



Michael Monahan
Senior Director, Accounting Policy

January 17, 2014

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

Russell G. Golden, Chair
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. No. 2013-270 – Proposed Accounting Standards Update (Revised) – Leases (Topic 842), ED/2013/6

Dear Chairman Hoogervorst and Chairman Golden:

As a follow-up to our September 11, 2013 comment letter on the Leases exposure draft referenced above, please find below proposed wording pertaining to the leases of assets that are incidental or ancillary to an entity's business operations (i.e., not critical to the primary activities or operations).

IASB Paragraph 118 [FASB Subtopic 842-10-25-14]

A lessee may elect, as an accounting policy, not to apply the requirements in paragraphs 25-35 and 37-57 [FASB Subtopic 842-20] to ~~short-term~~ leases of assets that are incidental or ancillary to an entity's business operations (i.e., not critical to the primary activities or operations) unless 1) the maximum possible lease term is significant or 2) the annual lease payments of all such leased assets in total are significant to the reporting entity. Instead, a lessee may recognize the lease payments in profit or loss on a straight-line basis over the lease term. The accounting policy election for these leases shall be made by class of underlying asset to which the right of use relates.

Implementation Guidance: The following example illustrates how an entity determines which leases qualify for the policy election described in paragraph 118 [FASB Subtopic 842-10-25-14]. Company A (a construction company) leases trucks for hauling gravel used to pave roads, photo-copiers for general office use, and a building for its home office. Both the truck leases and the photo-copier

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American Council of Life Insurers
101 Constitution Avenue, NW, Washington, DC 20001-2133
(202) 624-2324 t (866) 953-4097 f mikemonahan@acli.com
www.acli.com

leases have maximum possible lease terms of 3 years and have similar annual lease payments. The home office lease is a three-year lease with an option to renew for an additional three years.

Company A's management determines the truck leases do not qualify for the election regardless of the significance of the maximum possible lease term or lease payments because they are critical to the entity's construction activities. Company A's management determines the photo-copier leases do qualify for the election because 1) they are incidental or ancillary to the entity's business operations as they are not critical to the construction activities 2) the maximum possible lease term is not significant and 3) the annual lease payments for all such leases in total are not significant. Company A's management evaluated the significance of the annual lease payments for all such leases by comparing that total to Company A's annual operating costs, which is one acceptable method of evaluating significance. Company A's management did not draw a conclusion regarding whether the home office building was incidental or ancillary since the maximum possible lease term was deemed significant. Company A's management determined leases with maximum terms greater than 3 years are significant.

IASB Paragraph 119 [FASB Subtopic 842-10-25-15]

A lessor may elect, as an accounting policy, not to apply the requirements in paragraphs 25-35 and 69-97 [FASB Subtopic 842-30, except for the requirements in paragraph 842-30-50-5(d)] to short-term leases of assets that are incidental or ancillary to an entity's business operations that qualify under the conditions specified in paragraph 118 [FASB Subtopic 842-10-25-14]. Instead, a lessor may recognize the lease payments in profit or loss over the lease term on either a straight-line basis or another systematic basis, if that basis is more representative of the pattern in which income is earned from the underlying asset. The accounting policy election for these leases shall be made by class of underlying asset to which the right of use relates.

Additional Paragraph on Transition

A lessee or lessor may elect, as an accounting policy, not to apply the transition requirements in Appendix C [FASB Subtopic 842-10-65], for leases of assets that are incidental or ancillary to an entity's business operations (i.e., not critical to the primary activities or operations) if the maximum possible lease terms are not significant. A lessee or lessor shall disclose the aggregate payments of such leases, for each year, upon transition.

IASB Paragraph 21 [FASB Subtopic 842-10-15-18]

An entity shall account for each lease component as a separate lease, separately from nonlease components of a contract, except 1) as described in paragraphs 23(b)(ii) and 23(c) [Subtopic 842-10-15-20(b)2 through (c)] or 2) if the lease is being reported by the reporting entity under the accounting policy election described in paragraph 118 [FASB Subtopic 842-10-25-14]. For leases under the accounting policy election described in paragraph 118 (FASB Subtopic 842-10-25-14), an entity shall disclose the amounts paid under the contracts in the current year and those expected to be paid in each subsequent year.

We appreciate your consideration of these additional comments, and welcome your feedback and questions on our submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Monahan". The signature is fluid and cursive, with a prominent initial "M".

Michael Monahan
Senior Director, Accounting Policy

cc: FASB/IASB Leases Staff Teams