



September 13, 2013

Technical Director
File Reference: 2013-270
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 2013-270 – Proposed ASU, *Leases* (Topic 842)

Dear Ms. Cosper:

The Edison Electric Institute (EEI) respectfully submits our comments on the Financial Accounting Standards Board's (FASB) proposed Accounting Standards Update – *Leases* (Topic 842) (herein referred to as the "revised PASU"). EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than a half-million workers. With more than \$85 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members, and 250 industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

EEI appreciates the FASB and the International Accounting Standards Board (collectively the "Boards") seeking to develop a converged standard on leasing. Leasing arrangements are widely used in our industry, and there are many provisions in the revised PASU that will significantly affect our member companies. EEI notes and appreciates that the revised PASU addressed many of the concerns raised in our comment letter dated December 15, 2010 on the original proposed exposure draft on leases (the Exposure Draft).

Generally, we believe the revised PASU is an improvement to the Exposure Draft, and we have included in the comments below those areas for which we wish to convey our support. We believe that the final lease standard could be improved further in a number of areas as described below in our comments. We have included in our response areas that will specifically and significantly impact our industry as well as certain non-industry specific areas which we believe the Boards should consider as they develop the final standard.

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Areas of support

Identification of lease contracts

We support the Boards' decision to align the "control" notion in the definition of a lease with the revenue recognition and consolidation guidance and to remove the pricing criteria that make current guidance difficult to apply. We agree with the Boards that the notion of control should not be determined based solely on an assessment of the output obtained by a counterparty to an arrangement. We believe the current proposal in which control is established when a customer has both the ability to direct the use of, and to derive the benefits from, the identified asset is a better reflection of the definition of an asset. As a result of these revisions, we believe the guidance better differentiates between a lease and a contract for the purchase of a product or service and will result in more consistent and representationally faithful application of the lease accounting guidance.

Lease term

We support the revised criteria for determining the lease term based upon the arrangement's contractual term plus (or minus) optional periods for which a significant economic incentive exists to extend (or terminate) the lease. We believe that recording the right-of-use (ROU) asset and liability for lease payments in this fashion is more consistent with the Boards' conceptual framework asset and liability definitions. Further, we believe this threshold is better understood by practitioners and will result in more consistent application of the guidance.

Variable payments

We agree with the decision to remove variable lease payments from the measurement of the lease liability, other than those payments that are in-substance fixed payments or that depend on an index or rate. Variable payments in our industry can be very challenging to estimate and may fluctuate widely from period to period based upon weather, operational constraints and regulation, among other factors. We believe the current proposal will significantly improve the reliability of the measurement of lease liabilities and ROU assets and will also decrease the cost to comply with the new standard.

Short-term leases

We support the decision to provide a practical expedient to both lessees and lessors for short-term leases. We believe this exemption will reduce the cost of compliance with the revised PASU without a significant impact to the usefulness of the financial information presented in an entity's financial statements.

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Industry Comments

Determining when the Right to Control the Use of the Asset has been Conveyed

In paragraph 842-10-15-10, the revised PASU states that an entity would have the ability to direct the use of an asset when it has the ability to make decisions about the use of the asset that most significantly affect the economic benefits to be derived from the use of the asset. The revised PASU further states that, where there are few substantive decisions to be made about the use of an asset after the commencement date, the customer may obtain the ability to direct the use of the asset at or before the commencement date. Paragraph 842-10-15-12 states this situation could occur when the customer is involved in the design of the asset for its use or when decisions about the use of the asset are predetermined by virtue of the terms and conditions in the contract. We believe the current wording in paragraphs 842-10-15-10 through 12 could be interpreted to place inordinate weight on a customer's involvement in design when assessing control and potentially result in diversity in practice. Therefore, we request that the Boards modify this wording to provide further clarification in two respects.

First, we believe the Boards should clarify that the customer's involvement prior to commencement is not determinative of control but rather is an indicator that would need to be assessed along with other indicators of control, such as control over inputs, outputs and processes. We believe an assessment of *all* relevant factors in determining control, which may include involvement in design, would be consistent with the guidance in ASC 810-10-25-38F, which states:

“Although a reporting entity may be significantly involved with the design of a VIE, that involvement does not, in isolation, establish that reporting entity as the entity with the power to direct the activities that most significantly impact the economic performance of the VIE. However, that involvement may indicate that the reporting entity had the opportunity and the incentive to establish arrangements that result in the reporting entity being the variable interest holder with that power. For example, if a sponsor has an explicit or implicit financial responsibility to ensure that the VIE operates as designed, the sponsor may have established arrangements that result in the sponsor being the entity with the power to direct the activities that most significantly impact the economic performance of the VIE.”

