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September 9, 2013

Mr. Russell G. Golden, Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Sent by email to director@fasb.org

Re: Leases (File Reference 2013-270, Accounting Standards Update Topic 842)

Dear Chairman Golden:

The American Petroleum Institute ("API") is pleased to provide comments on the Board's Project 2013-270, Accounting Standards Update Topic 842 ("the exposure draft") regarding accounting and reporting of leases. The API is the only national trade association that represents all segments of America's oil and natural gas industry. Our more than 500 members – including large integrated companies, exploration and production, refining, marketing, pipeline, and marine businesses, and service and supply firms – provide most of the nation's energy. Our publically traded member companies - representing a market capitalization in excess of \$2 trillion - support retirement and pensions plans, mutual funds, and individual investments of millions of U.S. citizens. The industry also supports 9.2 million U.S. jobs, 7.7 percent of the U.S. economy, and delivers \$85 million a day in revenue to our government.

Enclosed with this letter are detailed comments and responses to questions raised by the Board in the exposure draft. In summary, we add our voice to the many other stakeholders who are unconvinced the proposed standard represents a substantial enough improvement to financial reporting for the extremely costly and disruptive implementation effort and ongoing accounting that will be required. Even more important to our industry, the changes to reporting will increase complexity, reduce transparency, and obscure comparability across companies. We urge the Board to consider these comments as it continues its work toward cost-effective, straightforward, and relevant improvements to lease accounting and reporting.

Balance of Costs versus Benefits

While the API agrees in concept that "controlled" equipment under a lease arrangement generally meets the conceptual definition of an asset, and the lessee's obligation to make future payments often meets the definition of a liability, the proposed approach creates extraordinary incremental complexity and costs for preparers. The recognition and measurement provisions of the proposed approach represent some of the most wide-ranging changes to US GAAP in decades, and implementation of the proposal, as written, will certainly be far more costly than any previous accounting standard update. The implementation cost for most large companies with extensive use of contracts that may be considered "leases" under the proposal will likely run into the tens of millions of dollars for each company. Small and mid-sized companies would likely be required to invest millions of dollars to implement an accounting standard offering little incremental benefit

to investors. The Board has not adequately demonstrated that the proposal yields the most relevant financial reporting at the optimal cost / benefit proposition. Extensive information is already available to investors through existing disclosure requirements. The proposal's recognition and measurement provisions do not clearly improve comparability, forecasts of cash flows, or quality of information, or result in reduced costs for investors who use leasing data. In the Board's reconsideration of the cost / benefit proposition, we urge it to carefully consider the incremental benefits, which must be compared to the baseline under existing US GAAP. Current requirements such as the commitment maturity disclosures in MD&A and the notes to the financial statements are well understood by investors, are consistently applied across the industry, and strike a reasonable balance between cost of gathering information and value to users. Against this baseline of current information available to financial statement users, the current proposal provides little additional value in return for the considerable costs and time to implement it.

Accounting and reporting systems for most medium and large companies are, by necessity, complex networks of interdependent but separate modules that capture and process data at several stages to meet both internal needs and external requirements. Even a modest change to a single module often results in necessary changes to several other related interfaces. Significant costs will be incurred by companies to overhaul these complex systems. As far as we are aware, business software providers do not yet have readily-available, proven software solutions that can handle the accounting required by this proposal, which may result in preparers having to invest in more expensive, custom-built software solutions.

In addition to the systems effort, the initial and ongoing review of each contract to assess whether or not it meets the definition of a lease, calculate the present value, classify it, and make associated entries will be a significant work effort that will require additional and ongoing accounting and non-accounting resources. Contract terms can and do vary widely, so the training of personnel and implementation of appropriate processes and controls to ensure the appropriate accounting will be costly and time-consuming. Operationalizing the manual process, including the necessary internal controls, for hundreds and thousands of interpretive judgment calls to be made consistently across an organization represents a very challenging undertaking. These are processes which, by their subjective nature, cannot be automated. Of particular concern is the ongoing effort required to reassess lease terms and variable lease payments, both of which will represent costly work efforts significantly disproportionate to the resulting information value. Adding to these internal costs are those of the external auditor, whose audit scope will necessarily increase to test internal controls systems, contracts, classifications, and the significant increase in entries the ongoing accounting and reassessments will create due to amortization of the asset, accretion of the liability, and deferred taxes across multiple periods.

