

September 13, 2013

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

**RE: Proposed Accounting Standards Update (Revised), *Leases (Topic 842)* (File Reference No. 2013-270)**

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Accounting Standards Update (ASU) (Revised), *Leases (Topic 842)* (“the Updated (Revised) Standard” or “the Proposed Standard” or “the Exposure Draft”).

This letter represents a group response from several of the largest Engineering & Construction (“E&C”) companies, which are primarily U.S. based entities, (“we”, “us”, “our Industry” or “the Industry”) all of whom provide long-term construction related services to project owners around the world.

This letter is also supported by the Construction Financial Management Association (“CFMA”) which represents the only nonprofit organization dedicated to serving construction financial professionals and currently has nearly 6,700 members in 87 chapters throughout the U.S. CFMA’s General Members represent all types of contractors, as well as developers, construction managers, architects, engineers, principals and material and equipment suppliers. Associate Members include the accounting, insurance, surety, software, legal and banking specialists who serve the construction industry.

Our response reflects the collective perspective and view of the entities named below. Although each party has its own individual perspective, we are all unified in our view that there are aspects of the Updated (Revised) Standard that require revision, for the reasons expressed herein.

We have worked very closely with Financial Accounting Standards Board (“FASB”) and Staff (“Board” and “Staff”) over the past few years helping to educate and provide input on the unique aspects of our Industry. In that regard, we have met numerous times as a group to discuss this and other relevant areas of accounting (e.g., revenue recognition), and we greatly appreciate the input we have received from the Board and Staff as well as their active participation in several of our meetings. As we’ve done previously, we would also like to extend an offer to meet with you and discuss the specifics of the Updated (Revised) Standard and our response in more detail at the convenience of the Board and Staff.

Executive summary:

We believe the Proposed Standard has evolved from its original version and appreciate the efforts the FASB and IASB (“Boards”) have put forth to-date. We also agree with certain changes the Boards have made in the re-deliberation process.

**As a group however we believe that the Proposed Standard would produce results that are inconsistent in many circumstances with the underlying economics of how such assets are used in a long-term contracting environment, ignores the basic tenet of who is really benefiting from these lease contracts, is impractical and cost prohibitive to implement and maintain, and does not provide, in its totality, for enhanced decision-useful information as compared to current generally accepted accounting principles. In addition, for certain Government contracts, the Proposed Standard would cause the form of accounting rules to inappropriately deviate from the true substance of operational and cash flow results, with real negative earnings and cash flow consequences for those companies who participate in such contracts, as reimbursable costs would be reduced to the contractor.**

Industry background:

The services provided by the Industry are broad and vary widely from one project to the next, and typically include some or all of the following: program management, planning, design, engineering, procurement (services and/or material procurement), fabrication, construction, construction management, installation, logistics, start-up/commissioning, operations and maintenance, and decommissioning/closure services. Long-term construction projects include, for example, power generating plants, highways, bridges, mines, chemical plants, housing complexes, educational, government and military buildings and facilities, rail systems, oil and gas refineries and other processing plants.

In the course of building these large projects a significant amount of equipment is often required. This includes a long and varied list of both large and small pieces of machinery and equipment; for example, items such as trailers, cranes, earth moving equipment, bulldozers, heavy vehicles, compressors, generators, etc. Most of us have open contracts that, at any given point in time, can number in the thousands, or even tens of thousands of contracts. Many in the Industry have a global footprint with projects both within and outside the United States (many in over 40 countries around the world). Given this background, a major step in planning any project is determining what tangible assets (e.g., machinery and equipment) are needed to successfully complete projects and the best method of making these assets available. There are situations where the best answer is to purchase these assets and then at the end of the project either sell them or determine if they have alternative uses (e.g., on another project). That said, in most situations, the best operational, economic, and practical option is to lease (i.e., rent) these assets. In situations where assets are leased, the lease term is typically set such that the assets are available for the time period needed to complete a specific project and, at either the end of the project or when the specific piece of equipment is no longer needed to complete the project, the leased assets are returned to the lessor.

Most customer contracts in the Industry are some variation on either Fixed-Price or Cost-

Reimbursable. Typically, the entire cost of the lease would be considered a cost of the project. Realizing that we would not lease such assets if it were not for the associated client contract, such contracts either specifically provide that the rental costs associated with such leased assets are reimbursable costs (i.e., as we incur the costs, we are simultaneously accruing the right to be reimbursed for that cost from our clients in the form of contract revenue) or are always included in the cost estimate provided to, and agreed by, the customer.

