, the proposed model for accounting for leases would significantly increase the use of estimates and assumptions. If critical aspects of the proposed lease model are simplified, this would reduce the need for extensive disclosures to explain the estimates and assumptions. Furthermore, less complexity permits preparers to release information to investors faster.

**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?

**CSC Comments**

The proposal should be adopted on a prospective basis. Even the simplified retrospective approach proposed by the board would be onerous. Many large entities, including CSC, have thousands of leases that will need to be reviewed. These leases could include hundreds of thousands of individual assets that would need to be set up in fixed asset ledgers. Schedules would need to be created for all of these items to capture the monthly amortization and liability reduction. Many accounting systems are not currently equipped to handle this volume of lease activity.

The full retrospective application would be very costly for companies to implement, but we believe the option should be available.
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?

CSC Comments

As currently proposed, the costs would exceed the benefits. It is critical for modifications to be made to the proposed guidance. One proposed change noted earlier is estimating the lease term. By using a probable threshold, companies will be able to simply arrive at the best estimate of the lease term and avoid the complex and costly calculations proposed.

Another proposed change is to use a probable threshold in determining contingent payments. This will allow a company to avoid overly complex calculations based on estimates that could easily change. Also, immaterial leases should be excluded from the scope. These suggestions would greatly reduce the costs associated with complying with the proposed guidance without detrimentally impacting the information provided to the users of the financial statements.

Other comments: Question 18

Do you have any other comments on the proposals?

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?

Re. Questions 18 & 19: CSC does not have comments other than those provided above.