Second, we believe additional implementation guidance would be helpful to clarify how various indicators of control should be interpreted in assessing the criteria of paragraph 842-10-15-12. For the Boards' consideration, we provide the following examples that are common in the electric power industry.

Example A

In the context of renewable energy generation (e.g., solar or wind), a utility typically solicits bids from interested parties to enter into a power purchase agreement (PPA) to

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purchase all of the power produced by a yet-to-be-constructed renewable facility. In the solicitation of bids, a utility may specify a range of how much power it desires to purchase, the type of renewable generation (i.e. solar or wind), and the geographic area where the facility must be built. Generally, in such arrangements the supplier retains decisions related to the construction and ongoing operation of the facility, including: selecting the construction contractor, selecting the specific technology to be used, placing the solar panels or wind turbines within the facility to maximize production, maintaining the facility, inverting the power produced for transmission, and managing the operational risk for faulty, improperly installed, or subsequently damaged solar panels or wind turbines. Additionally, the potential economic benefits produced by the asset (i.e., energy, renewable energy credits) are primarily dependent on factors which are outside the control of either party to the arrangement, such as how often the sun shines or wind blows.

Example B

A customer may purchase power generated by a specific power plant in one of two ways: through a PPA or through a tolling agreement. The primary difference between the two types of contracts relates to which party purchases the fuel used to generate the electricity. In the PPA, the owner/operator of the power plant typically purchases the fuel. In a tolling agreement, the customer is responsible for the procurement and delivery of fuel (e.g., coal, natural gas) to the power plant as well as dispatching the generating units under contract. In a tolling agreement, while the customer may provide the inputs (i.e., fuel) for the power plant, the customer does not specify the type of input (e.g., grade of coal) or how the input is used (i.e., process for converting to energy), which are two key determinants of the economic benefits ultimately produced by the power plant. Therefore, providing the input for an asset, even when combined with taking the output of the asset, does not always indicate the right to control the identified asset. In assessing the ability to direct the use of an asset, an entity would also evaluate decisions related to: operating and maintaining the power plant, deploying labor (e.g., number of employees), and other variable expenses (e.g., outsourcing versus self-performing routine maintenance, etc.).

We agree that all relevant factors should be taken into account in determining which party has the right to control the use of the asset. In the above examples, while the utility has input on the design of the asset, we believe that the owner of the facility has control based on the decisions related to operations of the facilities and that this would be the most determinative factor in assessing the right to control the use of the asset in the electric power industry. Furthermore, this conclusion would be consistent with conclusions reached in evaluating the consolidation guidance of ASC 810-10.

We suggest the final standard include examples such as the above that illustrate the Boards' intent in determining control in accordance with paragraphs 842-10-15-11 and 15-12.

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Ancillary Use Agreements

In our industry, there are several types of agreements under which a customer pays the owner of an asset to extract an ancillary use of the asset that is secondary to the asset's primary purpose. Typically, the full primary use is retained by the asset's owner. For example, agreements that allow communication carriers to place their equipment (e.g., cell antenna, conduit) on a utility's poles are common. In these arrangements, the specific pole or location on the pole often is not consequential to the customer. Likewise, it is also common in our industry to have contracts that allow the utility to place its transmission equipment on (or over/under) another entity's land (i.e. easements). Similar to the utility pole example, there is often flexibility for the exact location of the easement, up until the equipment has been attached (at which point, in many cases, the asset owner likely will not have the unilateral right to move the equipment).

A distinguishing feature of each of the arrangements described above, as contrasted with the floor and building example provided in paragraph 842-10-15-8 of the revised PASU, is that the pole/land owner in such an arrangement is able to continue to use the leased asset without substantive reduction in its control, usefulness, or benefit. For example, in an arrangement where a utility allows another entity to attach equipment to a portion of a utility pole, the utility does not cease using that portion of the pole and continues to receive the full primary economic benefits from the use of the pole (i.e., supporting its own wires and other equipment for the purpose of transmitting power). Similarly, a land owner that allows a utility to traverse its property is generally able to continue to use substantially all of that land for a wide variety of purposes and derive substantial economic benefits from the use of the land. In both cases, the rights granted to the non-owner are inconsequential to the owner's use of the asset and have no negative impact on its use or economic utility.

