

UNION PACIFIC RAILROAD  
1400 Douglas Street Omaha, Nebraska 68179

September 12, 2013

**VIA EMAIL TO: DIRECTOR@FASB.ORG**

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

Re: Proposed Accounting Standards Update (ASU), Leases (Topic 842)

We are pleased to submit our comments for your consideration regarding the exposure draft on leases published by the Financial Accounting Standards Board and International Accounting Standards Board (collectively referred to as the Boards). Our review of the proposed standard identified unnecessary complexities making the implementation of the standard too costly for the benefits that will be derived. However, we fully support the Boards' efforts to develop an approach to lease accounting that would ensure that assets and liabilities arising under leases are recognized in the statement of financial position. Therefore, if the final standard addresses the concerns we outline below, we believe financial statement users will benefit from enhanced, easily understood and consistently applied lease accounting and reporting.

Union Pacific Corporation owns one of America's leading transportation companies, Union Pacific Railroad Company (UPRR), the largest freight railroad in North America in terms of revenues. UPRR is party to numerous agreements to lease locomotives, railcars, and other equipment and facilities related to the operation of our railroad. In addition, UPRR is a major land owner and, at any point in time, is the lessor of approximately 7,000 parcels that are not currently required in the operation of our railroad.

**Cost/Benefit of Proposed Standard**

While we conceptually believe that it is more transparent to investors to show leased assets and liabilities on the balance sheet, we are concerned that implementation of the standard as proposed will require significant time and resources, and the costs of the proposal would outweigh the benefits. Even companies that lease assets on a very



limited basis will be required to purchase or develop new systems in order to manage and account for all the complexities in the ASU. New system development, education and training of employees, and resources required for reassessment and documentation of accounting conclusions will be substantial.

In our view, the anticipated costs to implement the proposed standard will exceed any perceived benefits, and the requirements of the ASU will provide information that is at best marginally better than the information that is currently required to be disclosed in the footnotes to the financial statements. We believe that the information required to be disclosed in the footnotes to the financial statements under current lease accounting guidance is sufficient to enable financial statement users to make informed investment decisions.

Both the rating agencies and the analyst community already include the future operating lease payments currently disclosed in the financial statements in their analysis of our financial position. Consequently, capitalization of rental payments that may involve complex judgments will not provide relevant or useful information to the user community. Therefore, we encourage the Boards to remove some of the complexities of the standard and consider a more practical and cost efficient means to put leased assets and liabilities on the balance sheet.

### **Lease Term and Reassessment of Lease Term**

In the ASU, the lease term is defined as the noncancellable period of the lease, together with periods covered by an option to extend the lease if the lessee has a significant economic incentive to exercise that option, and periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise the option. While we agree with the Boards' objective of presenting leased assets and liabilities on the balance sheet, we feel that requiring companies to exercise significant judgment in assessing the probability of exercising renewal options would, in our opinion, lead to greater disparity in the comparability of financial information across companies as a result of inconsistencies in application. To address these concerns, we believe that the lease term should only include the base lease period, and the cash flows associated with any renewal periods would best be disclosed in the notes to the financial statements.

In a leasing transaction, a renewal option is not an unconditional obligation to pay and should not be considered a liability of the company until the future event that gives rise to an obligation occurs. In most leasing transactions, the intent of the company is not to commit to a defined stream of payments because of the inherent uncertainty surrounding the future use of the asset. Therefore, we believe that any options to extend the lease term should only be recognized in the statement of financial position upon execution of the option.

Consistent with our belief that the lease term should only include the base lease period and not any renewal periods, we believe that reassessment of the lease term and remeasurement of lease assets and liabilities should be performed only when a renewal option is exercised or a lease contract is modified, thereby creating a binding obligation to the company. Requiring companies to reassess large numbers of leases for changes in assumptions that may never materialize would be extremely challenging and costly, and would not provide financial statement users with useful or comparable information. Remeasurement of a lease over the course of the base lease term could result in companies increasing assets and liabilities in one period and decreasing them in a future period based on changing assumptions, neither of which may ultimately result in actual cash flows.

### **Transition**

Allowing entities to apply a full retrospective or a modified retrospective transition approach is appropriate given the complexities of the ASU. However, if the final standard contains the complexities discussed above, the date of initial application is unachievable, regardless of the approach. Given the significant number of leases that exist at some companies, including ours, and the complexity and judgment that may be involved in determining lease assets and liabilities, we recommend that the Boards give careful consideration to the effective date of any final standard. It has been several years since the initial ASU was released and there is still no off-the-shelf technology solution that would allow for the efficient application of the ASU. Even once these systems become available or are developed internally, the implementation and training will be considerable.

Since it will likely be 2014 before the ASU is finalized, we would ask the Boards to consider an effective date no earlier than January 1, 2018, with retrospective application to 2017 and 2016. That would allow 2014 for these systems to be developed and tested, and 2015 for implementation before the first retrospective application date of January 1, 2016.

I appreciate the Boards soliciting feedback on such a wide reaching and significant change to the accounting standards. Should you have any questions regarding this letter, please do not hesitate to contact me at (402) 544-5565.

Sincerely,



Todd M. Rynaski  
Assistant Vice President – Financial Reporting  
Union Pacific Railroad Company