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Technical Director Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

File Reference No.: 1850-100, Leases (Topic 840)

Dear Sir/Madam:

Verizon Communications Inc. (Verizon) appreciates the opportunity to comment on the proposed Accounting Standards Update to amend Topic 840 *Leases* (Proposed ASU) in the FASB Accounting Standards Codification (ASC). Verizon is one of the world's leading providers of communication services and is a registrant with the SEC. The industry in which we operate is capital intensive. As such, we have a significant leasing portfolio consisting of real estate, wireless towers, network equipment and motor vehicles. We also lease a significant number of noncore items such as computers, printers and copiers.

Overall, we support the direction of the Financial Accounting Standards Board and the International Accounting Standards Board (the Boards) in developing an accounting model for lessees and lessors that eliminates the concept of operating leases. Furthermore, we support the Boards' proposed application of a right-of-use model in accounting for all leases.

However, we have identified several concerns in this Proposed ASU which we perceive to be potentially inoperable for preparers of financial statements. It is our belief that a new accounting model for leases should not increase accounting complexity, significantly increase preparers' administrative burden or be impractical to implement. Additionally, a recurring theme we have noted throughout all of the Boards' joint projects has been the exponential increase in the use of estimates and assumptions for the recognition and measurement of an entity's economic activities. This increased use of estimates and assumptions set forth in this Proposed ASU would diminish the comparability of the accounting treatment for owned and leased assets. We believe that the accounting for the right to use these assets and similar owned assets should be consistent. Leased and purchased assets serve the same purpose of generating cash flows and creating value for shareholders. Additionally, we perceive the sole difference between these two asset classes is how they are financed (i.e., leased versus purchased) and that leasing merely represents an alternate form of financing for assets we use to operate our business. Accordingly, we would like to furnish the

Boards with the following examples of the divergent accounting treatment between owned and leased assets that would occur under this proposal along with some suggested minor modifications to make the model more operational. We believe these modifications will alleviate some of the administrative burden that preparers would encounter while implementing this proposal.

# 1. Restriction of Scope to Only Those Leased Assets Which Can Be Purchased

We believe that the Boards should limit the scope of their final guidance to only whole assets that can be purchased. Rights of way, capacity agreements, telephone pole space and service contracts are examples of assets that cannot be purchased and as such should be excluded from the scope of this Proposed ASU. This recommended scope restriction would be consistent with the underlying purpose of the proposed guidance which is the elimination of "off balance sheet financing."

## 2. Exemption for short term and immaterial leases

We do not support the Boards' proposal to recognize leases with expected lease terms of twelve months or less on the balance sheet. We perceive the proposed accounting treatment for short-term leases to be impracticable because it would be extremely difficult and expensive to capture all short term leasing transactions in our accounting systems. Consequently, we propose that leases with expected lease terms shorter than one year be expensed. Additionally leases with a right of use value below current plant, property and equipment capitalization thresholds should be expensed. We propose footnote disclosure of the capitalization thresholds used so as to facilitate comparability across companies and industries. Our suggestions would ensure that the accounting for leased and owned assets is consistent.

#### 3. Lease term

Verizon does not support the Boards' proposal that the lease term should be determined based on 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 (probability weighed average estimate). Given that our company finds itself in an era of rapidly changing technology, the use of the proposed longest possible term would require management to forecast activities in periods beyond its normal planning and budgeting cycles using forward looking assumptions that cannot be reliably estimated. We believe a practical expedient would be the calculation of the most likely lease term as originally proposed in the Discussion Paper. Additionally, for instances in which several options with equal probabilities exist, we suggest the use of the Boards' proposed "more likely than not" methodology.

### 4. Contingent lease payments

Under the proposed guidance, lease payments would include contingent rentals, amounts payable under residual value guarantees and termination penalties. The Boards propose that contingent amounts would be measured using an expected outcome technique (i.e., probability-weighted estimate). Given the uncertainties associated with contingencies, we believe that it would be impossible for lessees to recognize and measure contingent lease payments at the inception of a lease given that said payments would be incumbent upon future events largely outside of a lessee's control. Similar to the lease term issue discussed above, the use of an expected outcome technique would require management to forecast future activities and use forward looking assumptions that cannot be reliably estimated. Verizon believes that contingent lease payments should continue to be accounted for under current guidance which generally

requires the recognition of contingent rentals when incurred. Alternatively, we support a most likely rental approach.

### 5. Subsequent assessment

The Proposed ASU requires a reassessment at each reporting period which would be administratively burdensome for preparers. Further, the estimated useful lives of similar owned elements of plant, property and equipment are not continually reassessed. Rather, these lives are reassessed when indicators of impairment are known to exist. A potential alternative to the proposed quarterly reassessment would be a model similar to the one used to test goodwill on an annual basis or when indicators of impairment exist. Accordingly, these changes should be recognized prospectively similar to changes in accounting estimates for purchased assets.

# 6. Lessor Accounting Issues

Under the Proposed ASU, lessors would apply one of two models to each lease based on whether the lessor retains exposure to "significant risks or benefits" associated with the underlying asset. Lessors would determine which approach to apply at the inception of the lease and the determined approach would not change over the lease term.

Verizon is aware that one of the Boards' objectives is to ensure conformity and consistency across its many joint projects. Accordingly, Verizon believes that the choice of model should not be based on risks or benefits but rather it should be based on the concept of control in the Boards' proposed Revenue Recognition model. Utilizing the concept of control would ensure that the accounting would always be aligned with the underlying economics of the transaction.

### 7. Omission of or Changes to Leasing Guidance Currently Found in US GAAP

ASC Section 840-20-25-6 requires lessees and lessors to recognize lease incentives as reductions of rental expense and revenue over the terms of their respective operating leases on a straight line basis. Given that the proper accounting of lease incentives has been a recent area of interest by the Securities and Exchange Commission, we would like clarification as to whether the existing guidance will be carried forward subsequent to the issuance of the final standard.

### 8. Presentation and Disclosure

Although we are cognizant of the Boards' plan to address presentation and disclosure issues in their forthcoming Exposure Draft for Financial Statement Presentation, we would like to reiterate our position that leased and purchased assets should be accorded similar accounting treatment. Accordingly, we do not agree with the Boards' proposal that lease obligations and associated expenses be presented discretely on the balance sheet and income statement. In addition, we find that the Boards' proposed tabular reconciliation would be onerous to implement and we believe that it would be of limited value to investors.

### 9. Transition Provisions

We concur with the Boards' proposal to allow companies to use a simplified retrospective approach as outlined in the Proposed ASU.

Additionally, we noted that the Proposed ASU does not provide any guidance relative to sale-leaseback transactions. We believe this should be addressed in the Boards' redeliberations.

Finally, we believe the transition and adoption provisions of this Proposed ASU should also take into consideration the SEC's final plan and timeline for incorporating IFRS into the U.S. financial reporting system.

### Conclusion

For the reasons noted above, we encourage the Boards to consider the recommendations discussed above which we believe will minimize the differences in accounting for leased and purchased assets and make the proposed model more operational for preparers of financial statements.

Thank you for the opportunity to comment. We would be pleased to discuss our comments in more detail with members of the Board or staff.

Respectfully submitted,

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Vice President – Finance

CC: Sir David Tweedie

Chairman International Accounting Standards Board