We believe the proposed guidance for determining whether an arrangement contains a lease is difficult to apply to these transactions and may result in diversity in practice. Further, we do not believe the economics of these transactions support them being accounted for as leases under the revised PASU. To that end, we recommend the Boards provide clarification guidance to illustrate that arrangements where the benefits derived from the primary use of the asset are not diminished by its ancillary use should not be considered leases in the final standard.

If the clarification requested in the preceding paragraph is not provided, we believe further implementation guidance would be helpful to minimize the potential for inconsistent application. Based upon a literal interpretation of paragraph 842-10-15-8, some may conclude the arrangements discussed above meet the revised PASU's definition of an identified asset as the location on the pole or piece of land becomes physically distinct upon the equipment being fixed (i.e., the inches on a pole, or feet of land where transmission equipment is anchored). Others may analogize these agreements to capacity arrangements and conclude that an asset is not identified. The Basis for Conclusions paragraph 105(c) indicates that capacity arrangements are not identified assets because "... decisions about the use of the asset are typically made at the larger asset level." This concept is illustrated in Example 4 in paragraphs 842-10-55-27 through 34, and we believe it would be applicable to ancillary use arrangements. We believe the latter

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conclusion is appropriate and more reflective of the underlying economics of these arrangements. However, given the potential diversity in conclusions in determining when an ancillary use arrangement contains an identified asset, we request the Boards to clarify the application of the guidance in circumstances such as those described above, including providing an additional example, illustrating that such arrangements do not include an “identified” asset.

Likewise, we believe implementation guidance is needed to assist users in evaluating whether the customer can direct the use of the asset to derive substantially all the potential economic benefits from its ancillary use. In the floor and building example, it is clear that the economic benefits derived from the use of the floor can be easily separated from the benefits derived from other physically distinct portions (floors) of the building. In the ancillary use arrangements described above, the economic benefits attributable to a *portion* of the asset (often not distinctly specified at the execution of the agreement) are not distinguishable from the economic benefits attributable to the larger asset. We do not believe the intent of the proposed guidance is to create circumstances where significant allocation of attributable benefits is required.

For example, in order to determine if a telecommunications carrier (or utility) derived substantially all of the economic benefits from the few inches of pole (land) its equipment occupied, we believe it is not clear whether or how an entity would need to allocate the economic benefits associated with the larger asset (e.g., utility pole or parcel of land) to the “leased” space. Further, how these allocations should be performed is also unclear when (as in the examples above) the larger asset (e.g. a small portion of a pole or feet of land) does not have identifiable cash flows that are independent from other assets.

Given that the economic benefits derived from ancillary use arrangements are not always clearly attributable to any physically distinct portion of the asset, it is possible that this fact simply reinforces the conclusion that, in such situations, there is no identified asset. Accordingly, we request that the Boards either confirm this conclusion with clarifying language in the final ASU or provide additional illustrative guidance on how users should assess paragraph 842-10-15-15.

If the Boards determine not to address ancillary use arrangements as described above, we request that the final standard provide clarification regarding easement arrangements specifically. Under existing U.S. GAAP, there is diversity in practice regarding the classification of these contracts. Some of our members account for easement agreements as intangible assets in accordance with ASC Topic 350. Others account for these arrangements as property, plant and equipment, or operating leases, in accordance with ASC Topic 360 or ASC Topic 840, respectively.

This diversity historically has not been considered problematic, as differences in classification do not impact an entity’s net assets or result in a different pattern of expense recognition under existing U.S. GAAP. The guidance in the revised PASU makes this distinction much more important as paragraph 842-10-15-1(a) provides a scope exception for intangible assets. We believe easements should be excluded from the scope of the revised PASU. We note the Boards have not modified the guidance in ASC 350-30-55-29 or ASC 805-20-55-31(i) which supports the classification of these arrangements as intangible assets. If this was the Boards’ intent, we

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request that the final standard provide clarification that easements should be treated as intangible assets and therefore, excluded from the scope of the revised PASU.

