

December 15, 2010

Technical Director
File Reference No. 1850-100
FASB
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via email: director@fasb.org

Reference: Exposure Draft Leases (Topic 840)

Dear Sirs:

We appreciate the opportunity to comment on the Exposure Draft related to Lease accounting. The changes contemplated by the Exposure Draft (ED) will have dramatic effects on the financial statements of many companies, and perhaps sudden, detrimental effects on certain lessees.

Our comments focus on the following issues;

- Lease Term and Contingent Rentals
- Implications for Debt and Similar Covenants/Transition
- Administrative burden

The Bon Secours Health System, Inc., headquartered in Marriottsville, Maryland, is a \$3.1 billion not-for-profit Catholic health system that owns, manages, or joint ventures 18 acute-care hospitals, one psychiatric hospital, five nursing care facilities, four assisted living facilities, and 14 home care and hospice programs. More than 21,000 Bon Secours employees help people in seven states, primarily on the East Coast.

Lease Term and Contingent Rentals

The ED defines the lease term as the longest possible term that is more likely than not to occur. We believe that adopting such a definition involves speculation about the lease term. In actuality, the lessee has the ability to terminate the lease in accordance with the terms of the lease document; and indeed, circumstances may well change between the date of commitment to the lease and the lease termination date. The lessee frequently pays for this flexibility by negotiating shorter terms while paying higher rental rates. Disclosure that could provide details of those contingent liabilities versus those that are intended obligations based on likely renewals could help the readers better evaluate the nature of the lease obligations, but for balance sheet recognition purposes, we would recommend the minimum non-cancellable lease term, consistent with FAS 13.

Similarly, the ED's proposal related to contingent rentals is not appropriate. Again, circumstances are constantly changing, and speculation regarding the future does not improve the quality of the accounting information. We would propose that minimum lease payments be determined consistent with FAS 13. Understanding the FASB's intent to reflect lease obligations on the balance sheet, perhaps consideration could be given to expanded footnote disclosures as contingent liabilities. Our health system has prided itself in the past with the level of diligence applied to ensure disclosures are complete and accurate.

Implications for Debt and Similar Covenants/Transition

While rating agencies have considered lease obligations in their evaluation of credit, clearly bond, bank and insurance covenants have not. In the past, debtors have contracted debt and similar covenants based upon accounting standards in place at the time of agreement. If the elements of the ED are adopted, lessees will be subject to generally accepted accounting principles that are inconsistent with those in place when such covenants were adopted. The inclusion of new assets and liabilities on lessees' balance sheets will likely effect the calculation of financial ratios included in many covenants commonly included in debt agreements such as debt-to-total assets, debt to capitalization ratios, and cash coverage ratios, and in certain cases, place the debtor in default.

This consequence could be grave for many debtors. While a response may be that debtors will simply need to approach their banks, bond insurers or bondholders, there are very real economic implications. For any debtor to approach a bank or bond insurer, particularly in these economic times, allows the debt holder to insist on changes to fees, rates or covenants. In our case, we can give testimony to the difficulty and cost of these negotiations.

In addition to banks and bond insurers, some covenants for tax exempt issuers are structured with bondholders as a group. These arrangements typically do not provide for a single party to negotiate the covenants. For covenant ratios impacted by these arrangements, there can be thousands of bondholders who would be required to be contacted, and waiver of the associated covenant potentially may not occur.

It is possible the consequences outlined above could be worse for those organizations which are not as financially strong as others. Those organizations which have less cash and capital capacity are sometimes required to use leasing as a financing option. Because of this, they may be more at risk for covenant discussions and negotiations. One alternative the FASB may consider is to address any proposed lease obligation as long term liability that is not specifically classified as long term debt.

Administrative Burden

Although the FASB seeks to decrease complexity, it is easily argued that the practical application of the proposal is significant. For example, one of the most significant provisions of the ED is that the lease liability would be reassessed and the amount of the liability would be revised for changes in estimated future lease payments if facts or circumstances indicated there would be a significant change in the liability since the previous reporting period. For a lessee with hundreds, if not thousands of leases, this creates a tremendous amount of new work. In addition, complexity is added with the concept of probability-weighted estimates. Such estimates also require resources that do not exist today for measurement, and introduce new subjectivity into the application of the proposal.

We are equally concerned about the administrative support required to transition the lease accounting. A full retrospective review of past leases will require additional resources.

We have some concern about the disruption that could results from adoption of new lease accounting principles during this period of global financial challenge. Although the proposal has merit, we recommend a planned and deliberate schedule for issuance.

In an era where health care costs are the subject of public, private and payer pressure, we are committed to reducing costs in every way possible. We appreciate the opportunity to comment, and commend the Board on undertaking such a complex matter.

Sincerely,

Peter F. Gallagher

Senior Vice President/Chief Financial Officer

cc: Randolph N. Reynolds, Principal, Reynolds Development

Peter J. Bernard, Chief Executive Officer, Bon Secours Virginia Health System, Inc.

Katherine A. Arbuckle, Chief Financial Officer, Bon Secours Health System, Inc.

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