In addition, due to the retrospective nature of adoption, companies will be required to develop dual lease accounting, control, and reconciliation processes to capture the financial statement effects of the proposal. Although the modified retrospective approach has been characterized as a simplification for preparers, the current proposal would require extensive mining of historical data going back years to determine lease commencement dates and calculate the Right of Use ("ROU") asset.

Reduced Transparency and Comparability Within Oil & Gas Industry

While one of the Board's objectives has been to reduce the diversity of reporting that is perceived to exist for leases, the resulting proposal actually creates needless diversity even <u>within</u> our industry. The exposure draft attempts to impose a "one size fits all" approach across an extremely wide spectrum of contractual and

operational situations. As an example, the proposed standard contains very little discussion on the topic of lease expenditures which are re-capitalized as property, plant and equipment in the course of constructing another asset. Financial statement users will not be well-served by the proposed accounting which requires the present value of such lease costs to be initially "capitalized" onto the balance sheet, create deferred tax balances, be amortized into yet another asset, and then be bifurcated (for Type A leases) on the cash flow statement, but never recognized in the "Investing" section.

Furthermore, stakeholders have not come to a consensus regarding a single accounting approach or where to draw the scoping boundary which distinguishes a "lease" from another type of contract. Despite the years of effort by the Board to clearly describe the types of contracts that should fall within the scope of the proposed standard, significant disagreement remains across observers and commenters. As an example, most drilling rig contracts and certain vessel contracts require personnel selected by the asset owner to conduct all ongoing day-to-day operations and maintenance, and have custodianship of the asset. These situations have more economic attributes in common with a service arrangement than a situation in which a party elects to finance the purchase of an asset. Industry participants on both sides of those contracts are in general agreement that such arrangements do not and should not represent a "lease" under the standard. The FASB staff has appeared to struggle on this topic over the last few years. Without a rigorous and disciplined field test, we believe the Board cannot ascertain where this scoping "boundary" might best be defined and whether the proposed approach will improve the utility of financial reporting and comparability across and within industries. Based on our assessment of the effects of the proposed standard, both transparency and comparability across companies will greatly diminish within the Oil and Gas industry. The illustration near the end of this section demonstrates these effects.

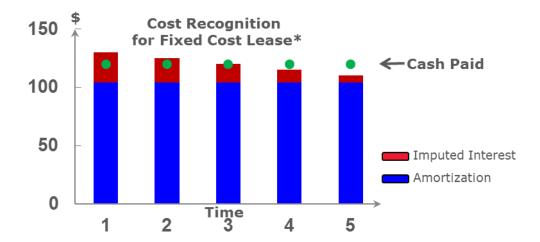
In our industry, exploration and production activities are very often conducted through a variety of joint arrangements with one or more other partners where each party's investment is through a contractual arrangement rather than in a legal entity. Accounting for such joint operations follows the well-established and widely-accepted practice of proportionate consolidation. Under current US GAAP, the income statements and balance sheets for partners in a given development typically exhibit a high degree of comparability, since each participant puts its share of jointly-owned assets and revenue, as well as jointly-incurred liabilities and costs, on its financial statements. As an example, when an activity occurs on a joint property, the "operator" of the property arranges for the appropriate services and then bills each owner in the property its proportionate share of costs. Both the operator and the non-operating owners then reflect their proportionate shares of those costs on their respective income statements and balance sheets, and in their required oil and gas supplementary reporting.