Lease Classification

We appreciate the Boards' efforts to address concerns about applying a single accounting framework to all leases, including those for which the asset is not consumed, while retaining the conceptual basis for the original PASU to the greatest extent possible. We concur with efforts to provide a practical solution that can address such concerns. After consideration of the two separate accounting models presented in the revised PASU, we recommend the following change which we believe would better align the guidance with the Boards' consumption principle. Specifically, we recommend evaluating leases for classification as Type A or Type B using a two-step procedure based on an initial overriding evaluation of whether the asset is consumed as a result of it being leased to a customer as follows:

First, there should be an initial overriding evaluation of whether the asset is consumed as a result of it being leased to a customer. If an asset is not consumed, as would be the case with land leases and certain ancillary use agreements (described above), the contract should default to a Type B lease without regard to, or evaluation of, the lease term or the present value of lease payments. As noted by the Boards in the Basis for Conclusions paragraphs BC44 and BC73, when an asset is not consumed (i.e., there is no expected decline in its value or service potential based on the customer's use) the payments made by the lessee would represent amounts paid to provide the lessor with a return on its capital investment in the underlying asset. No additional compensation is required for depreciation or consumption of the asset. Likewise, we do not believe this principle is different for long-term leases of land such as those discussed in the Basis for Conclusion paragraph BC93. Some assets are not consumed, regardless of the amount of time for which they are used, and as such should not be treated as sales or financing leases.

Second, for leases where a portion of the asset is consumed, we support the application of Type B accounting for property leases based on a revised definition of "property." We believe that "property" should include integral equipment (as defined in U.S. GAAP) in addition to land and buildings as the pattern of consumption of integral equipment is similar to that of a building. A distinguishing feature of integral equipment (as opposed to other, non-integral equipment) is that it is "attached to the real estate that cannot be removed and used separately without incurring significant cost." In establishing the criteria for classifying property leases as Type A or B, Basis for Conclusions paragraph 55 states:

"For a property lease for which a significant part of that property's value is derived from its location, a lessee is unlikely to consume more than an insignificant portion of the economic benefits embedded in the entire property (including the land) unless the lease term is for at least a major part of the remaining economic life of the building"

Leases of integral equipment likewise incorporate the right to use the underlying land and related equipment given the significant cost of removal. Similar to buildings, a significant part of

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integral equipment's value is derived from its location. In fact for many types of integral equipment common to our industry (e.g., wind turbines, solar panels and hydro-electric dams) location is of critical importance to the value of the property. Given the similar nature of integral equipment to buildings, we believe integral equipment should be included within the definition of 'property' in the final standard. Based upon this recommendation, Example 10 in paragraphs 842-10-55-58 through 55-60 would need to be modified to be consistent with the revised approach and recommended conclusion that such a contract would be classified as Type B.

Removal of ASC 980-840

The revised PASU supersedes or amends certain lease-related subtopics in the Accounting Standards Codification (ASC), including ASC 980-840, *Regulated Operations – Leases*. The guidance in ASC 980-840 (formerly contained in FAS 71, *Accounting for the Effects of Certain Types of Regulation*) is regulatory accounting guidance that dictates how regulated entities should modify lease accounting to reflect the economics of rate regulation. We do not believe it was the Boards' intent to change the accounting for rate regulated activities with the revised PASU. Retaining this guidance is necessary to provide consistency between the regulated accounting treatment for leases and other transactions addressed under ASC Topic 980, *Regulated Operations*.

Currently ASC 980-840 specifies that regulated entities should record lease expense equal to the amount allowed by the regulator for rate-making purposes. Specifically, ASC 980-840-45-3 states:

The nature of the expense elements related to a capitalized lease (amortization of the leased asset and interest on the lease obligation) is not changed by the regulator's action; however, the timing of expense recognition related to the lease would be modified to conform to rate treatment. Thus, amortization of the leased asset shall be modified so that the total of interest on the lease obligation and amortization of the leased asset shall equal the rental expense that was allowed for rate-making purposes.

This accounting treatment results in regulated entities recognizing expense in a manner that corresponds to lease expense recognition for ratemaking purposes. Recording lease expense in an amount equal to that allowed for rate-making purposes and included in revenues reflects the effects of the regulator's actions and the cause-and-effect relationship between a regulated entity's costs and revenues. Recognizing this relationship, ASC 980-840 results in an appropriate recognition of revenues and expenses.

