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International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Technical Director
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Financial Accounting Standards Board
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**Dear Board Members** 



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#### Invitation to comment - Exposure Draft Leases

We appreciate the opportunity to respond to the Board's request for comment on the Exposure Draft *Leases* and commend the FASB and the IASB for addressing the issue.

The AES Corporation (NYSE: AES) is a global power company headquartered in the United States. Through our subsidiaries and affiliates, AES operates generation and distribution businesses in 29 countries, using diverse energy sources and technologies, including biomass, coal, hydropower, natural gas, oil, solar and wind. Founded in 1981 as one of the first Independent Power Producers in the U.S., today AES has \$14 billion in annual revenues and approximately \$40 billion of assets under management.

AES has numerous contracts that are accounted for as leases under existing lease accounting rules that would continue to be accounted for as leases under the proposed lease accounting rules. From the perspective of AES as a lessor, the contracts accounted for as leases include power purchase agreements with a single purchaser often for terms as long as 25 years. From the perspective of AES as a lessee, the contracts accounted for as leases include power plant land leases, transmission line leases and equipment rentals. These arrangements require a level of complexity in application that we do not feel is fully contemplated in the Exposure Draft. As such, we believe additional clarity is needed in the guidance for identifying a lease, including the meaning of "insignificant", "fixed per unit of output" and "current market price per unit of output". Further guidance is also required for the identification of service components and the allocation of consideration thereto.

We support the concept of a right of use asset and a liability for lessees and the application of either the performance obligation or derecognition approach for lessors. However, we disagree with certain provisions of the Exposure Draft. Specifically we believe build-operate-transfer arrangements should be considered in scope for leases. We

also disagree with the proposed approach for lease term and suggest that the existing approach be maintained. We also do not believe contingent rentals based on performance or usage should be included in the calculation of lease assets and liabilities.

Finally, we believe the cost of some the proposed requirements outweigh the benefits an investor would receive. As outlined, the volume of proposed disclosures would not provide meaningful information to investors and should be reduced. We disagree that lessees and lessors should remeasure assets and liabilities arising under a lease as a result of changes in the expected lease term absent an executed change in the contract or exercise of a renewal option. We also believe leases should not require a periodic reassessment; such evaluation should occur only where an event has occurred that would indicate that a significant change in the liability to make or in the right to receive payments was likely. Also, the burden that would be placed on some reporting entities to forecast contingent rentals for a large number of different leases and to potentially reassess these forecasts on a regular basis would be very significant. Further, the proposed approach to determining lease term is unnecessarily complex and requires additional effort by the reporting entity without improving the quality of the estimate.

This is a significant issue for AES and for many of our subsidiaries and affiliates. AES welcomes the opportunity to offer the following comments for your consideration.

Yours sincerely,

Victoria D. Harker

Executive Vice President and Chief Financial Officer

#### Lessees

#### Question 1

- (a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?
- (b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If no, what alternative model would you propose and why?
- (a) We agree that a lessee should recognize a right-of-use asset and a liability to make lease payments as these meet the definition of asset and liability as per the conceptual framework. Further, we agree there should not be a bright-line distinction between a capital lease and an operating lease as is the case under current GAAP.
- (b) We agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments.

#### Lessors

#### Question 2

- (a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
- (b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?
- (c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC 15)? If not, why not? What approach should be applied to those leases and why?
- (a) We agree with the application of the proposed approaches based on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term. We agree to a distinction between applying the performance obligation and derecognition approaches as these approaches take into consideration the underlying characteristics of an asset. The existence of a probable future benefit is a characteristic of an asset; however, if the lessor does not retain

exposure to the risks or benefits of a portion of the underlying asset since it has transferred the associated economic benefit to the lessee, then for that portion of the asset the lessor does not have an asset other than the right to receive lease payment and the application of the derecognition approach is appropriate. We agree the performance obligation approach should result in the continued recording of the entire underlying asset on the books of the lessor since that asset is the lessor's economic resource. However, we believe that the meaning of 'significant' in this context should be clarified in the final standard, perhaps with some examples of application.

- (b) We agree with the Boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting.
- (c) We agree that there should be no separate approach for lessors with leveraged leases.