As illustrated below, the proposed standard could put an end to this symmetry across partners in a specific well or project for Type A leases. To the extent that an operator on a joint property uses equipment determined to be subject to a lease contract under the proposed standard, the operator will generally be required to reflect the entire right-of-use asset and related liability on its balance sheet (since the operator alone is typically the sole entity who enters into the contract with the asset owner), while other non-operating joint owners reflect only proportionate cash costs as billed by the operator. In such situations, which are widespread across the Oil and Gas industry, it would be inappropriate for the non-operating joint owners to recognize a portion of the right-of-use asset or related liability on their own balance sheets, because the non-operating partners do not meet the proposed standard's definition of "control" over the leased asset. Furthermore, the operator's recognition of periodic lease costs, whether capitalized or expensed, will be front-

end loaded for Type A leases, while the non-operating joint owners will reflect the cash costs they are billed. Finally, an operator's Cash Flow Statement would reflect Type A lease-related cash flows in the Operating and Financing sections. Non-operating joint owners who are billed for cash lease costs from an operator would reflect the cash flows entirely in the Investing section or Operating section (depending upon whether or not the costs are capitalized), consistent with existing US GAAP. The proposed standard will therefore reduce the transparency of reported results which exists today and prevent comparability of results both within companies, and across companies, even for those involved in the same joint development.

OIL & GAS INDUSTRY ILLUSTRATION

Example 1: The graph below is a simple representation of the cost recognition trend for a 5-year, fixed payment, Type A lease, assuming the lessee has a 100% working interest in a property (i.e. no non-operating owners exist). As has been pointed out by many stakeholders, the costs are "front-end loaded" versus the flat trend of the 5-year cash payment series.



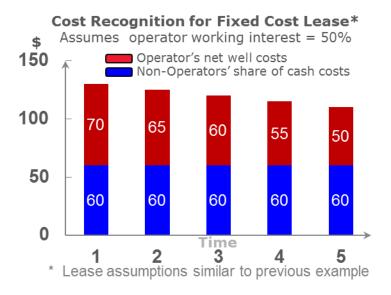
*Assumptions

- Fixed cost of \$120 per year for 5 years
- Interest rate 5%
- 100% working interest

Observations:

- Assuming stable opportunities, financial statements will reflect a declining cost trend per unit (of hydrocarbon production or reserves) over the 5 year period, which users could inappropriately attribute to operating efficiencies, despite flat cash cost experience.
- Users often calculate and analyze metrics based upon amounts in the financial statements or supplemental oil and gas disclosures required by ASC 932-235-50. The required disclosures for capitalized costs, costs incurred, and results of operations will be less useful to users under the proposed accounting approach for leases, due to the effects noted in the example. If the FASB elects to modify ASC 932-235-50 disclosure requirements to mitigate these effects (to report only cash costs of leases, for example), then those disclosures will be inconsistent with the financial statements.
- When an operator has less than 100% working interest in an operation, the declining cost trend is exacerbated, as illustrated in Example 2 below.

Example 2: The graph below uses the same assumptions as Example 1 above, except the operator / lessee has a 50% working interest in a property, and is the only party legally bound to a contractual agreement subject to the proposed lease accounting. The total of the operator's and non-operators' costs for each year is the same as in Example 1. However, the split of that total reported by each party yields non-intuitive results. Financial statements would indicate a flat cost trend for non-operators who appropriately report only their respective shares of cash costs. In contrast, the operator's financial statements would indicate an even more sharply decreasing cost trend, compared to Example 1, since its net reported costs equal total lease costs (e.g. \$130 in year 1 and \$110 in year 5) less the non-operators' share of cash costs (\$60 for each year).



Observations:

- When an operator has less than 100% working interest in an operation, the declining cost trend is exacerbated, reported in financial statements as \$70 in year 1, and \$50 in year 5.
- Non-operators will reflect costs with a flat trend, since they recognize only their share of cash costs.
- Even in a case where an operator has the same 50% interest as a non-operating working interest owner, cost trends for Type A leased assets will be markedly different, both in magnitude and trend.