We believe the timing of expense recognition for leases should continue to conform to rate treatment and, therefore the rate regulation guidance for leases in ASC Topic 980 should not be removed in the final ASU on Leases. This treatment appropriately accounts for the economic effects of the rate-making process under relevant ASC provisions outside the leasing topic.

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If the lease guidance in ASC Topic 980 is removed in the final ASU, it may result in divergence in practice across the rate-regulated electric industry. If language similar to that contained in ASC 980-840 is not retained in a new standard, we believe the final standard should clarify that the provisions of ASC Topic 980 continue to permit recognition of a regulatory asset to the extent that lease expense exceeds the amounts currently in rates, provided that such deferred costs are probable of recovery.

Classification in Income Statement and Statement of Cash Flows

We believe separating interest and amortization within the income statement, and principal payments in the statement of cash flows, for Type A leases is not appropriate in all circumstances and could misrepresent important financial metrics such as operating margin, operating income, and operating and financing cash flow activities.

Our members execute a number of different lease and non-lease contracts for purposes of acquiring and providing energy products and services to our customers. The expenses associated with these contracts are classified in the income statement according to their nature. For example, the expenses associated with minimum PPA payments are classified as fuel and purchased energy expense within operating income and are evaluated as part of operating margin within the Management's Discussion and Analysis (MD&A) section of U.S. Securities and Exchange Commission (SEC) filings. The cash payments for these arrangements are presented as operating activities on the statement of cash flows. In this way, the expenses and the associated payments are presented within the same financial statement captions as the costs of purchases under other contracts that do not meet the definition of a lease. They also better reflect operating margin, a key metric for users of our financial statements, by recording revenue from power sales and the costs of purchasing that power in the same period and within operating income.

Under the proposed classification guidance, a PPA that meets the definition of a lease could be classified as Type A. In that case, we believe that separately classifying a portion of what is effectively purchased energy as interest and amortization expense would misrepresent our operating margin.

Paragraphs 842-20-45-1 and 45-2 of the revised PASU provide lessees flexibility on the line items in the balance sheet used to present ROU assets and lease liabilities as long as disclosure in the notes to the financial statements indicates the line items where those assets and liabilities are presented. Consistent with the flexibility afforded for balance sheet presentation, we believe flexibility should also be afforded for income statement and statement of cash flows presentation based on the nature of the agreement with appropriate disclosures about where each component is presented in the financial statements.

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General Comments

Customer's Knowledge about a Supplier's Barriers to Substitution

Paragraph 842-10-15-6 (b) indicates that, in order to conclude that a supplier's right to substitute an asset is substantive, the customer must be able to assert that the supplier can reasonably substitute other assets for the asset identified in the contract. While in some circumstances the customer will be able to reasonably determine whether there are any barriers to substitution, there may be other instances where, on its own, the customer will be unable to determine with certainty whether the supplier has alternative assets that it can substitute or, to a lesser degree, estimate the magnitude of the costs involved in substituting another asset.

Companies will have to make assumptions or estimate amounts that are fundamental to the lease analysis if the level of information available from the supplier is limited. As presently drafted, it is difficult to determine what level of certainty is required in order to evaluate the right of substitution. Therefore, we believe that clarifying guidance is needed in the final ASU to indicate the level of diligence and evidence necessary in order to for the customer to make the assertion in Paragraph 842-10-15-6 (b).

Given the potential inability to obtain relevant information from suppliers, we recommend that the final ASU explicitly allow a customer to conclude there are no barriers to substitution *if*, after a reasonable effort on the part of the customer to determine whether barriers exist, it is not aware of any barriers to substitution. Without clarification from the Boards that the customer is only required to make reasonable efforts to ascertain whether the supplier has alternative assets available or its costs of substitution are prohibitively high, an entity could be precluded from concluding that the contract is not a lease merely due to its inability to prove that the supplier's substitution rights are substantive.

Reassessment

The revised PASU proposes that both the lessee and lessor reassess the lease liability and lease receivable, respectively, if there is a change in any of the following: (a) the lease term, including a change in a significant economic incentive to exercise an option to extend or terminate the lease term (b) relevant factors that result in the lessee having or no longer having a significant economic incentive to purchase the underlying asset during the term of the lease or at the end of the lease, (c) the amounts expected to be payable under residual value guarantees, or (d) an index or a rate used to determine lease payments during the reporting period. The evaluation of criteria (a) and (b) requires a consideration of all relevant factors listed in paragraph 842-10-55-4, including contract-based, asset-based, market-based, and entity-based factors.