## **Short-term leases**

#### Question 3

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? It not, what alternative approach would you propose and why?

We believe that it is appropriate to simplify the accounting for short-term leases. Given the likely immaterial amounts associated with leases of less than 12 months, the additional information provided would not justify the cost required to compile and track the information. Accordingly, we believe the optionality of recognizing a lease at commencement is reasonable. However, we believe that the simplified requirements for the lessee should be the same as that proposed for the lessor, i.e. there should be an ability to elect, on a lease-by-lease basis not to recognize an asset and liability at lease commencement.

# **Definition of a lease**

#### Question 4

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

- (c) Do you think that the guidance in paragraphs BI-B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?
- (a) We believe that the definition of a lease is generally satisfactory.
- (b) We agree that a sale of the asset is included in the contract if, at the end of the contract, an entity transfers to another entity control of the underlying asset and all but a trivial amount of the risks and benefits associated with the entire underlying asset. However, we do not believe that this should result in the entire contract being outside the scope of lease accounting. In the power generation industry there are build-operatetransfer arrangements in which electricity is sold to another party for extended periods as long as 25 years, and at the end of the term the power plant is automatically transferred to the other party. We believe that if the arrangement of selling power for the term of the agreement meets the definition of a lease then such an arrangement should be accounted for as a lease. The purchaser of the power has the right to use the underlying asset during the lease term will not have other rights and obligations of ownership. Accounting for such an arrangement as a lease under the proposed standard would reflect the economics of projects which are financed by debt; the recognition of revenue under the interest method would more closely match the pattern of interest expense on the debt than would revenue recognized on a straight-line basis. If such arrangements are out of scope of the proposed standard, the initial impact on earnings would be dilutive as the interest expense on the debt would exceed the operating income recorded when revenue is measured on a straight-line basis. As a result, projects that are economically viable for the company will be less attractive and may not be pursued. This would have the effect of limiting the Company's growth in those countries that require these types of arrangements. If buildoperate-transfer arrangements were to be brought into scope of the proposed standard the accounting for the arrangements as leases would more accurately reflect the substance of the transaction and would allow the Company to continue to pursue economically viable projects.

Further, we note that a build-operate-transfer arrangement would have been classified as a capital lease by the lessee under current guidance and thus the lessee would have recognized property, plant and equipment as well as a liability for the future lease payments. Under the proposed standard the build-operate-transfer contract would be out-of-scope. We believe these transactions are leases. However, if such transactions remain out-of-scope in the final standard, we believe that additional guidance is required to clarify the accounting treatment that is to be applied.

(c) We agree with the concepts contained in the guidance in paragraphs B1 to B4. However, we suggest that the term 'insignificant' as used in B4 be defined in the final standard. Under existing guidance the term 'minor' has been interpreted to be less than 10%. The importance of a threshold has increased under the proposed standard due to the fact that the classification of a lease may now impact the balance sheet and the pattern of revenue recognition in situations where it would not have done so before. Previously the most important bright-line was in the distinction of a capital lease from an operating

lease. Under the proposed standard the more important distinction would be whether or not an arrangement contains a lease. In the power generation industry the output of a plant may be taken by either one party or by multiple parties. If 'insignificant' is interpreted to be less than 10%, a power purchase agreement ("PPA") where one party is taking 90% of the output would be accounted for as a lease whereas a PPA where one party is taking 89% of the output would not be accounted for as a lease. Thus economically similar arrangements would be accounted for under different models. We believe that the Boards should study this issue more closely and clarify the criteria that should be considered in the determination of whether or not an arrangement contains a lease.