Cash Flow Statements for Example 2 in Year 1, US GAAP vs the Proposed Standard, assuming Type A lease costs are being capitalized into plant, property, and equipment:

Statement of Cash Flow Comparison - Year 1*					
	Operator's View			Non-Operator's View	
	Current US GAAP	Proposed Standard		Current US GAAP	Proposed Standard
Operating	-	(26)	a	-	-
Investing	(60)	60	b	(60)	(60)
Financing	-	(94)	С	-	-

^{*} Lease assumptions similar to previous example, with 50% working interest for each party

Notes:

- a 5% interest on lease liability
- b Proposed standard is silent on where operator's recoupment from nonoperating partner is reflected
- c \$120 payment less \$26 interest

Observations:

- Current US GAAP provides comparable treatment that is easy for users to understand. Both
 operator's and non-operator's shares of cash costs (\$60) are reflected entirely in the "Investing"
 category.
- For the Operator, the proposed standard provides for split of \$120 lease cash costs into two categories ("Operating" and "Financing") and does not provide clarity regarding where the \$60 recoupment from non-operators should be reflected.
- Non-operators, because they are not parties to the lease arrangement, reflect only their respective share of cash costs (\$60) under the proposed standard, similar to the approach under current US GAAP.
- Under the proposed standard, reporting of a simple Type A lease transaction on the cash flow statement will not be symmetrical between an operator and non-operators in the same operation.
- In contrast, current US GAAP provides for transparent and comparable accounting treatment for operators and non-operators for such leases under proportionate consolidation.

In addition to the results illustrated above, the unavoidable variation of subjective judgments across companies regarding:

- what fact patterns constitute "control" under a contract for equipment,
- the separation of lease and non-lease components in a contract,
- whether an equipment lease is Type A or Type B,
- whether significant economic incentive exists to renew, and
- the conditions which warrant reassessment of an existing lease,

will all serve to diminish the comparability of results across those companies, even within the same industry. Differing judgments made in good faith by preparers could then result in markedly different financial statement effects for similar or identical contracts.

Considerations for Outreach and Redeliberation

We urge the FASB to perform further outreach on implementation costs, more critically examine its assessment of the incremental benefits of the proposed changes, and consider substantive changes to the proposed standard that will reduce implementation and ongoing costs to preparers and shareholders. All of these steps are critical to ensuring a reasonable balance of costs and benefits.

Furthermore, given our concerns with reduced transparency and comparability, it is also critical that the FASB give greater consideration to practicability in the final standard, both for preparers and users. The proposed standard is so complex that it is not practicable. The examples provided in the previous pages illustrate simple fact patterns that exist in our industry today. The illustrations demonstrate that the proposed standard would transform the straightforward and widely understood accounting and disclosures for leases under current US GAAP into overly complicated and likely misunderstood financial statement effects that create non-intuitive results and reduce transparency and comparability within the Oil and Gas industry. An accounting process which today involves recording a payable offset by a charge to expense or PP&E will be converted, under the proposed standard, into a far more complex and costly process requiring continual manual intervention and reassessment, with a single cash payment split between multiple lines on the statements of income, cash flow, and financial position. The proposed changes will not enable improved forecasting of cash flows by users, or otherwise result in a net improvement to the relevance of financial statements.

We also urge the Board to provide three or more years between the publishing of the standard and the first period accounting needs to be performed for restated periods. We are unaware of any system that has been developed for wide usage, or currently is available for use, that can systematically and accurately account for leases in the manner proposed in the exposure draft. In addition, both transition approaches offered in the current exposure draft will be exceedingly difficult to implement for companies with a large number of diverse leases. To appropriately account for the initial ROU asset, preparers will have to collect historical data on the commencement date of each individual lease to reflect the amortized basis of the ROU asset for

the beginning balance of the first period presented in the financial statements. The modified retrospective approach for Type A leases is much more burdensome than the approach proposed for Type B leases. It is also more burdensome than the simplified retrospective approach for Type A leases detailed in the 2010 Exposure Draft. For each of those approaches, the ROU asset would be determined by the discounted present value of future lease payments on the first date financial statements are presented, a much more practicable and understandable method.