Most leases in our Industry are accounted for as operating leases under current generally accepted accounting principles (“GAAP”). This accounting is well understood by key stakeholders within our Industry including, but not limited to, banks, bonding / surety companies, shareholders, analysts, owners, and Federal and State governments - - many of whom are strongly questioning whether this Proposed Standard will achieve the Boards’ desired objectives.

The remainder of our response is intended to comprehensively address specific matters within the Exposure Draft; irrespective of whether they relate to a specific question in the Exposure Draft. Our objective is to comment broadly on the strengths and weaknesses of the Exposure Draft and their related impact on the E&C industry. Accordingly, the following is a list of the areas of the Updated (Revised) Standard for which we provide detailed comments:

- Government contracts;
- Scope;
- Lease term;
- Lease characterization;
- Terminology;
- Related party leases;
- Cancellable short-term leases;
- Disclosures; and
- Transition and implementation

Government contracts:

Many of the undersigned have a significant number of contracts with the U.S. Federal Government. Such contracts require the use of specific and specialized cost accounting standards governed by the U.S. Government’s Cost Accounting Standards (“CAS”) and Federal Acquisition Regulation (“FAR”) Cost Principles. In general, these specialized accounting standards are based on the classification of costs under GAAP. In addition, rather than develop their own cost accounting requirements and principles, many states incorporate the CAS and FAR in their contracts with E&C service providers, thereby expanding the effects of the

Proposed Standard well beyond contractors who provide services to the U.S. Federal Government.

The proposed change in the characterization of expenses related to lease accounting will have an enormous financial impact on federal contractors (i.e., reducing revenue) even though there has been no change in the economics of the leases themselves.

The cost of assets classified as an operating lease (i.e., rent expense) are currently “allowable” subject to the provisions of FAR 31.205-36 and thus subject to reimbursement under U.S. Government contracts. Given the pervasiveness of operating leases (and thus rent expense) in our Industry, these reimbursements are material to these contracts and, in fact, to our operations, both in terms of financial reporting and cash flows. While each Company is different, it is not uncommon for such reimbursements to measure in the millions, if not tens of millions of dollars annually. Across the government contractor community, it surely measures in the hundreds of millions of dollars annually.

FAR 31.205-20 specifically excludes interest expense as an allowable cost as it is considered a capital structure decision and financing responsibility of the contractor’s owners or equity holders. The accounting required by the Proposed Standard results in the majority of leases effectively being capital leases, whereby most lease transactions would result in an elimination of allowable rent expense in exchange for unallowable imputed interest expense and some (perhaps) allowable amortization expense. Although, depreciation of owned fixed assets is an allowable cost under FAR; the allowability of amortization / depreciation of assets likely to be characterized as intangible, may or may not be considered allowable to contracting officers and the Defense Contract Audit Agency. As a result, this may render a significant portion of the cost of leasing assets as “unallowable” for purposes of U.S. Federal Government contracting. Again, given the pervasiveness of these contracts in our industry, such a change would likely cause an unnecessary direct or indirect material adverse change in our operations and cash flows.

Our concerns in this area apply to both Type A and Type B leases. While the Proposed Standard is explicit that Type A leases would “present the unwinding of the discount on the lease liability as interest...”, the Proposed Standard also indicates, as described at 842-20-35-2, that the periodic expense of Type B leases will include an amount representing the “unwinding of the discount on the lease liability...” which infers the presence of an interest component.

We understand that the Staff has received comments from other U.S. Federal Government service providers, or from the Government itself, indicating that a portion of rental costs that would be rendered unallowable upon the adoption of the Proposed Standard and the resulting re-characterization of a portion of such costs from “rent” to “interest” could be recovered under the provisions of CAS 414 Facilities Capital Cost of Money (“FCCM”).

We disagree.

First, in order for a contractor to recover FCCM, the contractor must propose the cost prior to contract price negotiation and contract award. If FCCM is not proposed, the contractor waives its right to FCCM for the contract's duration. The majority of U.S. Federal contracts currently in

the backlog of the undersigned do not allow FCCM (there was little commercial reason when such contracts were entered into to negotiate for FCCM), and we have no basis for requesting FCCM now.