We believe this guidance requires a reassessment of the lease term/payments when there is a *significant change* in management's assumptions regarding these factors since commencement of the lease. However, some may interpret this guidance to require a reassessment of the factors listed in paragraph 842-10-55-4 on a lease-by-lease basis at the end of each reporting period. We

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do not believe the benefits of performing such an assessment for all leases at the end of each reporting period outweigh the costs. If the PASU intends for entities to challenge the appropriateness of their initial assumptions on a periodic basis, we request this point be clarified in the final standard. If so, we request further clarification that the requirement to periodically reassess the lease term should be applied on an annual basis (unless the terms of the lease change due to the exercise or expiration of an option to renew) to alleviate the burden of a quarterly reassessment. Under this proposed alternative, entities would be able to select the time during their fiscal year to perform this assessment and stagger the assessment for different leases, which would greatly reduce the time and effort of performing assessments of potentially thousands of leases within a short time period.

Discount Rate

The revised PASU requires the lessee to use the rate the lessor charges the lessee or the incremental borrowing rate of the lessee if the rate the lessor charges the lessee is *not readily available*. The revised PASU also requires the remeasurement of the lease obligation in various instances, including a change in expected lease term or a change in likelihood of exercise of a purchase option. For each such remeasurement, lessees are to reassess the appropriate discount rate. The volume of leases for which a discount rate is needed to measure a lease asset and liability is expected to increase significantly upon implementation of the new lease standard.

In order to provide a practical expedient and relief, both at implementation and on an ongoing basis for a much larger population of leases, we believe the Boards should revise the guidance to provide that the lessee's incremental borrowing rate should be used as the default discount rate at lease commencement and for each remeasurement unless the rate the lessor charges the lessee is *clearly evident in the lease agreement*. We believe use of the lessee's incremental borrowing rate as a default is a better reflection of the lessee's theoretical cost of "financing" the asset and will result in reduced costs of adoption and ongoing compliance with the new standard.

Nomenclature for Describing Types of Leases

Although the generic use of the terms "Type A lease" and "Type B lease" seems simple, it can be confusing to preparers and users of financial statements. We believe "financing" lease and "operating" lease are more intuitive terms, and therefore, we recommend the use of these, or some other more descriptive, terms for classification. Preparers and users are familiar with the vernacular used for both types of leases in ASC Topic 840 and IAS 17.

Disclosures

We believe the quantitative and qualitative disclosures required by paragraphs 842-20-50-3 through 50-10 are excessive considering the significant level of additional information that would be reflected on the face of the financial statements under the revised PASU. Recognizing lease liabilities and ROU assets in the financial statements provides significant additional

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information to users of the financial statements as compared to existing U.S. GAAP and should ultimately result in *reduced* footnote disclosures.

Implementing the volume of disclosures required by the revised PASU is likely to require a substantial investment in both personnel and systems. We note that the FASB presently has an active Disclosure Framework project to evaluate comprehensively the nature, types, purpose, and content of existing footnote disclosures. While disclosure reduction is not a primary objective of that project, we believe that rationalizing an overall disclosure framework may in fact achieve a reduction in the volume of disclosures. With the potential for the Disclosure Framework project to be well underway by the time the Lease ASU becomes effective, we believe it would be prudent to reconsider whether all the newly proposed disclosures are indeed required and cost-beneficial.

In addition to our over-arching concern regarding the amount of required disclosures in the revised PASU, we have provided specific areas of concern as follows:

Roll forward schedule for lease receivable, lease liability, and residual asset

We do not believe the proposed requirement to reconcile the opening and closing balance of the lease liability separately for Type A and Type B leases in paragraph 842-20-50-4 is necessary to meet the disclosure objectives. The reconciliation of the lease liability will substantially increase the complexity of the disclosures without a commensurate benefit. Providing detailed disaggregated information regarding the changes in the lease liability does not assist users with understanding the amount, timing, and uncertainty of future cash flows but will substantially increase the complexity of the disclosures. Additionally, historic cash flow information relating to the lease liability will be presented within the statement of cash flows. Similarly, the requirements in paragraphs 842-30-50-7 and 50-8 to disclose a reconciliation of the opening and closing balances of the lease receivable and residual asset by lessors in Type A leases seems excessive. Existing disclosures for similar major asset categories, such as long-term debt or property, plant and equipment, do not require a roll forward of activity to be disclosed.