The API recognizes that companies engage in certain activities which, by their nature, can be complex, risky, and demanding of oversight or regulation. In such areas, prescriptive accounting and disclosures to protect investors and promote user understanding are entirely appropriate. However, routine equipment leasing is not such an area. Adopting the proposed standard as it currently exists turns the accounting for a leasing transaction into a complex web of accounting entries that serves little practical purpose. Reasonable disclosure requirements today already satisfy the users' needs. While the API understands the conceptual basis for the proposed approach, we cannot support the resulting reporting which will reduce transparency, decrease comparability, and likely confuse stakeholders.

In conclusion, we recommend the Board speak directly with analysts and portfolio managers across a variety of industries to understand how the change would affect their analysis and decision-making. When this additional research is combined with realistic estimates of cost and implementation complexity, we believe the cost / benefit argument in favor of a more simplified approach to lease accounting, such as those included in our comments to Question 2 below, will be compelling and persuasive.

We thank the Board for the opportunity to provide these comments. We would be pleased to meet with the Board or staff to discuss them further, as well as to provide any additional information that may be helpful.

Sincerely,

Patrick T. Mulva Chairman

API General Finance Committee

Stephen Comstock Director Tax & Accounting Policy API

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Patrick V. Moline

RESPONSES TO FASB QUESTIONS

Question 1: Identifying a Lease

This revised Exposure Draft defines a lease as —a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. An entity would determine whether a contract contains a lease by assessing whether:

- 1. Fulfillment of the contract depends on the use of an identified asset.
- 2. The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

An additional consideration should enter into the assessment of whether or not an asset is "controlled" by a party. To the extent that an asset under contract cannot be used without significant ongoing involvement by personnel representing the asset owner, then we strongly assert that such an asset is effectively part of a service being performed by the asset owner. As an example, most drilling rig contracts and certain vessel contracts require personnel selected by the asset owner to conduct all ongoing day-to-day operations and maintenance, and have custodianship of the asset. These situations have more attributes in common with a service arrangement than a situation in which a party elects to finance the purchase of an asset. Contracts requiring such significant involvement by personnel representing the asset owner do not meet the conceptual definition of "control" and should therefore be excluded from the scope of the proposed standard.

In similar fashion, assets that are strictly tied to a vendor's services, where the equipment and the service are inseparable, should not be considered a lease. In determining when a contract represents a service instead of a lease, the Board should eliminate the words in 842-10-15-16(b) that state:

"The asset is incidental to the delivery of services because the asset has been designed to function only with the additional goods or services provided by the supplier. In such cases"

and retain the remainder of the words in that subsection (b):

"The customer receives a bundle of goods or services that combine to deliver an overall service for which the customer has contracted."

Question 2: Lessee Accounting

Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Lessee accounting as proposed will create confusion and reduce comparability across companies and is far too costly and complex to implement for any questionable benefit provided. The Board should field test additional variations to the proposed requirements, such as those below, that could greatly reduce the complexity of lease assessment and accounting but still deliver most of the key perceived benefits:

- Entirely eliminate changes to the underlying accounting but improve effectiveness of disclosures.
 - + This alternative would meet many of the needs of investors and help reduce implementation costs to preparers and shareholders.
- *Allow Type B treatment for all leases*
 - + This alternative would achieve many of the FASB's objectives with simpler accounting, ensuring lower implementation and ongoing costs, better comparability and improved practicability.
- Allow Type B treatment at the option of the preparer, or as an accounting policy election for all leases
- Allow the ROU Asset and Lease Liability to be reflected on an undiscounted basis for leases of 5 years or less, as an accounting policy election, with additional disclosures that indicate the approximate effects discounting would have
 - + Sharpens focus on those contracts which are more similar to a purchase/financing transaction, while still delivering many of the FASB's objectives
- Remove from the proposal's scope contractual arrangements in which the identified asset is used
 to construct another asset and the associated costs are ultimately recorded to property, plant and
 equipment for the constructed asset

- + Addresses oversight in proposed standard that results in financial statement complexity and lack of transparency for lease costs that are otherwise "capitalized" under current US GAAP
- + Promotes symmetry for reporting of lease costs in the oil and gas industry between operators and non-operators
- + Avoids need for FASB to assess, propose, and implement significant changes and guidance to ASC 932-235-50 in order to maintain comparability within oil and gas industry
- Remove the "significant incentive to renew" criterion and simply define the lease term as the non-cancellable period
- Allow a prospective transition for all leases
- Allow prospective transition for leases with a remaining term of 5 years or less

Question 3: Lessor Accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Lessor accounting as proposed is far too complex. A scope exception should be provided for entities that sublease only on an occasional basis.

