Technical Director
File Reference No. 2013-270
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

September 11, 2013

Dear Sir/Madam:

Time Warner Cable Inc. ("TWC") is pleased to offer comments on the Financial Accounting Standards Board's ("FASB") draft standard on leases, which is presented in the Proposed Accounting Standards Update (Revised), *Leases (Topic 842)* (the "Exposure Draft"). TWC is among the largest providers of video, high-speed data and voice services in the U.S., with technologically advanced, well-clustered cable systems located mainly in five geographic areas – New York State (including New York City), the Carolinas, the Midwest (including Ohio, Kentucky and Wisconsin), Southern California (including Los Angeles) and Texas. As of June 30, 2013, TWC served approximately 15.2 million customers who subscribed to one or more of its three primary services and had total revenues of $21.4 billion for the latest fiscal year ended December 31, 2012. TWC is a public registrant whose common stock is listed for trading on the New York Stock Exchange under the symbol: TWC.

While TWC supports the IASB and FASB's goal of improving lease accounting by requiring assets and liabilities that arise from leases to be recognized in the statement of financial position, we do not agree with the two-model framework as proposed in the Exposure Draft. We are, therefore, providing comments to answer "No" in response to question 2 of the Exposure Draft. We do not believe that the recognition, measurement, and presentation of expenses and cash flows arising from leases should differ based on either the consumption of the underlying economic benefits or whether or not the underlying asset is characterized as property. Rather, we believe that the widely criticized shortcomings of the current lease accounting model, which have focused primarily on the need to bring operating leases "on-balance sheet", can be better addressed using a single and consistent model for all leases. In our view, the use of a two-model framework is unnecessary to address the most significant complaint of financial statement users (i.e., that operating leases are not "on balance sheet"), draws a distinction between certain types of leases that is not supported by meaningful economic differences and adds undue cost and complexity for preparers, users and auditors of financial statements. Our reasons for disagreeing with the Exposure Draft's proposed two-model framework are discussed in more detailed below.

Two-Model Approach is Unnecessary, Does not Achieve its Stated Goal and is not Supported by Meaningful Differences in Types of Leases

As the Exposure Draft points out, the current lease accounting model has been criticized by users of financial statements for failing to faithfully represent leasing transactions because assets and liabilities associated with leases classified as operating leases are not recognized in the statement of financial position and, thus could lead to significant "off-balance sheet" liabilities. We agree with the Exposure Draft's proposal to recognize a right-of-use asset and a lease liability at the present value of the future lease payments. However, we believe that the subsequent accounting for such assets and liabilities should remain unchanged from the established accounting guidance for similar assets and liabilities, which would be consistent with the proposed accounting for a Type A Lease (as defined in the Exposure Draft). Specifically, we note that paragraph 93 of CON 7 states that the effective interest method is generally considered to be more relevant than other methods when applied to liabilities that are initially measured based on present value. We agree with the principal in CON 7 as it relates to lease liabilities and believe that the effective interest method is relevant to the liabilities associated with all leases, not just those that would be characterized as Type A. In addition, the two-model approach proposed in the Exposure Draft will result in an annual depreciation expense for the Type B asset that must increase over time in proportion to the decline in the financing cost associated with the liability. We believe, based on our experience, that this treatment will create a disconnect between the recorded depreciation of the leased asset and its actual diminution in value, which generally occurs on a more straight-line basis. As a result, the higher asset values resulting from decelerated depreciation, as opposed to a more realistic straight-line approach, will most likely lead to more frequent impairment charges of leased assets. In our view, the potential replacement of ongoing depreciation with more frequent impairment charges will not properly characterize the economic usage of the asset and will also increase the cost and complexity of applying the principles set out in the Exposure Draft.

We believe that there are no meaningful economic differences between Type A and Type B leases that would support treating them differently as proposed under the Exposure Draft. For example, the Exposure Draft proposes that non-property leases should be treated like a financing arrangement while property leases should be treated more like a service arrangement. However, we have observed that both types of assets (property and non-property) are routinely purchased and financed in practice by a wide variety of companies and industries. As such, we do not see the conceptual rationale for basing the determination of the accounting treatment on the type of asset leased. Similarly, Type A leases under the Exposure Draft are subsequently accounted for in a manner that is generally consistent with the accounting for tangible and intangible assets while the accounting for Type B leases is generally consistent with the accounting for services. However, we have observed in practice that both types of arrangements result in the economic right to use an asset that is paid for over time, so we do not see an economic basis for the different accounting models.

Increased Cost and Complexity in Applying the Standard

We also believe that the principles described in the Exposure Draft will be more complex to apply than both the current standard and a one-model standard based on Type A Leases. Specifically, we believe that because of the need to calculate and track the required balancing entries to the asset side of each lease, the accounting for the asset and liability sides of Type B leases will be far more complex to administer than for Type A leases. This will also lead to increased costs in order to build and maintain the new Type B lease accounting systems. Additionally, while the “bright-line” distinctions between capital and operating leases under the current standard are often complex to apply in practice, replacing the current mathematical approach with a significance-based classification approach that requires the consumption of the underlying benefits to be measured will be no less, and perhaps more, complex. Additionally, we believe that the accounting for leases that contain both property and non-property will be more complex to administer under the Exposure Draft because of the need to identify the primary asset.

In addition to the complexities for financial statement preparers and auditors, we believe that the two-model approach under the Exposure Draft will be far more complex for users of financial statements to understand. Specifically, we note that the “bright-line” approach, for all of its shortcomings, is at least understandable to the financial statement user community. However, we believe that the process of determining the consumption of underlying benefits and identifying the primary assets will be less transparent to users of an entity’s financial statements than the existing classification model. We also believe that the proposed standard will be more complex for users of the income statement than a one-model standard because expenses will be reflected in two different places: depreciation and interest expense for Type A leases, and lease expense for Type B leases. Similarly, the proposed standard will be more complex for users of the cash flow statement than a one-model standard because repayments of Type A lease principal will be reflected in the financing section while payments to unwind the discount on Type A leases and payments on Type B leases will be reflected in the operating section.

We agree with the Exposure Draft’s observation in paragraph BC37 that financial statement users often make adjustments to reported lease numbers based on their differing views on whether leases represent financing arrangements. Additionally, we believe that these differing views will still exist after the new standard is implemented and that financial statement users will continue to need to make adjustments. However, such adjustments will be more complex under the Exposure Draft than under a one-model standard because financial statement users will need to aggregate income and cash flow information from the multiple financial statement line items described above across a wide range of different lease contracts.

Conclusion

TWC believes that applying a single approach to all leases using a model that is similar to today's capital lease accounting model (i.e., the Type A approach) would address the most significant shortcomings of the current lease accounting model by (i) bringing all leases onto the balance sheet and (ii) presenting arrangements that transfer the benefits of the underlying asset as a constructive purchase by the lessee. Additionally, this approach is already well understood by financial statement users and preparers and financial systems for recording such leases are well-established and can be expanded and readily applied to all leases. As such, we believe there is not a compelling reason or need to introduce a new model of expense recognition such as the Type B model proposed by the Exposure Draft. Rather, we believe that one "Type A" approach is a faithful representation of the underlying economics of leasing, which encompasses the right to use an asset and a liability to pay for the acquisition of this right.

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We appreciate the opportunity to provide comments to the Exposure Draft.

Sincerely,

William F. Osbourn, Jr.
Senior Vice President, Chief Accounting Officer and Controller
Time Warner Cable, Inc.