Second, any benefit under FCCM is dwarfed by the financial loss of converting a significant portion of reimbursable rent cost to “interest”. While it is impractical to determine the amount of recovery in all instances, we believe that such recovery is only a mitigating rather than a compensating factor, as the applicable interest rate for the FCCM calculation is set by U.S. Treasury and is currently 1.75% -- far below the cost of capital experienced in Industry.

Accordingly, we believe that the net impact would still present a material adverse change to both operations and cash flows as long-standing allowable and recoverable operating lease costs will be made in-part, and in some cases, in whole, unallowable and unrecoverable.

As a result, we ask that the Boards consider allowing lessees, as a policy election, to report the amortization of the right-of-use asset and the interest and amortization expense, for both Type A and Type B leases, as a single rent expense line-item in the income statement. The interest component of the lease payments could be disclosed in the notes to the financial statements. Allowing this type of presentation achieves the objectives of presenting lease obligations on the statement of position and reporting the related interest expense without having an accounting change dictate the economics of a common contract type.

Finally, we strongly encourage the Boards to discuss further the potential impact of the Proposed Standard with the Civilian and Defense FAR Councils before the Proposed Standard is finalized so that any financial impact to Government contractors may be eliminated or minimized.

Scope:

Companies in our Industry design, build, operate, and maintain assets for, and on behalf of, their customers. These assets (e.g., power generating plants, highways, bridges, mines, chemical plants, housing complexes, educational, government and military buildings and facilities, rail systems, oil and gas refineries and other processing plants) are uniformly complex assets that are individually unique from other projects the contractor may have built in the past. In performing E&C contracts, contractors incur costs specifically for the clients' projects. The phrase “direct costs of contracts” is a common term within our Industry denoting those costs that would not have been incurred had it not been for the specific and individual client contracts to which the costs relate. Equipment (e.g., trailers, cranes, earth moving equipment, bulldozers, heavy vehicles, compressors, generators, etc.) rented for use on specific long-term construction projects is a prime example of such “pass through” costs. Contractors and companies in other industries performing long-term construction- or service-type contracts derive no real economic benefit from a leased asset separate and apart from the overall client contract on which the leased asset is being used. We effectively enter into these lease agreements as de-facto intermediaries for our customers whereby our customers are contractually required to pay us for the cost of these assets. As an example of how inextricably linked the lease of, say, a crane is to a specific client project, consider the fact that, although many of the undersigned are large enough to have more than one client contract in-process within a general geographic area at any

given time, the odds of two projects (both of which require cranes) being performed in such close geographic proximity to each other as to allow the contractor to deploy the same crane on the two projects as he sees fit while meeting the construction schedule of both projects (thereby creating the situation where the crane becomes a “general purpose asset” of the contractor) is highly implausible, and in fact does not happen.

This situation (i.e., where contractors lease construction-related tools and equipment for use on specific client contracts) is economically and fundamentally different than the lease of an asset intended for the general use of the entity (lessee) leasing the asset. There is no true stand-alone economic right or benefit inuring to the contractor by virtue of such lease agreements. The rights and benefits represented by all such leased assets are transferred immediately and continuously, from the contractor to the owner, over lives of the leases as the related services contracts are performed for our clients for the benefit of their projects.

We are convinced that the users of our financial statements will be confused by the requirement to record lease liabilities and right-of-use assets for tools and equipment leased specifically for use on client projects without either (a) also recording some form of off-setting benefit on our balance sheets to reflect the fact that our customers are obligated to pay us for the lease liability and in fact are consuming the benefits of the right-of-use asset, or (b) making laborious footnote disclosures explaining the fallacious nature of such assets and liabilities appearing on our balance sheets.

We believe therefore that the underlying economics of agreements to lease assets used specifically in the performance of construction- or service-type contracts are fundamentally different from those in agreements to lease general assets. The leasing of contract specific equipment is no different than the use of subcontractors to perform a component of the work to fulfill a contract. Accordingly, we recommend that section 842-10-15-15 of the Proposed Standard be modified to provide an exemption for leases that have no economic benefit separate and apart from the contractual agreements on which (a) those leased assets are required to fulfill an entity’s performance obligation for a single customer on a specific project or specific contract and (b) the customer is required to, or economically does, pay an entity for such costs.

