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Via Email: [director@fasb.org](mailto:director@fasb.org)

September 13, 2013

Ms. Susan M. Cosper  
File Reference No. 2013-270  
Financial Accounting Standards Board  
401 Merritt 7  
Post Office Box 5116  
Norwalk, Connecticut 06856-5116

RE: File Reference No 2013-270

Dear Ms. Cosper:

Ameriprise Financial, Inc., one of the nation's leading financial services companies, appreciates the opportunity to offer comments with respect to the Proposed Accounting Standards Update (Revised), *Leases*, Topic 842 (the "Proposed Standard"). Our primary interest in the Proposed Standard is as a lessee with over 250 leases and annual rental payments of approximately \$100 million per year.

### **Executive Summary**

We support the FASB and IASB's joint effort to improve lease accounting to provide users of financial statements with a complete and transparent picture of an entity's leasing activities. We also support the FASB's efforts to achieve greater convergence with the IASB. We believe the Proposed Standard represents a significant improvement from the 2010 exposure draft. We are particularly supportive of:

- The exclusion of variable lease payments not based on an index or a rate from the calculation of the right of use asset and the lease liability
- The significant economic incentive threshold for evaluating lease extensions when calculating the lease term
- The inclusion of the Type B straight-line model for property type leases

However, after considering the improvements from the 2010 exposure draft we still question if the costs to comply with the proposed standard are justified by the benefit received by financial statement users. If the FASB decides to move forward with the Proposed Standard, we suggest the Board consider the following:

- The final leasing standard should include only the rents expected to be paid over the minimum contractually agreed upon period when determining the measurement of the right to use asset and lease liability
- A comprehensive cost-benefit analysis should be conducted prior to the issuance of a final standard so the Boards will better understand the impact of the Proposed Standard to all stakeholders

We discuss our considerations for the Board in greater detail below.

### **Lease Term**

We are supportive of a model under which a lessee recognizes an asset representing a right to use asset during the lease term and a liability representing the obligation to make lease payments (i.e. capitalize the lease on the lessee's balance sheet). In addition, we agree with inclusion of a policy election to apply existing operating lease treatment to leases meeting the definition of a short-term lease. We believe short-term leases are immaterial and the policy election choice may reduce costs for some financial statement preparers to adopt and apply the Proposed Standard on an ongoing basis.

Conceptually we agree with the inclusion of lease renewal terms in the determination of the lease liability and the right of use asset when there is a significant economic incentive to extend the lease, but from an operational cost perspective we are opposed to the inclusion. We think the significant economic incentive to extend the lease threshold is an improvement over the more likely than not determination in the 2010 exposure draft. However, in most cases, the requirement to continually reassess whether we have a significant economic incentive to extend leases will be very costly to comply with, as the process will require significant judgments at the individual lease level that must be made by management rather than automated by an accounting system. Further, the judgmental nature of this analysis may cause diversity in accounting practice. Therefore, we believe that despite management's best intentions in determining the likelihood of a renewal, financial statement users may be critical of these estimates with the benefit of hindsight.

We recommend that the final leasing standard include the rent payments expected to be paid over the minimum contractual period when determining the measurement of the right to use asset and obligation to make lease payments. Actual lease renewals should be accounted for as new leases at the renewal date. If the FASB believes that financial statement users need additional information on renewal terms or frequency of renewals by a reporting entity that information should be disclosed in the footnotes to the financial statements.

### **Cost-Benefit**

We believe the costs to comply with the Proposed Standard will exceed the benefits to financial statement users. Currently users of our financial statements estimate lease obligations based on the information disclosed in accordance with Accounting Standards Codification Topic 840, *Leases* paragraph 840-20-50-1 & 2 (i.e. rent expense and future minimum rental payments). These disclosures serve their needs without the Company incurring significant costs to comply

with the Proposed Standard. Significant incremental labor, system development, and capital costs to meet the terms of the Proposed Standard include the following:

- Employee costs for the initial identification and inventory of all existing lease contracts, this includes the effort to identify leases that are not centrally managed, for adoption and ongoing maintenance of the Proposed Standard
- Management will need to make adjustments to the right of use asset and lease liability for changes in rates for variable lease payments that vary based on an index or a rate and the continuous evaluation of lease renewal terms and updating the discount rate. These assessments cannot be made systematically, which is a significant departure from our current accounting process for most operating leases
- Purchase or develop accounting systems to handle both Type A and Type B leases in the Proposed Standard. For Type B straight-line leases we do not believe software exists today that will handle the adjustment (balancing figure) to the right of use asset to obtain the required straight-line expense, especially when the asset is continuously adjusted for changes in assumptions
- Some companies may incur debt covenant violations that result from adopting the Proposed Standard

We do not believe the benefits to financial statement users justify the costs discussed above. We believe any model that requires continuous assessments and adjustments will be too expensive to justify the benefit, especially for entities with a significant number of leases. If the FASB and IASB decide to move forward with a final standard, we suggest they do so only after an extensive cost-benefit analysis of the Proposed Standard is completed.

In conclusion, we support the FASB and IASB's joint project to improve lease accounting and develop a new approach to lease accounting that would require assets and liabilities arising from leases to be recognized in the statement of financial position. We also support the FASB's efforts to achieve greater convergence with the IASB. However, we question the viability of the Proposed Standard from a cost-benefit perspective and, if the FASB moves forward despite the cost-benefit concerns, we recommend the FASB modify the guidance to exclude lease renewals from the initial calculation of the right of use asset and lease liability prior to issuing the final standard, doing so will help mitigate some of the incremental costs discussed above. Additionally, the Proposed Standard is a material change in accounting for leases that will have significant business and operational impacts. We propose an effective date of at least three years from the final standard issuance date, to allow financial statement preparers and software system developers sufficient time to design and implement the required changes.

Thank you for your consideration of our comments on these important matters. If you have any questions, comments or would like further information, please contact me at (612) 678-4769.

Sincerely,

A handwritten signature in black ink that reads "David K. Stewart". The signature is written in a cursive, flowing style.

David K. Stewart  
Senior Vice President & Controller