September 6, 2013

Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Email: director@fasb.org

RE: File Reference No. 2013-270
FASB Exposure Draft: Leases

Dear Board Members:

Koch Industries, Inc. ("KII"), a privately-held company, is pleased to comment on the Revised Proposal by the Financial Accounting Standards Board ("Board"), issued May 16, 2013, Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840). KII and its subsidiaries ("the Company") are engaged in operations, trading and investments worldwide and in many industry sectors – including petroleum refining and chemical manufacturing, consumer products, building products, fibers and resins, nitrogen-based fertilizers, industrial combustion and pollution control equipment, commodity and financial trading, and other strategic investments. The Company has operations in over 60 countries and over 60,000 employees worldwide.

We support the core objective of recognizing assets and liabilities’ arising from a company’s leasing activities on the balance sheet to better reflect the economic certainty of these transactions in the financial statements. Although we appreciate the Board’s efforts to drive more transparency into companies’ leasing practices, we believe the revised proposal has not achieved this objective. The added complexity will not present a clear, economic picture of the leasing activity for our users of the financial statement, will cause confusion for our investors and will require our preparers to contribute more time and effort to comply with the proposed accounting standard. In particular, we believe the strict use of an NPV model and the distinction in lease classification and the differences in income statement recognition are counterproductive to some of the goals outlined in the proposed guidance.
We recommend that the Board find a simplistic methodology to accomplish recording leases on the balance sheet, similar to those currently employed by the investor community. We feel accounting decisions should be anchored to the economic factors underlying the lease transactions, and results should be symmetrically aligned between lessor and lessee. In our opinion, taking a more practical approach would not only alleviate the need to reeducate our investors, but would also reduce administrative burden by avoiding significant efforts to calculate the impact on the financial statements. The proposed guidance requires calculations using significant management judgment as applied to the detailed lease provisions, instead of the business purpose of the lease. We feel this is a flawed approach and have briefly discussed some of our thoughts below for your consideration.

Simplicity and Economic Reality

For internal reporting purposes, we employ a capital consumption framework, which includes capitalization of operating leases, to help us manage our business and make better informed decisions. Under this framework, the Company considers why an underlying asset is being utilized, instead of how long a company is contractually obligated to utilize it or what type of asset is being leased. When assessing future capital needs to be deployed for leasing transactions, the Company differentiates whether a leased asset is vital for “perpetual” business activity or has been identified for an “opportunistic” activity. Perpetual leases represent assets that are needed to drive our business, so we try to assign a value that approximates the cost of actually owning the asset, as well as, reflect how analysts and rating agencies would look at the lease.

Opportunistic leases, which are typically the exception, are discretionary and can generally be terminated or subleased, based on influential market factors, and this is where we use more of an NPV based approach. This distinction is used to calculate the balance sheet impact, not to model the consumption patterns in the income statement.

We believe that the new classification of lease types (Type A and Type B) introduced in the Board’s revised proposal and their corresponding reporting guidelines will leave the users of our financial statements unclear of the purpose and presumed consumption of the underlying asset within the lease. As discussed above, we feel the basis of capital consumption does not correlate to the length and overall terms of a lease. In our opinion, the definition and reporting requirements of Type A and Type B leases will not improve or simplify the accounting practices under the current guidance. The proposed bifurcation, conceptually and practically, results in inconsistent consumption patterns, causing confusion to the financial statement users. Differences in lease classification, like the current accounting model, usher in uncertainty and subjectivity, based on management assumptions, benchmarks, subjective parameters and tolerances. In fact, the qualitative criteria in the proposed standard effectively replace the role of quantitative factors in our current bright line distinctions used to delineate the lease classification, thereby negating two of the key goals of removing bright line tests and simplifying current accounting practices.

Furthermore, we feel the proposed guidance and the distinction between Type A and Type B leases continue to allow opportunities to manage accounting results through structuring lease transactions. We do not feel this distinction is warranted and request the Board consider a single
capitalization model as the economic distinction between the two types (Type A v. Type B or operating vs. capital) is insignificant. In addition, we agree that all leases reduce a company’s borrowing capacity and are considered forms of financing. However, we would support straight line expensing through the income statement to simplify the accounting, to allow for consistency between companies and to align lessor and lessee results.

In summary, we support a balance sheet recognition that reflects economic reality of the lease, along with, a consistent straight line expense pattern of consumption to provide a simple and single unified approach to lease accounting that is understandable, transparent, and symmetric.

Administrative Burden

Needs of preparers and users, including analysts and rating agencies, of the financial statements are quite diverse, with each having a different view on a preferred model depending upon the nature of the lease contracts and many having different purposes for the financial model adjustments they factor into their financial statement analysis. Since the proposed accounting does not convey the economic perspective of a lease, we believe we will need to make additional adjustments and provide supplemental information to both investors and other users of our financial statements. Rating agencies will likely unwind the accounting and continue to make their own adjustments, as well. From our perspective, the efforts that will be required for our preparers to comply with accounting standards and then to provide useful information to the users of our financial statements will result in cost of implementation and compliance that far outweigh the benefits that the Board stated were the drivers influencing the proposed lease standard.

We hope you will consider our expressed concerns and suggestions. We look forward to working with the Board to assist in the success of this proposal.

Sincerely,

Richard Dinkel
Chief Accounting Officer
Koch Industries, Inc.