

August 27, 2013

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**Re: File Reference: No. 2013-270, Exposure Draft: Leases (Topic 842)**

Johnson & Johnson (J&J) welcomes the opportunity to comment on the FASB's exposure draft **Leases** (FASB Project 2013-270, Accounting Standards Update Topic 842). Johnson & Johnson with approximately 128,000 employees worldwide engages in the research and development, manufacture, and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being.

We are supportive of the overall objectives that the ASU will provide financial statement users greater transparency into a company's lease obligation. Additionally, Johnson & Johnson would like to commend the Boards for including positive changes from the original proposal, particularly around the simplification in the calculation inputs. The items below will be more practical and operational for companies to adopt and implement this change.

- The exclusion of variable lease payments that are usage or performance based.
- The modification to include only renewal terms that have significant incentive to renew.
- The exclusion of term option penalties in a manner that is consistent with the accounting for option to extend or terminate a lease. For example, if there is penalty not to renew, but the renewal period was not considered in the initial measurement, then the penalty should have the same accounting treatment.

While simplified from the original proposal, some of the elements proposed are still overly complex and would require significant resources to comply. Johnson & Johnson has recently implemented a system to collect and maintain lease data in anticipation for the adoption of the ASU. We noted that the investment for the initial measurement was significant. Additionally, subsequent re-measurements will be costly, especially for leases that require on-going adjustments such as CPI adjustments every quarter.

In designing and implementing our lease inventory system, we noted that:

- The task of inputting and maintaining all the elements in the complex calculations requires a considerable amount of effort due to the volume of leased assets and the numerous data points needed for initial and subsequent re-measurements. In particular, we noted some real estate leases, could require up to 100 data points to perform the calculations. We recommend further simplification or reduction in the number of data points needed in these calculations.
- Maintaining large master lease agreements such as leases for automobiles, cars, and small IT equipment proved especially difficult due to volume. We recommend guidance for recognition and valuation of groupings of “like leased assets.” Groupings of “like assets” could entail similar classes of assets (such as copiers, computers, fleet cars, etc) with similar useful lives. This approach would limit the total number of leases to be administered.
- Certain service arrangements, such as warehousing and sub-contract manufacturing, may be unintentionally included in this assessment. These arrangements are made for the purpose of receiving goods and services; however, under the current proposal these could be accounted for as financing transactions. This would not reflect the intention and economics of the transactions. We recommend further clarification on the definition of a lease, particular around service contracts that could be unintentionally included. Guidance could include language around intention of contract/arrangement (i.e. service fulfillment) rather than “right to use.”

The issues described above will pose a significant reporting challenge, especially for low value items, such as automobiles and small information technology equipment. Capitalization of these “right to use” assets is important; however, we would ask that the Boards evaluate if the benefits are meaningful improvements over existing disclosure requirements. Further simplification in the proposed requirements could ease the burden while still achieving the goals of the ASU. We hope our experience in implementing and maintaining a lease program will help the Boards balance the costs and benefits to achieve the goals of the project.

Thank you very much for taking our comments into consideration.

Sincerely,

Stephen J. Cosgrove  
Vice President, Corporate Controller

Stephen D. Rivera  
Worldwide Sr. Director,  
Financial Compliance