While we acknowledge that the Boards have discussed this topic, we strongly believe that the Proposed Standard should distinguish between core and non-core assets. **In its present form, the Proposed Standard requires us to monitor and track a fifteen year lease of an office building, for example, with equal vigor as a 2-year lease of a small scanner and, such assets may be in the aggregate too large to dismiss on the basis of materiality.** We believe that the recording of the cash rentals for non-core assets as a straight-line expense fairly captures the economics of the underlying lease transactions or, at a minimum, reflects an appropriate consideration of cost vs. benefit.

We agree with the provisions in the Exposure Draft to separate non-lease components from a contract, but believe the requirements to identify and recognize each separate lease component within a contract will be overly complex and burdensome in practice. We believe that the processes required to analyze each separate component of a lease for interdependence, the ability to benefit from the asset on a stand-alone basis and the calculations necessary for price

allocations for entities with thousands of leases would ultimately provide results that are not materially different from the results produced for the aggregate of components in a contract. We believe the requirement to identify and recognize separate components within a contract would provide minimal additional benefit to investors and users of the financial statements compared to the costs required for implementation and continued execution.

Lease term:

We agree with changes to the proposal so that the basis for the lease term is linked to a lessee having a significant economic incentive to exercise an option or terminate a lease; which is similar to the concepts of “reasonably assured” and “reasonably certain” in GAAP. We also agree with paragraph BC 141 that including optional periods in the lease term on the basis of an entity having a significant economic incentive to exercise an option addresses the concerns that other approaches would be complex and costly to apply. Additionally, we do agree with the rationale in paragraphs BC171 and BC 172 as it relates to an entity reassessing options when a lessee has, or no longer has, a significant economic incentive to exercise an option.

Further, we agree with the inclusion of an election for entities to apply current operating lease accounting treatment to leases with a maximum possible lease term, including options to renew, of 12 months or less. However, we believe that it would be helpful to add an additional implementation example after 842-10-55-69 to show how a lease would qualify as a short-term lease. In this additional example, the lease would have the same terms as the example in paragraphs 842-10-55-67 to 69, except that the lessor has the ability to cancel the lease after the original 12 month term with notice. This would help to clarify the proper lease term in situations where entities enter into leases with renewal periods that are automatic unless the lessee or lessor provides prior notice of cancellation in accordance with 842-10-55-1.

We note that a short-term lease is defined in the Master Glossary as “a lease that, at the commencement date, has a maximum possible term under the contract, including any options to extend, of 12 months or less. Any lease that contains a purchase option is not a short-term lease.” This definition appears to be in conflict with the guidance provided in paragraph 842-10-25-1 that options to renew shall be included in the lease term if the “lessee has a significant economic incentive to exercise that option.” We believe that the definition of a short-term lease should be in agreement with the guidance in paragraph 842-10-25-1 and that a short-term lease should only include renewal options where the lessee has a significant economic incentive to exercise the options.

Lease characterization:

As noted above, we believe that leases for tools and equipment for use on specific construction-related client contracts are economically and fundamentally different than the lease of an asset intended for the general use of the entity (lessee) leasing the asset. Accordingly, we believe that the Proposed Standard should be modified to provide an exemption for leases that are used on specific construction-related client contracts. The following comments within this section therefore represent our views related only to leases of general purpose assets and not for assets used specifically on construction-related client contracts.

We agree a distinction is necessary to properly account for leases that serve to provide a return on investment for leased assets in which only a minor portion of the asset is “consumed” during the lease period as compared to leases designed to provide a return on and of lessors’ investments as the majority of the leased asset is deemed “consumed” over the lease term.

We are concerned however with how the proposed accounting model currently addresses the distinction between Type A and Type B leases. The language included in the Proposed Standard provides for an arbitrary dividing-line assumption (property vs. non-property) and is a purely quantitative exercise dependent on poorly defined terms which, we believe as currently worded, provides little guidance in helping to characterize a lease as either Type A or Type B.

For example, the presumption is that all assets other than property (e.g., equipment, machinery, etc.) would be classified as a Type A lease unless the presumption can be overcome if one of the following factors exists:

- The lease term is an insignificant portion of the underlying asset's economic life; or
- The present value of the fixed lease payments is insignificant relative to the fair value of the underlying asset.