Further, we believe that additional guidance should be provided to clarify the meaning of 'fixed per unit of output' and 'current market price per unit of output as of the time of delivery of the output'. These terms are consistent with existing US GAAP and we have noted that the precise meaning of these terms has been the subject of considerable discussion between companies and their auditors. As such, we believe clarification should be provided on the following points:

- Is capacity considered an output? Under current US GAAP it is generally accepted that capacity is not considered an output; however, the payment for capacity is taken into consideration when determining whether the purchaser is paying a fixed price per unit of output. In our industry, megawatthours ("MWh") of electricity generated is a form of output. A fixed capacity charge to be paid regardless of the MWh generated results in a price that is not fixed per MWh, i.e. unit of output.
- Does a pricing structure that sets a fixed price for part of the contract term and a different fixed price for another part of the contract term represent a price that is 'fixed per unit of output'?
- Does output comprise only the physical output of the asset or is it possible to have non-physical output as well? For example, in the power generation industry in U.S., a power purchase agreement for a windfarm may include the sale of renewable energy credits (RECs) in addition to a sale of electricity. The right to RECs is received as each kilowatthour (kwh) of electricity is produced. The REC element of the pricing typically accounts for 30% to 35% of the contract rate. If no kwh is produced, then no REC can be created. It would be helpful to know whether RECs are considered a form of output. In applying the exposure draft, the Company is of the view that such RECs should be deemed output.
- What constitutes a 'market' when determining whether the price is a market price? For example, can a government-set tariff be a 'market' price?

We also believe it will be helpful if the final standard could provide guidance, through examples, of situations in which a contract should be reassessed to determine whether or not it contains a lease.

## Scope

## Question 5 – Scope exclusions

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

We agree with the scope exclusions with the exception of determining whether the build-own-transfer agreements should be excluded from the scope as discussed in Response 4 (b). We agree the financial statement users will benefit from including all leases within the face of the financial statements as such leases tend to be material.

#### Question 6 – Contracts that contain service components and lease components

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We agree a distinct service component should be accounted for separately from the lease component. We also agree with the FASB proposal that if a service component is not distinct the lessee and lessor should apply the lease accounting requirements to the combined contract. We recommend that additional application guidance with examples be provided in the final standard to assist preparers of financial statements in determining whether a service component is distinct.

We believe that additional guidance should be provided in the final standard to explain how consideration should be allocated between lease and non-lease elements. Our preferred approach would be to allocate the transaction price based on relative standalone selling price.

# Question 7 - Purchase options

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or lessor should account for purchase options and why?

We agree that a lessee or lessor should account for purchase options only when they are exercised. The exercise of a purchase option represents the termination of a lease. We believe if the purchase options are accounted for as part of the lease prior to their exercise then the financial statement will recognize an event prior to the execution of a sale of the underlying asset.

# Measurement

#### Question 8 – Lease term

Do you agree that a lessee or a lessor should determine the lease term as 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? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We disagree with the proposed approach for determining the lease term. We believe that the current guidance on determining the lease term is sufficiently clear and adequately addresses the uncertainty associated with renewal options. In our view, for leases containing several different extension options, the proposed approach requires an undue amount of quantitative analysis that would not necessarily improve the quality of the estimate and may not result in a different lease term than the current approach.

#### Question 9 - Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive land payments if they can be reliably measured? Why or why not?

We disagree with including contingent rentals in the measurement of lease assets and liabilities where the contingent rent is performance-based or usage-based. We believe that such amounts should be accounted for on an accrual basis given that they are dependent upon future events. In our view an asset (in this case a receivable) should be created at the time of future events and not before. The inclusion of such contingent rentals would also require complex calculations and volatility in income and expense recognition. In our response to Question 17 we describe the additional time and cost associated with compiling estimates of contingent rentals that are performance or usage-based. The Company recommends a description of such contingent payments, including expected amounts, through disclosure in the annual financial statements as the method of sharing information with the users of the financial statements. Contingent rents based on a rate or an index are an obligation of the lessee, although measurement is uncertain. We believe that rate-based or index-based contingent rentals should be measured at the prevailing rate.

We agree with the inclusion of term option penalties in the measurement of lease assets and liabilities, but we believe that the amount included should be consistent with the determination of lease term. That is, a term option penalty would be included where the lease term is based on the assumption that the lease will not be renewed.

We agree with the inclusion of the expected payment under a residual value guarantee in the measurement of lease assets and liabilities as this is a present obligation of the lessee.

#### Question 10 - Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for remeasurement and why?

We disagree that lessees and lessors should remeasure assets and liabilities arising under a lease as a result of changes in the expected lease term absent an executed change in the contract or exercise of a renewal option. As described above, we do not agree that contingent payments based on performance or usage should be included in the measurement of lease assets and liabilities; as such, a reassessment would not be appropriate for these items.

