December 8, 2010

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

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

Re: Proposed Accounting Standards Update, *Leases* 

Madison Square Garden, Inc. ("MSG" or the "Company") appreciates the opportunity to comment on the IASB and FASB's exposure draft of the proposed accounting standards update, Leases (the "Exposure Draft"). By way of background, MSG is a fully-integrated sports, entertainment and media business comprised of three business segments: MSG Sports, MSG Entertainment, and MSG Media. The Company owns and operates the Madison Square Garden Arena ("Arena") which is located in New York, NY. The Company-owned teams, the New York Knicks, New York Rangers and New York Liberty, play their home games at the Arena. Additionally, concerts and other events are held at the Arena. We enter into suite license arrangements with customers for the use of a specified suite at the Arena for contractual periods ranging from one year to multi-year periods. The suite license arrangements give the licensees (or suite holders) the right to use the suite to attend certain scheduled events at the Arena.

We are generally supportive of the "right-of-use" model proposed in the Exposure Draft, however, we believe that additional consideration and guidance is needed for: (1) the definition of a lease and (2) distinguishing leases from service contracts.

While we do not believe that suite license arrangements are intended to be considered leases under the Exposure Draft, we acknowledge that others may have a different interpretation of the proposed accounting standard. Our view that a suite license arrangement is not a lease is from the perspective of both the licensor and the licensee. As such, additional clarification and guidance is needed regarding the scope and intent of the Exposure Draft.

## Definition of a lease

Based upon the definition of a lease in the Exposure Draft, it is not clear whether suite license arrangements are intended to be considered leases.

The Exposure Draft defines a lease in Appendix A as follows:

"A contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration."

Paragraph B1 in Appendix B adds that in determining whether a contract is, or contains, a lease, "the fulfillment of the contract depends on providing a specified asset or assets (the 'underlying asset') and the contract conveys the right to control the use of a specified asset for an agreed period of time." Paragraph B4 in Appendix B provides additional guidance on the meaning of "the right to control the use of the underlying asset." Among other conditions, if the entity has the ability or right to "control physical access to the underlying asset," then it is viewed as having the right to control the use of the underlying asset.

Our concern specifically pertains to the meaning of "the entity has the ability or right to control physical access to the underlying asset." We do not believe that suite holders have the ability or right to control the physical access to the underlying asset, the suite, and, therefore, the suite license arrangement would not meet the definition of a lease. However, we acknowledge that there may be differing views as to whether a suite license arrangement is or is not a lease under the Exposure Draft. Therefore, we would like this point clarified in a final standard.

## Distinguishing leases from service contracts

Paragraph B5 of the Exposure Draft states the following:

"An entity shall apply the proposals in the boards' exposure draft on revenue from contracts with customers to identify separate performance obligations within a contract that contains both service components and lease components. An entity shall account for each component as follows:

- (a) If the service component is distinct (see paragraphs B6 and B7), the entity allocates the payments required by the contract between the service components and lease components using the principles proposed in paragraphs 50–52 in the exposure draft on revenue from contracts with customers. However, if a lessee or a lessor is unable to allocate the payments, the lessee or lessor applies this guidance to the whole contract.
- (b) If the service component is not distinct, a lessee and a lessor shall account for the whole of the contract as a lease."

For our suites, if such an arrangement is considered a lease, it is impractical to allocate the payment between a service component and a lease component. Treating the entire amount of the contract as a lease does not follow the economic substance of the suite license arrangement.

We believe the predominant benefit obtained by our customers for use of a suite is access to the entertainment at the Arena. Without access to sporting events or shows or numerous other

## Madison Square Garden Comment Letter, continued

entertainment events at the Arena, the customer would not pay for or want access to the suite. If MSG were to determine that a separate lease component exists apart from the service component, the lease component would be insignificant compared to the value of the service (i.e., entertainment) that the customer is paying for. While it would not be meaningful to bifurcate the arrangement into two components when the entertainment is the predominant element of value to our customers, it certainly would not be meaningful to treat the entire arrangement as a lease.

We appreciate the opportunity to comment on the Exposure Draft. If you have any questions concerning our comments, please contact me at (212) 465-6566.

Sincerely

Joseph F. Yospe

Senior Vice President-Controller and Principal Accounting Officer