“Insignificant” is a term that is ill defined in GAAP and will lead to unintended diversity in practice. We believe that, while practice will evolve, “insignificant” will generally be defined as 5%-10%, while also recognizing that many will assign other arbitrary percentages. Thus, we cannot see how these factors have any real meaning in the practical application of the standard and in reality, how the presumption could ever be overcome. We do not believe that a quantitative analysis in practice lends itself to accurately determining the economic intent and substance of a lease arrangement. As such, we believe that any analysis and related conclusion should be based on sound principles allowing for the consideration of a preponderance of evidence, which would necessarily include both qualitative and quantitative factors. The board might, for example, consider allowing the use of the “risk and reward” principle currently provided for in IAS 17, *Leases*, in making the determination between Type A and Type B leases. We believe that this principle, for general purpose assets, allows for an appropriate use of judgment which will ensure that general purpose leases are classified based on the economics of the transaction rather than arbitrary quantitative measures and dividing-line assumptions.

Terminology:

Further to the above point, we observe that the Proposed Standard includes numerous terms that are vague and either have no clear definition in existing GAAP or are currently being applied with diversity in practice. These terms include, but are not limited to:

- Major;
- Minor;
- Economic life;
- Significant / insignificant;

- Probable;
- Highly interdependent; and
- Reasonably assured.

We encourage the Boards to carefully consider the terms used in the Proposed Standard and ensure that a final standard uses terms that are either (a) well defined or (b) generally accepted in practice to ensure that unintended diversity in practice does not exist.

Related party leases:

While we understand the FASB's conclusion in the area of related party leases, we wonder if additional cost vs. benefit analysis is warranted to ensure that such proposal would provide decision-useful information in a cost effective manner. With that, we suggest that perhaps a more practical approach may be warranted, both from a lessor and lessee perspective. Consider, as an example, a wholly-owned legal entity that leases potentially hundreds, if not thousands, of pieces of equipment from third parties and then subleases that same equipment to numerous related parties within the same "control group", many of which prepare separate, audited financial statements. Having a single leasing entity within a control group is used as a means to centralize internal leasing activities and to negotiate the best price with third parties. Applying the Proposed Standard to such a large number of entities would take a significant amount of time and resources (e.g., in the area of intercompany eliminations, contract negotiations and structuring, etc.). For example, it could result in both lessor and lessee accounting within the control group being required for the same piece of equipment. Given this, we encourage the FASB to allow companies to elect, as an accounting policy, not to apply the proposed recognition and measurement requirements to related party leases as they are generally not arms-length in nature. Instead, we would recommend that companies be allowed to continue current operating lease accounting for related party leases supplemented by appropriate disclosures around such accounting policy election. We believe this is a better, more cost effective approach which achieves the same end without having companies invest time and resources restructuring their related party leases to qualify as short-term.

Further, we understand that the FASB and IASB may not be in agreement in this area. We encourage the Boards to ensure they are in agreement in any final standard to ensure that diversity of practice does not exist.

Cancellable Short-Term Leases:

Many companies in the Industry use lease agreements for short-term needs that are cancellable by both the lessor and the lessee on very short notice. The Proposed Standard indicates that a lease must be an enforceable contract and that any non-cancellable portion of a lease would meet that definition. It further indicates that if a party cannot enforce an option without the agreement of the other party, then there is not a contract beyond the non-cancellable period. The Proposed Standard then concludes that, for leases for which both the lessee and lessor must agree to extend the lease beyond the non-cancellable period, the maximum term of the lease would be the non-cancellable period plus any notice period.

We support this conclusion. We agree that if both parties must agree to extend a lease, then no agreement, and therefore no contract, exists for that future period until both parties have come to an agreement.

Disclosures:

Given the complexity of the Proposed Standard, we believe that the amount of disclosures proposed would not provide decision-useful information to the users of our financial statements and would place an undue burden on financial statement preparers. A vast amount of information required for compliance with the application principles and disclosure requirements of the Proposed Standard are not currently captured and maintained within most of our accounting systems. We are concerned about the cost of the additional human resources and accounting system changes that will be required, as well as the additional audit fees we anticipate incurring to produce and audit the volume of disclosures as well as judgments required by the Proposed Standard. Such costs become increasingly acute and far outpace any benefits received as we consider the number of judgments and estimates required by the Proposed Standard, which will have to be collected and documented, and the associated professional fees to audit such judgments and estimates.

Due to the large volume and numerous different lease arrangements that exist in our Industry, we are concerned about how some of this information would be aggregated or disaggregated to provide meaningful information to our financial statement users, particularly as it relates to the judgments made in applying the requirements and the narrative disclosures.

