



September 13, 2013

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

RE: File Reference No. 2013-270, Leases (Topic 842)

Dear Members of the FASB and IASB:

The National Retail Federation (NRF) welcomes the opportunity to comment on the Financial Accounting Standards Board (FASB) and International Accounting Standards Board's (IASB) Exposure Draft, Leases (Topic 842) issued on May 16, 2013 ("Exposure Draft"). As the world's largest retail trade association and the voice of retail worldwide, NRF represents retailers of all types and sizes, including chain restaurants and industry partners, from the United States and more than 45 countries abroad. Retailers operate more than 3.6 million U.S. establishments that support one in four U.S. jobs – 42 million working Americans. Contributing \$2.5 trillion to annual GDP, retail is a daily barometer for the nation's economy.

NRF would like to thank the Boards for considering our comments filed on December 14, 2010 in which we expressed our concerns over the complexity and costs of the proposed lease accounting rules. While we note that the Exposure Draft has addressed a number of our concerns – including retaining an expense recognition pattern similar to existing straight-line rent expense recognition for most real estate leases and excluding consideration of percentage (i.e. "contingent") rent from the calculation of the right-to-use asset – compliance will still be costly, complex, and necessitate a long transition period for businesses. We continue to question the value added and do not believe the Exposure Draft as currently written improves transparency.

Implementation Considerations and Impact on the Business

Significant business resources will be required to comply with the Exposure Draft and concerns remain that the costs of implementation and ongoing reassessments will outweigh the benefits. Compliance will involve a large-scale effort to gather and consolidate all leasing information, input into a central leasing system, and then validate and analyze the data in a manner significantly different than is current practice. As the information is assembled, retailers will need to

adopt new processes and controls to ensure they are able to meet requirements of the Exposure Draft, especially with regard to continuous reassessments and calculations of the lease portfolio.

While it is difficult to calculate the total cost of compliance, our members tell us costs will come from the following categories: purchasing and integrating software, gathering and analyzing prior year information, training, auditing fees, and ongoing costs associated with maintenance and reassessments. The individual cost will vary by retailer based on factors including: the number of stores one operates; whether stores are leased versus owned; and the various terms and conditions within each lease. But it's not unreasonable to expect the total cost to a retailer to be in the millions because they typically have a significant volume of leases and costs multiply exponentially.

We further note that some investors also question the quality of information that would result from this standard. NRF believes further consideration should be given to whether the benefits derived would in fact outweigh the costs.

Complexity Concerns

NRF recommends the following changes to reduce complexity in the Exposure Draft:

Periodic Adjustments. As currently drafted, the Exposure Draft would require retailers to perform a complete lease portfolio review each quarter to determine whether significant changes and/or economic events require re-measurement of the lease asset and liability. This would put an unmanageable burden on organizations. It could also be subject to quite a bit of judgment and in our view not enhance the information available to the users of the financial statements. We would recommend eliminating the non-contractual re-measurement provisions. Additionally variable lease payments, such as those tied to an index or rate (such as CPI), should be excluded from the initial measurement of the lease liability and be recognized in the periods in which the affected payments occur.

Immaterial Equipment. Equipment that is not core to the business should be excluded from this Exposure Draft. For the retail industry this would include items such as water coolers, alarm systems, and copy machines. A scope exception should be carved out similar to the scope exception for leases less than 12 months; they are immaterial from a monetary perspective as well as a time perspective. We also feel that immaterial leases or leases incidental to services being provided should be out of scope. These recommendations support the Boards' goal to move to more principles-based accounting.

Disclosure Requirements. The disclosure requirements in the Exposure Draft are particularly onerous. One proposed disclosure requirement relates to a lessee disclosing "a reconciliation of opening and closing balances of the lease liability separately for Type A leases and Type B leases." We do not feel that disclosure of such reconciliations has benefits to financial statement users that outweigh the cost of such disclosure, as investors are more likely concerned with future cash flows as opposed to historical roll-forward data. We note that while many companies internally prepare a roll-forward for property, plant and equipment, which is the most similar asset to the right-of-use asset on the balance sheet, no such roll-forward is provided for disclosure purposes, because it is not significantly relevant to financial statement users.

In addition, the requirement for a lessee to "disclose a maturity analysis of commitments for non-lease components related to a lease, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years" seems duplicative of the commitments and contingencies table in which these payments would also be reflected. For future commitments not reflected on the balance sheet that are non-lease related, no disclosure other than the contractual commitments table is required. It is unclear why such

components, if related to a lease, should be disclosed differently. As such, we suggest that this requirement be removed.

