January 17, 2018

Technical Director
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

Re: Leases (File Reference No. 2018-200)

Overview

Teekay Corporation and its subsidiaries ("Teekay") provide marine transportation of crude oil, refined products and liquefied natural gas as well as offshore oil processing and storage on its fleet of vessels. As of January 1, 2018, we had an ownership interest in approximately 200 vessels. The proposed accounting standards update ("Proposed Update") of ASC 842 is important to us given that a substantial majority of our vessels are employed on contracts that contain both a lease component and a nonlease component. We thank the FASB for their efforts in respect of this new standard and appreciate the opportunity to comment on this Proposed Update.

Transition – Comparative Reporting at Adoption

We do not have any comments on Question 1 or Question 2 contained in the Proposed Update. However, we would request that the FASB provide more guidance on how the proposal regarding separating components of a contract in 842-10-15-42A would apply to both the transition alternatives included in 842-10-65-1(c), as well as whether or not the optional practical expedients in 842-10-65-1(f) are used.

We expect that many calendar year-end public companies who generate revenue from both leasing and non-leasing activities, such as Teekay, will be adopting ASC 842 on January 1, 2018. As such, we prefer that the transition option included in this Proposed Update be finalized as soon as possible, to allow for an orderly process for first quarter 2018 reporting.

Separating Components of a Contract

We agree with, and wish to reiterate the views expressed in BC16 of the Proposed Update. In particular, we fully support the request that the Board provide lessors a practical expedient similar to that afforded to lessees.

We believe the fundamental issue raised is not an issue of allocation of consideration but rather an issue of disclosure. As a stakeholder, we are reluctant to bear the costs associated with separating and allocating our consideration amount lease and revenue component if such an allocation does not have any impact on accounting measurement and recognition. In addition, as the recognition pattern remains the same and given the general nature of the integrated service and vessel leases, this allocation does not provide meaningful disclosure to the users of our financial statements.

After careful consideration, we do not support changing the separation and allocation guidance to address a concern about disclosure (the Proposed Update). Nor do we support a reconsideration of the allocation requirements (as was suggested in BC17 and rejected in BC27) to address a concern about disclosure.
Rather, we believe a concern about disclosure should be addressed through amending the disclosure requirements.

While we appreciate that the Proposed Update provides some relief for operating lease contracts which meet certain criteria, it does not provide relief for all operating leases (including longer-term operating leases with more than insignificant non-lease components). Many of these contracts will fail the criteria in ASC 842-10-15-42A(b), including many of our vessel charters that are longer term in nature but not long enough to be classified as a sales-type lease or direct financing lease. This may create a confusing situation due to different treatments for otherwise similar contracts, whereby:

- the revenue from non-lease components of contracts that pass the criteria in ASC 842-10-15-42A(a) and (b) will be included as part of operating lease income disclosure; however

- the revenue from non-lease components of contracts that do not pass the criteria in ASC 842-10-15-42A(a) and (b) will not be a part of operating lease income disclosure.

As an alternative to amending the separation and allocation requirements as proposed in the Proposed Update, we request the FASB consider amending the disclosure requirements instead. We believe this will more simply and effectively address the primary concerns raised by stakeholders.

Our proposal (the "Alternative Proposal") is that the separation and allocation requirements be left unchanged and the disclosure requirements be changed as follows: (text added is underlined)

842-30-50-5 A lessor shall disclose lease income recognized in each annual and interim reporting period, in a tabular format, to include the following:

a. For sales-type leases and direct financing leases:

   1. Profit or loss recognized at the commencement date (disclosed on a gross basis or a net basis consistent with paragraph 842-30-45-4)

   2. Interest income either in aggregate or separated by components of the net investment in the lease.

b. Lease income relating to lease payments.

b. Lease income relating to variable lease payments not included in the measurement of the lease receivable.

842-30-50-5A If the timing and pattern of revenue recognition for a lease component and non-lease components associated with that lease component are the same, as a practical expedient, a lessor may, as an accounting policy election, by class of underlying asset, not separate revenue from non-lease components associated with that lease component for the purpose of ASC 842-30-50-5 but instead disclosure such revenue with the revenue from the associated lease component.

842-30-50-5B If the election in 842-30-50-5A is made, such fact should be disclosed.

We believe our Alternative Proposal is preferable to the Proposed Update for the following reasons:

1. The Proposed Update does not address the concerns of stakeholders with respect to longer term operating leases with more than insignificant non-lease components. As previously mentioned, we believe that the Proposed Update introduces incremental complexity and potential ambiguity in the financial statement by having operating lease contracts disclosed in two different ways depending on whether or not they meet the criteria in ASC 842-10-15-42A. Our Alternative Proposal treats all contracts that meet the criteria in ASC 842-10-15-42A(a) the same way and thus avoids the inconsistency in the disclosure that will result from the Proposed Update. In addition, and more importantly, our Alternative Proposal addresses stakeholders concerns for the entire population of
contracts that contain operating leases whereas the Proposed Update will only address stakeholders concerns for a subset of these contracts.

2. Our Alternative Proposal is a very discreet change to ASC 842 while the Proposed Update requires more extensive changes, including the need for a second lease classification test in ASC 842-10-15-42A(b) of the Proposed Update. Given the cost and complexity involved in implementing this new standard, we believe that adding an incremental lease classification test would create a burden on stakeholders which is unnecessary to achieve the desired outcome.

Thank-you for the opportunity to comment on the Proposed Update.

Sincerely,

Brian Fortier
Vice-President and Group Controller
Teekay Corporation

Sincerely,

Scott Watson
Director, Accounting Policies and Research
Teekay Corporation