Of particular concern is the reconciliation table required by 842-20-50-4. Again, the Boards must realize that a large number of leases we enter into are captured as “direct costs of contracts” within our accounting systems rather than an expenditure one would traditionally recognize as a lease expense.

We would be remiss if we failed to point out the volume of data that currently exists in annual financial statements and ask, “Would yet another table of data enhance the user’s understanding of the financial condition, results of operations, and cash flows of the entity?”

In its April 2011 report “Cutting Clutter – Combating Clutter in Annual Reports”, the Financial Reporting Council of the UK cited “movement tables” (i.e., the type of table proposed) as a common source of “clutter” (i.e., data that obscures important information thereby inhibiting a clear understanding of the information which is intended to be conveyed).

A similar sentiment was expressed by SEC Commissioner Troy A. Paredes in an October 2011 speech when he said, “Too frequently, investors do not bother carefully studying the information that is available and get overwhelmed or distracted, misplacing their focus on less important matters. In short, the sheer amount of information can frustrate its effective use. The trouble is that when information is not processed and interpreted effectively, decision making may not improve with additional disclosure. Ironically, if investors are overloaded, more disclosure actually can result in less transparency and worse decisions.”

As to whether the reconciliation of the beginning and ending balances of amounts recognized in

the statement of financial position should be required, we believe that the disclosure requirements should be consistent with Topic 360 for property and equipment and Topic 470 for debt and that requiring more detailed disclosure is of little value to users and would be very time consuming and complex for preparers. The preparation of reconciliations for beginning and ending balances recognized in the statement of financial position would require additional accounting systems or upgrades, additional employee resources and the development of internal controls to track and aggregate the reconciling items of a) balances created due to lease commencement or extension, b) balances extinguished due to lease termination, c) re-measurement relating to a change in an index or a rate used to determine lease payments and receipts, d) unwinding of discount, e) cash paid or received, f) foreign currency effects, g) effects of business combinations, and h) other reconciling items, as proposed in the Exposure Draft. We strongly encourage the Boards to remove the reconciliation disclosure requirement.

Transition and implementation:

We agree with the Boards' objective of establishing principles so that lessees and lessors report relevant and representationally faithful information to users of financial statements about the amount, timing and uncertainty of cash flows arising from leases. We also agree with the Boards' comment that the costs of providing such information to users will not be borne evenly, and to this point we believe that further consideration is required by the Boards in developing a principled standard that balances any new requirements for additional information with the standing requirements that information provided by a company to the users of its financial statements should be sufficiently relevant when considering the cost of obtaining it.

In considering transition issues, we believe that it would take years to implement the systems, processes, and controls needed to gather, evaluate, classify, and report required information in the manner currently proposed. The Exposure Draft requires that entities apply the provisions to leases existing at the beginning of the earliest comparative period presented. This would require public companies to recast financial data for the previous five years to comply with the disclosure provisions of Item 301 of S-K, which requires the disclosures of total assets and capital leases. This will be an extremely burdensome and costly process. In addition to the issues previously noted, we would like to share our additional insights on the following additional key areas in which we believe preparer cost will be significant:

- *Contracts with business partners* – The Proposed Standard will require discussions with lenders, bonding companies, suppliers and employees and will likely result in the re-negotiation of certain contracts.
- *Human capital* – The information reporting requirements of the Proposed Standard are immense, both at adoption and on an ongoing basis. Most companies that actively lease assets (both short-term and long-term) as part of their operations will likely need time to effectively identify the appropriate level of additional resources needed to respond to the new requirements. Additionally, existing employee compensation arrangements, such as bonuses and share-based payments based on existing performance measures will need to

be evaluated and appropriately revised to ensure equitable treatment of employees upon adoption of the Proposed Standard.