Lastly, reducing the disclosure requirements for quarterly reporting would make compliance with the final standard less burdensome. We do not feel it is necessary to complete a full reconciliation or lease related disclosure each quarter, especially given that the right-of-use asset and related liability will be on the balance sheet for all quarterly filings. In place of the proposed disclosure requirements, companies could report any material changes since the last 10-K filing, consistent with existing quarterly disclosure rules surrounding operating and capital leases. We ask that a statement to this effect be made in the Exposure Draft to avoid confusion or multiple interpretations of the quarterly disclosure requirements.

Clarification Requested

To aid in preparers' understanding of some of the more complex requirements of the Exposure Draft, we ask for clarification on the following items in the final standard:

- 1) Definition of the term "commencement date" and its application.
- 2) Determining the incremental borrowing rate. The Exposure Draft indicates that the rate should be determined on the Commencement Date. We request clear guidance on the definition of Commencement Date to avoid interpretation issues. The current practice in the retail industry is to use the date the retailer takes possession of the space; rent is recognized on the date retailers are given access to the leased space. We believe this would be the most appropriate definition of Commencement Date as it makes sense to use the possession date as the date the rate is locked in.
- 3) The timing of reassessment. For example, when a building is renovated and that renovation creates a significant economic incentive to exercise the optional terms of a lease that previously did not include that optional term, would such a term be considered for reassessment when the lessee commits to renovate or when renovation activities begin?
- 4) How the incremental borrowing rate should be determined if companies face a tight credit market where financing is not available. The current Exposure Draft requires quotes on issuing financing with the same terms, size, risk exposure, etc. If a return to a tight credit market were to occur, some retailers are concerned that they could not obtain financing with the same terms as in the lease. In the absence of such data, we recommend using a company's internal cost of capital.
- 5) How to account for a lease for which the total lease payments are based upon a % of store sales, which are not uncommon in the retail industry, and which are not necessarily in-substance fixed payments. Based on the Exposure Draft, such leases would seem to have no fixed rent, and, therefore, no right-of-use asset and/or related liability would be recognized as the full amount of rent paid would be a period expense. An example to this effect would be helpful to ensure the understanding of how such a lease would be accounted for is correct.
- 6) Treatment of executory costs. Specifically, clarity in the final statement that executory costs (real estate taxes, CAM, etc) are non-lease components and should be accounted for as period costs based on reasonable estimation.
- 7) Treatment of in-lieu contingent rent. We interpret the Exposure Draft to say that all types of contingent rent, be they higher or lower than the minimum lease payments, be treated as period costs. We support this and request that the final statement clarify this interpretation.

- 8) The Exposure Draft states that the leased asset is to be part of the total carrying value of the store subject to impairment in accordance with Topic 350 and it would be based on the undiscounted cash flows of the store. We ask the Board to provide clarity on whether assets and liabilities would be netted as is current practice for goodwill under Topic 350, which we believe they should be.
- 9) Finally, it would be helpful to have examples of Type B lease accounting post impairment, given that straight-line expense would not be possible for the lease term post impairment, and guidance on what should be done in this circumstance would therefore be warranted. For example, would straight-line expense be continued as far as possible until the asset value was exhausted, or would the asset begin to be expensed straight-line itself post impairment? That would be our interpretation of 842-20-35-2, subparagraph b, but an example would make this clear.

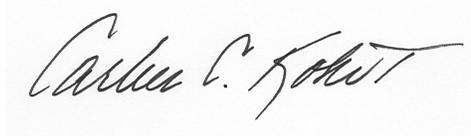
Transition

It is not uncommon for a retailer's lease portfolio to contain a significant volume of leases. Managing these leases under a new standard will require a sophisticated software system that does not currently exist. NRF has met with the major lease accounting software service providers to discuss the needs of the industry as the solutions are in development. However, until a final standard is issued the software will not be available on the market.

Once the standard is finalized and the software becomes available, retailers will need time to input data and integrate the systems into their business. As discussed above, this effort will require a significant amount of resources and staff time. Many retailers expect they will need to hire and train staff as new processes are implemented. To allow adequate time for these steps, the final standard's effective date should be a minimum of four years from the release date.

NRF agrees with the Boards' commitment to financial statement transparency and thanks the FASB and IASB for their consideration of our comments and suggestions. We welcome any further discussion on the topic.

Sincerely,

A handwritten signature in black ink, reading "Carleen C. Kohut". The signature is written in a cursive style with a large initial "C".

Carleen C. Kohut
Chief Operating Officer