September 6, 2013

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 2013-270

Dear Ms. Cosper,

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board ("FASB" or "Board") on its May 16, 2013 Exposure Draft regarding proposed lease accounting changes. Unum Group ("Unum") operates in the United States and is a leading provider of disability insurance products in the United States and the United Kingdom. Unum also provides a complementary portfolio of other insurance products, including employer- and employee-paid group benefits, life insurance, and other related services. We currently maintain over 1,000 operating leases.

We appreciate the FASB’s intent to provide financial statement users with more decision-useful information about an entity’s lease commitments. Our understanding is that the primary objective is to include lease commitments within the statement of financial position. While we believe the re-exposure is an improvement from the 2010 Exposure Draft, we also believe there is opportunity to further enhance the proposed standard by reducing complexity within the current proposal, while still achieving the primary objective. One possible solution for accomplishing this objective, while at the same time allowing for recognition on the balance sheet, would be to adjust the lease classification criteria to allow simplification to the reporting of lease expense. This would provide more decision-useful information to users of financial statements.

We believe the Type B expense treatment would be appropriate for a greater number of leases than the proposed criteria would permit. The proposed Type A model adds significant complexity and difficulty in understanding the true lease payments for users of financial statements and for tax-tracking purposes. We believe preparers of financial information and financial statements would be unduly impacted by an administrative burden, including the calculation of imputed interest that is not material to the business or necessarily reflective of the economics of the transaction. Some companies may choose to lease particular assets for the purpose of convenience rather than to finance a transaction. Consideration of the business purpose should be given to the lease. A single-lease expense approach would reduce complexity yet still provide clear information to users of financial statements.

While we appreciate the proposed principles-based accounting model, the current audit environment for a public company supports a rules-based approach. Additionally, the PCAOB continues to comment on accounting firms’ ability to review management decisions, including judgment. As a public company, we will be required to justify each judgment of leases for consideration of completeness, reasons for
classification by lease type, lease term, and other factors. The proposed guidance would create a significant administrative burden for implementation, tracking, and monitoring of leases. Due to the number of leases and the tracking and monitoring necessary for each lease, system enhancements will be required in order to maintain all of the information. For many companies, including Unum, the effort and expense to be incurred would not be an efficient use of capital as lease commitments are not a significant part of our business.

The following represents our comments to the questions for respondents of financial statements.

Questions for All Respondents

Question 1: Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

Unum Response: We agree with the definition of a lease.

Question 2: Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Unum Response:
We believe the primary objective of the proposed standard is to provide recognition, measurement, and presentation on the balance sheet, regardless of whether or not the asset is property. We support the recognition of an asset and corresponding liability on the balance sheet. We request additional consideration be given to the presentation of expenses. We believe “major part” of the remaining life would be a better threshold than “more than insignificant portion.” We believe that maintaining a single-lease expense approach would be a more meaningful representation within the financial statements. We believe that a single-lease expense model would be the most cost effective and operational approach to this requirement. Unum currently has more than 1,000 leases, most of which would likely meet the criteria for the proposed definition of a lease. Many may be considered Type A leases, even though these leases represent an ancillary portion of our business and are generally of low cost. Rent/Lease expense should continue to be recognized as such for accuracy in reporting of the economic benefits of the transaction and to help users understand true rent expense. Financing is not a typical reason for our company to enter into a lease agreement. However, the current proposal would treat these leases as financing leases. If a change to current lease accounting is necessary, it would appear that the accounting should follow the economics of the transaction.
Question 3: Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Unum Response: We agree that a lessor should apply the same accounting approach that a lessee would apply.

Question 4: Do you agree that the principle on the lessee’s expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Unum Response: One possible solution would be to remove the requirement of property from the classification of either A or B and to adjust the criteria for Type B classification for the single-lease expense. We believe the outline for classification is unnecessarily complex and request that the final guidance more clearly provide the specific criteria to be met for lease classification, rather than what it is not. We understand the challenge in moving to a principles-based approach. Either in bright-line or principles based, there is great distance between insignificant and a major part.

Question 5: Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

Unum Response: We believe a lease term should be outlined within the lease agreements and that a lease term is not necessarily “noncancellable.” A lease agreement is a contract entered into by two parties for a stated period of time. If the lease term is indefinite, then a best estimate of the length of the term should be made with consideration given to the economic life of the right-of-use asset. If there are other periods that may be covered and it would be detrimental to terminate the lease agreement before the renewals expire, those periods should also be included within the lease term.

Question 6: Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Unum Response: We believe this adds significant complexity and administrative burden to reassess the change in an index for variable lease payments. We request further guidance as to whether an effective index rate could be applied.
Question 7: Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the Boards should consider? If yes, what are they and why?

Unum Response: We request that public companies be given at least two years to implement the standard after finalized and before the effective date. Consideration of this request is on the basis of time necessary to implement process and system changes. We believe that a full retrospective adoption would provide the most decision useful information. This method requires significant administrative effort to review each agreement in order to properly implement and maintain the required information. We do not currently have system capabilities to maintain and produce the proposed lease reporting information, due to the number of leases and complexity of the proposed business requirements. We do not believe early adoption should be permitted because there would be a loss of comparability of financial statements.

Question 8: Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a Lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Unum Response: We agree with the proposed disclosure requirements.

Question 9: Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

Unum Response: Not applicable.

Question 10 (FASB Only): Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

Unum Response: We do not believe it is necessary to provide different recognition and measurement requirements for related party leases.
Question 11: Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

Unum Response: We do not believe it is necessary to provide additional disclosures with respect to related party leases, beyond those required by Topic 850.

Thank you for your consideration of our responses.

Respectfully submitted,

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