We believe the required disclosures for the lease liability, lease receivable and residual asset should not exceed those required of other balance sheet accounts with similar risks.

Significant Assumptions and Judgments

We do not support the requirement of paragraphs 842-20-50-1(b) and 50-3(c) to disclose the “significant assumptions and judgments made in applying the requirements of the topic.” We believe that detailed disclosures surrounding significant assumptions and judgments for each lease or class of leases will only confuse readers and would be difficult to concisely present in a footnote disclosure given that potentially thousands of contracts will be subject to the provisions of the guidance.

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Paragraph 842-20-50-2 encourages lessees to make sure that “...useful information is not obscured by including a large amount of insignificant detail...” We support this guidance regarding use of the entity’s judgment for the level of necessary disclosures, and believe disclosure of detailed assumptions and judgments will not be necessary for the reader to understand the amount, timing and certainty of the cash flows for the majority of our lease arrangements. If an entity determined a specific arrangement did necessitate additional disclosure, such disclosure would be more meaningful to investors if it was not lost in boilerplate “compliance” language.

Maturity Analysis of the Lease Liability

We do not support the requirement in paragraph 842-20-50-8 for a lessee to disclose a maturity analysis of the lease liability on an undiscounted basis and a reconciliation of those amounts to the lease liability recognized on the statement of financial position. For entities registered with the SEC, this information on future payments is already included in tabular format within the Contractual Cash Obligations Table in the Liquidity section of MD&A. While we recognize that MD&A is not a part of the GAAP financial statements, we encourage the FASB to consider information that is already widely available to users of those financial statements to avoid unnecessary duplication of disclosures. Further, we believe this requirement is inconsistent with the conceptual basis of accounting for leases as financing transactions similar to debt instruments. Current disclosure requirements for debt maturity disclosures, such as ASC 470-10-50-1, are provided on a discounted basis (i.e., are not grossed up to include future interest payments). If the FASB retains the required disclosure of lease maturities in the final standard, we believe such disclosure should be presented on a discounted basis to be consistent with other debt disclosure requirements and thus eliminate the need for a separate reconciliation.

Maturity analysis of commitments for non-lease components

We do not support the requirement of paragraph 842-20-50-9 for the lessee to disclose a maturity analysis of commitments for non-lease components. We believe this disclosure requirement does not provide any meaningful benefit to the users of financial statements and would result in inconsistent disclosure for economically similar arrangements. In our industry, non-lease elements are often combined with lease elements as a matter of convenience and are economically similar to a lease contract and an executory contract. This disclosure requirement will create inconsistencies with disclosure requirements for executory contractual commitments related to services that are not part of a lease arrangement. We further note that the requirement for a maturity analysis on non-lease components is not included in the IASB lease proposal.

Tabular disclosure of lease income

We do not support application to all entities of the requirement of paragraph 842-30-50-5 which mandates that a lessor disclose lease income recognized in the reporting period in a tabular format. We believe separate disclosure for lease income may be useful for entities whose primary business model is to enter into lease arrangements as the lessor. However, given the

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limited impact of lease income in our industry and many others, we believe this disclosure should only be required for entities where lease income represents a significant portion of the entity's business.

Effective Date

We believe the final standard should be effective at least one year after the January 1, 2017 effective date for the proposed ASU on revenue recognition. Furthermore, the effective date should be set so that the beginning of the earliest period required to be restated is at least 18 months after the issuance of a final standard. We believe the timing of an effective date determined in this manner will provide entities sufficient time between when the final standard is issued and the beginning of the earliest period required to be restated to determine what information will need to be analyzed to comply with the standard and to design systems and processes to capture such data.

Some of our companies have thousands of contracts that will need to be analyzed, potentially including some arrangements that were not previously determined to be leases. Developing a complete and accurate inventory of historical arrangements, analyzing those arrangements and developing and implementing appropriate internal controls for capturing the required new information related to these arrangements will take considerable time and effort. This effort will be magnified for many of our member companies whose administration of these arrangements is not currently centralized. As such, we believe the Boards should provide adequate lead time for entities to accurately and comprehensively adopt the final standard. Further, many of the companies within our membership do not have the resources to adopt both the Revenue Recognition and Lease standards at the same time. Accordingly we propose a staggered approach to adoption. For those entities that prefer to adopt both standards simultaneously, we believe early adoption should be permitted.