- *Accounting systems* – Systems designed to meet entities’ needs in light of the Proposed Standard have not yet been identified or perhaps fully developed. New systems or system upgrades will need to be implemented to ensure entities’ ability to capture and report information in accordance with the new requirements. Presently, many entities do not have information systems capable of capturing and continuously tracking the necessary information associated with individual lease agreements in a manner that will support a process of developing estimates of likely lease terms, roll-forward of amounts in the statement of financial position, considerations of related renewal options and contingent rents, or meet the significant new disclosure requirements.
- *Internal controls and operational processes* – Initial recording and periodic reassessment of lease terms and payment estimates will require significant and complex changes to existing internal control processes and procedures to ensure the completeness, accuracy and validity of amounts recognized as result of these judgments. Significant efforts will be required to effectively design and document these new business processes as well as to validate the effective execution of these control procedures. Although some of the new processes will lend themselves to automation, many will not. This change in reporting may also require that multiple reconciliations between systems will need to be performed. Personnel responsible for customer projects will need to account for the cash flows requiring operational reporting consistent with current practices. The income tax rules will not require a change in lease accounting and therefore cause a separate tracking for income tax reporting (and related deferred income taxes). Special reporting for Government contracts will require an additional reporting reconciliation. Each of these adds administrative costs without changing the economics of the transaction with the lessor.
- *No grandfathering of existing leases* – The Proposed Standard does not permit grandfathering of existing leases. Entities will need to catalogue existing leases and gather data about lease terms, renewal options, contingent payments and guarantees in order to measure the amounts to be included in the statement of financial position. If an entity has a significant number of leases, the efforts to locate and review all such agreements that may have been negotiated over the course of many years will take considerable effort and resources.
- *Tax impact* – The Proposed Standard will have a broad impact on the tax treatment of leasing transactions, as tax accounting for leases is not changing. It is likely that significant additional effort and resources will be required to evaluate and develop an appropriate response to the tax impact of the Proposed Standard. These changes may also have tax implications that reach beyond taxes on earnings and that ultimately have cash implications to the contractor. In many situations, for example, local property taxes can be triggered by balance sheet classification. The apportionment of state income taxes is

influenced by a property and rent factor which could potentially change as a result of the new reporting requirements. There are potential nexus concerns that could impact apportionment as well. In addition, certain capital based taxes could now be required. Thus the tax planning implications and the operational implications are as important as the financial statement implications of this pronouncement.

- *Stakeholder communication* – Financial reporting is expected to provide information about an enterprise’s financial performance during a period and about how the management of an enterprise has discharged its stewardship responsibility to owners. Because the Proposed Standard will have a significant impact on an entity’s reported financial results and disclosures, the attention of operational and financial executives must be directed toward responding to this change. Consideration must be given to educating stakeholders on the impact of the Proposed Standard and how this new financial reporting landscape might impact their ability to form expectations about future performance. At a minimum, companies will need to invest resources in determining how best to align their operational and administrative strategies in advance of these changes in the performance measurement landscape.

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We would be happy to further discuss the specifics of these issues in more detail at the request of the Board. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Reed N. Brimhall, Vice President and Chief Accounting Officer – URS Corporation, at (415) 774-2752.

Submitted on behalf of the E&C Industry and the Industry leading organizations below:

Reed N. Brimhall, *Vice President and Chief Accounting Officer – URS Corporation*

H. Thomas Hicks, *Vice President and Chief Financial Officer – URS Corporation*

John W. Prosser, Jr., *Executive Vice President and Chief Financial Officer – Jacobs Engineering Group Inc.*

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Michael A. Adams, *Senior Vice President and Chief Financial Officer – Bechtel Group, Inc.*

*Anette Sparks, Principal Vice President and Controller – Bechtel Group, Inc.*

*Michael Whetstine, Vice President and Controller - Peter Kiewit Sons', Inc.*

*Dennis S. Baldwin, Senior Vice President and Chief Accounting Officer – KBR, Inc.*

*Donald Helmer, Corporate Controller – KBR, Inc.*

*Bill Patt, Vice President, Controller, and Chief Accounting Officer – Mortenson Construction*

*Will Billings, Corporate Controller – McDermott International, Inc.*

*Martin Fite, Controller – Quanta Services, Inc.*

*Steven Burdick, Executive Vice President, Chief Financial Officer and Treasurer – Tetra Tech, Inc.*

*Laurel Krzeminski, Senior Vice President and Chief Financial Officer – Granite Construction Inc.*

*Bradley Graham, Vice President and Corporate Controller – Granite Construction Inc.*

*Mike Kershaw, Executive Vice President and Chief Financial Officer – Tutor Perini Corporation*

*Ron Marano, Vice President and Chief Accounting Officer – Tutor Perini Corporation*

*Michael A. Lucki, Senior Vice President and Chief Financial Officer – CH2M HILL*

*JoAnn Shea, Vice President and Chief Accounting Officer – CH2M HILL*

*Lisa Wood, Vice President and Controller – Foster Wheeler AG*

*Stuart Binstock, President and Chief Executive Officer – Construction Financial Management Association*