With respect to the factors that may cause a significant change in the liability to make or receive lease payments, we believe that a 'trigger event' approach should be the basis for requiring a reassessment. As currently drafted we believe that the standard would require a quarterly reassessment in order to determine whether or not there was a significant change. We believe that a more practical approach would be to require a reassessment only where an event has occurred that would indicate that a significant change in the liability to make or receive payments was likely.

# Sale and leaseback

### **Question 11**

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We disagree with the meaning of 'sale' in the context of a sale and lease back transaction. Currently, paragraph 67 references paragraphs B9 and B10 for the determination of whether a transfer meets the condition of a sale. Paragraph B9 describes a sale as "...at the end of the contract, an entity transfers to another entity control of the entire

underlying asset and all but a trivial amount of the risks and benefits associated with the entire underlying asset." This is inconsistent with the concept of a sale and leaseback in which the sale occurs at the beginning rather than the end of the contract.

In addition, the Company recommends clarification of the meaning of "trivial" along with additional guidance.

## **Presentation**

#### Question 12: Statement of financial position

- (a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143 BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?
- (a) Based on the exposure draft's proposed measurement approach for lease payment liabilities, we believe that the nature of the liability is sufficiently different from other liabilities that separate presentation in the statement of financial position would be appropriate. However, if contingent rentals were to be excluded from the measurement of lease liabilities, we believe that liabilities to make lease payments would not be substantively different from other liabilities and as such should not be presented separately from other financial liabilities in the statement of financial position. This information could be presented in the notes instead.

We believe that the right-of-use asset should be included within property, plant and equipment together with owned assets, but disclosed separately in the notes. This will provide users with useful information about the nature of the assets within property, plant and equipment.

- (b) We believe that the net lease asset or liability of the lessor should be presented in the statement of financial position, with the gross amount of the asset and liability disclosed in the notes. We are not certain where the net lease asset or lease liability is proposed to be presented geographically in the statement of financial position. We recommend that the final standard provide an example to illustrate the required presentation.
- (c) Based on the proposed measurement approach for the rights to receive lease payments, we believe that the nature of the asset is sufficiently different from other assets that separate presentation in the statement of financial position would be appropriate. However, if contingent rentals were to be excluded from the measurement of lease assets as we recommend, such assets would not be substantively different from other assets and as such should not be presented separately in the statement of financial position. This information could be presented in the notes instead. We agree that residual assets should be presented separately within property, plant and equipment.
- (d) We do not believe that lessors should distinguish assets and liabilities that arise under a sublease separately in the statement of financial position as this may unnecessarily complicate the statement of financial position. We believe that the assets and liabilities related to subleases should be presented as part of the respective lease assets and lease liabilities in the statement of financial position. A disclosure of the amounts related to subleases should be made in the notes.

#### **Question 13 – Income statement**

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We do not agree that lease income and lease expense should be required to be presented separately from other income and expense in the income statement or on a net basis. We believe that separate presentation in the income statement should be at the discretion of the preparer, as is the case with certain other items of income and expense that may be significant and distinct, for example, depreciation expense. We believe that this information may be helpful to the user of the financial statements but in many cases it would be better provided in the notes.

# Question 14 - Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27,45, 63, BC147, BC153 and BC 159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree that it is helpful to the user of the financial statements if the cash flows arising from leases are presented separately from other cash flows in the statement of cash flows as the financial statement user will benefit from understanding the portion of the entity's cash flows derived from leasing. We agree with the presentation of the lessor's cash receipts from lease payments as operating activities and the lessee's cash payments as financing activities.