Transition

The retrospective transition provisions of the revised PASU will require a tremendous amount of effort to adopt. As proposed, all contracts, potentially containing a lease element, in effect at any time during the two years prior to the beginning of the first year of adoption of a final standard will need to be analyzed under the revised guidance. As a result of the significant period of time covered by a retrospective transition, many entities will have thousands of contracts to analyze, often with little or no lease term remaining at the time of initial adoption, which may require them to hire additional employees and/or external consultants. Further, many of the subjective judgments involved in analyzing these arrangements, such as determining lease terms and stand-alone selling prices, will be difficult to audit and will increase audit costs – perhaps significantly for some entities. We believe the costs required to apply the revised PASU retrospectively, even with the optional practical expedients, will greatly exceed the benefit derived from the effort. Accordingly, the Boards should give consideration to alternative transition methods.

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We believe a transition method similar to the alternative transition method being considered in connection with the proposed ASU on revenue recognition, whereby the revised lease guidance would apply to all contracts that exist at the effective date of the final standard, provides the most cost-effective method of providing users of the financial statements meaningful information about leasing arrangements. Under this approach, the cumulative effect of initially applying the standard would be recognized as an adjustment to the opening balance of retained earnings in the year of initial application (that is, comparative years would not be restated).

Alternatively, because a significant impact of the revised PASU will be to recognize lease rights and obligations on the balance sheet, the cumulative effect adjustment could be made to the ending balance of retained earnings of the year prior to initial adoption, with that balance sheet restated to reflect the assets and liabilities that would otherwise be recorded as of the effective date (in order to have comparative presentation of lease assets and lease liabilities in the balance sheets). Additional disclosures in the initial year of application could include the effect on financial statement line items as a result of applying the new standard and an explanation of significant changes between the reported results for the year and what they would have been under the old rules. Under either approach recommended above, we believe the practical expedients provided for under the modified retrospective approach as outlined in the revised PASU should be retained.

If the Boards determine to permit an alternative approach to ease the implementation of the standard, we continue to support the ability of those who choose to apply the standard using a full retrospective approach to do so.

Transition by class of lease

We believe the final standard should provide an election to apply the modified retrospective transition guidance, including the specified reliefs discussed in paragraph 842-10-65-1(g), by class of lease. For example, an entity might have a limited number of very significant leases (e.g., buildings or major equipment) and a very large number of insignificant leases (e.g., vehicles, copiers, computer equipment). Some entities may be dissuaded from using a full retrospective method for certain classes of leases due to the additional cost of compliance with that method for a large number of insignificant leases that may still be insignificant in the aggregate. Allowing an entity to apply the full retrospective method to some, but not all, classes of leases would provide financial information closer to the preferable result and should be allowed.

Contracts Currently Grandfathered under EITF 01-8 and FAS 98

We believe the grandfathering provisions provided under EITF 01-8 and FAS 98 should be retained in the final standard. We believe the benefit of analyzing these contracts does not justify the costs as it is expected that the majority of these arrangements are near the end of their terms and the cumulative impact of analyzing numerous prior years would be minimal and not cost-justified.

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Coordination with the SEC

We encourage the Boards to coordinate with the SEC on what periods will be required in the Selected Financial Data required by Item 301 of Regulation S-K. If the SEC does not provide relief from its requirement that registrants provide five years of Selected Financial Data, including income from continuing operations and net income, we recommend an additional two year delay in implementation. This requirement applies to all contracts effective during this time period regardless of whether the arrangement expires early in the assessment period. Furthermore, if retrospective application is required for periods prior to those included in the audited financials presented in the year of restatement, it could give rise to issues related to traditional comfort letters provided by external auditors in connection with financing transactions. In addition, significant effort will be required to restate information for additional periods, which would not seem justified from a cost/benefit perspective.

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Conclusion

We appreciate your consideration of our comments. The proposed changes to lease accounting will have a significant impact, and we would be pleased to discuss further the impact on our industry with you or provide any additional information you may find helpful in addressing this important topic.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Vice President