Question 4: Classification of Leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Accounting and principles of lease classification as proposed are far too complex and time-consuming. Much more simplified approaches can be considered, in keeping with our responses to Question #2, as follows:

- Allow Type B treatment for all leases
 - + This alternative would achieve many of the FASB's objectives with simpler accounting, ensuring lower implementation and ongoing costs, better comparability and improved practicability.
- Allow Type B treatment at the option of the preparer, or as an accounting policy election for all leases

Question 5: Lease Term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

Accounting and principles related to determining the lease term, as proposed, are far too complex and time-consuming. Operationalizing the ongoing manual process, including the necessary internal controls, for hundreds, if not thousands, of interpretive judgment calls on lease terms to be made consistently across an organization represents a very challenging undertaking. Adding to these internal costs are those of the external auditor, whose audit scope will necessarily increase to review internal control processes, these judgment calls, and the significant increase in entries the ongoing accounting will create. Much more simplified approaches can be considered, in keeping with our responses to Question #2, as follows:

• Remove the "significant incentive to renew" criterion and simply define the lease term as the non-cancellable period

Question 6: Variable Lease Payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Accounting and principles related to variable lease payments are far too complex and time-consuming. Operationalizing the ongoing manual process, including the necessary internal controls, for reviewing and implementing indexed lease payments consistently across an organization represents a needlessly challenging undertaking. Adding to these internal costs are those of the external auditor, whose audit scope will necessarily increase to review internal control processes, these judgment calls, and the significant increase in entries the ongoing accounting will create. Much more simplified approaches can be considered, in keeping with our responses to Question #2.

Question 7: Transition

Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the Boards should consider? If yes, what are they and why?

The API does not agree with the approaches proposed for transition. The less burdensome of the two, the modified retrospective approach, still represents an enormous work effort. To apply the approach as proposed, preparers would be forced to determine the commencement date for Type A leases in existence at the earliest date presented. Some leases may have been in existence for many years. Other leases may have been acquired through mergers or acquisitions. The Board must consider the difficulty in gathering such historical data. In addition, application of the modified retrospective approach represents a particular burden when historical lease costs have been capitalized. A preparer would be required to determine how much, if any, of each lease's amortization and interest accretion had been capitalized since commencement, and the magnitude of the undepreciated balance of those capitalized amounts. Furthermore, situations in which a party has charged some portion of leased assets to third parties, such as on a joint property in the oil and gas industry, create further complexities. We believe the Board has not adequately considered the fact that lease costs can, and often do, get capitalized into another asset under US GAAP. In virtually every area, the proposed standard appears to assume all lease costs are current period expenses. This is especially apparent in the proposed requirements for the modified retrospective approach as noted above.

We urge the Board to recognize that the immense burden of transitioning to such a fundamental change to financial reporting will also be borne by stakeholders beyond the preparers. Users of financial statements will need to shoulder that burden as well. We strongly encourage prospective application of the proposed standard, with selective supplemental disclosures that can assist users in modeling earlier years presented in the financial statements.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

The API agrees that a maturity analysis of undiscounted lease payments is appropriate. Most of the other disclosures are excessively detailed for simple lease transactions, which is the best indicator that the underlying accounting proposed is too complex. If the Board elects to significantly simplify the accounting or transition requirements along the lines suggested in our response to Question #2 above, then selective supplemental disclosures may be warranted.

Ouestion 10: (FASB Only)

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of

the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

We agree with the proposal not to require different recognition and measurement requirements for related-party leases.

Question 11: (FASB Only)

Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

We agree that no additional disclosures are necessary for related-party leases.