## **Disclosure**

#### Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) Identifies and explains the amounts recognized in the financial statements arising from leases; and
- (b) Describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows? (paragraphs 70-86 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

We believe that the proposed disclosure requirements for both (a) and (b) are too detailed. The effort required by preparers to satisfy these requirements may in some cases be very significant and would outweigh the benefits obtained by the users of the financial statements. In our opinion the volume of disclosure may in some cases impede the user's ability to obtain an understanding of the nature and scale of a company's leases. For example, paragraph 73 requires a considerable amount of information about the company's lease arrangements. AES may have several dozen leases where it is the lessor, with each lease being different as regards lease term, existence and terms of options, basis and terms of contingent rentals and other contractual terms. Given the varying nature of the Company's leases, to comply with the standard as drafted it would be necessary to provide a considerable volume of disclosure in order to satisfy the requirements of paragraph 73. We do not believe the user would benefit from this information.

We note that paragraph 71 includes the statement that: "An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics." This statement is made in reference to the disclosure requirements of

paragraphs 73-86. For companies such as AES, with a large number of significant but non-standard leases, it would prove extremely difficult, if not impossible to achieve the goal set out by paragraph 71. By not aggregating items that have different characteristics there would be a large amount of significant detail that we believe would not prove to be useful information, in addition to potentially disclosing competitively sensitive information. We propose that the disclosure requirements be focused on a higher level description of a company's leases.

## **Transition**

#### **Question 16**

- (a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88-96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?
- (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?
- (a) We agree with the proposal to use a simplified retrospective approach as it would bring all existing arrangements within scope but would not require the detailed calculations that would be required by a full retrospective application.
- (b) In order to achieve consistency by the different preparers, we do not believe that an option to fully apply the lease accounting requirements retrospectively would be appropriate.
- (c) In the case of the lessor, applying the proposed transitional standards would be very challenging. In a power generation business with long-term PPA's and a single purchaser, the majority of the agreements have historically been deemed real estate operating leases whether the fair value is deemed equal to cost or not. Since the revenue has been recorded on a straight-line basis there has been no need to determine the incremental borrowing rates of the lessor. In may be extremely difficult, and in some cases, impossible, for lessors to now accurately identify, and for auditors to validate, the rate charged in the lease at the date of inception of the lease due to the time elapsed. (In our case there are many leases that commenced 15 to 20 years ago.) We recommend that the final standard contain a practicability exemption allowing the lessor to use their incremental borrowing rate at the date of initial application if they cannot determine the rate charged in the lease at the date of inception of the lease.

An additional transitional issue is the treatment by a lessor of a deferred revenue balance brought forward under an operating lease. Paragraph 91 of the ED provides guidance to lessees that have brought forward prepaid or accrued lease payments. We believe that the final standard should include similar guidance to lessors applying the performance obligation approach.

## Benefits and costs

## Question 17

Paragraphs BC200-BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We believe that the proposals do contain a number of significant benefits, however as currently proposed these benefits would be outweighed by the costs. In particular, the burden that would be placed on some reporting entities to forecast contingent rentals for a large number of different leases and to potentially reassess these forecasts on a regular basis would be very significant. In order to ascertain whether changes in facts and circumstances have potentially resulted in a significant change in a lease asset or lease liability it may be necessary for a reporting entity to undertake all or most of the steps necessary to perform a remeasurement. This would involve the reassessment of assumptions and the reperformance of forecast calculations. For a reporting entity with a large number of leases, each with its own unique factors to consider, this would be a very significant exercise and would require a considerable effort on a quarterly basis, from accounting and finance personnel as well as from operational personnel familiar with each lease. We believe that information on expected future cash flows arising from sales, whether through a lease or a non-lease contract, is best provided by reporting entities to investors and analysts outside of the financial statements.

As discussed in our response to Question 8, the proposed approach to determining lease term is unnecessarily complex and requires additional effort by the reporting entity without improving the quality of the estimate.

In addition, the level and extent of disclosures as currently proposed could be voluminous and involve the disclosure of confidentially sensitive information and may not be that helpful to investors.

# Other comments

#### Question 18

Do you have any other comments on the proposals?

We believe that guidance should be provided on the accounting for an arrangement containing a lease that is obtained through a business combination. In particular, there should be a clarification as to the appropriate recognition, measurement and subsequent accounting of the 'out of market' element of a contract containing a lease.

# Non-public entities

### Question 19

Should any of the proposed guidance be different for non-public entities (private companies and non-profit organizations)? If so, which requirement(s) and why?

We believe that non-public entities should have the option to apply the proposed guidance.