

Technical Director
File Reference No. 1850-100
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Exposure Draft – Leases

Dear Board Members,

CC Media Holdings, Inc. (CC Media Holdings or the Company) is pleased to respond to the International Accounting Standard Board's and the Financial Accounting Standards Board's Exposure Draft (ED) on leases. The Company acknowledges that financial reporting related to leases can be improved however it believes that certain conceptual challenges exist with the ED. Specifically, the Company disagrees with, or requests clarification of, certain requirements of the ED including:

- (i) the lease term being defined as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend the lease;
- (ii) contingent rentals specified in the lease being included in the measurement of assets and liabilities arising from a lease using an expected outcome approach;
- (iii) the definition of a lease, and whether it will encompass service arrangements that are not currently accounted for as leases; and
- (iii) the unit of account for applying the standard being each individual lease.

CC Media Holdings, the indirect parent company of Clear Channel Communications, Inc. and Clear Channel Outdoor Holdings, Inc., is a global media and entertainment company with three reportable business segments: Radio Broadcasting, Americas Outdoor Advertising, and International Outdoor Advertising. Approximately half of the Company's revenue is generated from its Radio Broadcasting segment. The remaining half is comprised of its Americas Outdoor Advertising business segment, its International Outdoor Advertising business segment, Katz Media, a full-service media representation firm, and other support services and initiatives.

The Company's approximately 834,000 outdoor advertising display structures consist of billboards, street furniture displays and transit displays. Substantially all of its outdoor advertising structures across the globe are located on leased land. It is typical for many of these leases to be short-term with optional renewals and to include fixed rental payments as well as contingent rent features based on future revenues. The Company's businesses derive revenues from selling advertisements which are displayed on its advertising structures per the terms of short-term advertising contracts. The ED will clearly have a significant impact on the Company given these facts.

The short-term nature of the Company's advertising contracts and the thousands of short-term leases required for its advertising structures complicate application of the ED. Specifically, they require the Company to forecast short-term contracts into the future based on uncertain renewal periods and uncertain future revenues for purpose of calculating the contingent component of the future lease payments. These forecasts would extend beyond the Company's traditional planning and budgeting horizon and would be extremely complex based on the number of reasonably possible scenarios across its thousands of leases. The Company does not believe these requirements result in a useful financial measure as a result of the uncertainty as to future renewals and revenues and the complexity of application across its lease portfolio. The estimation of renewal periods and contingent rents introduce a significant amount of uncertainty to be recorded in the financial statements.

These requirements add complexity and create comparability and symmetry issues due to their subjectivity. Calculating the lease term as the longest possible term that is more likely than not to occur results in a subjective estimate based on the uncertainty of renewals, and may result in a liability for which there is no actual obligation since renewals are not required. The Company believes the current GAAP definition of minimum lease payments would create a more objective and useful measure of the obligation to make lease payments.

The Company believes that recording a liability and corresponding asset for contingent rent at inception of a lease results in assets that may be recorded at amounts in excess of their net realizable value, and expense recognition that occurs prior to recording revenue related to the contingency. In addition, it results in recording a liability before an obligation has been incurred. These requirements of the ED result in less meaningful financial information for users and will lead to further adjustments to GAAP results in order for users to perform relevant analyses. Because, under the ED, rent expense will be classified as amortization of the right-of-use asset and interest expense on the liability to make lease payments, such expenses would be excluded from EBITDA, a non-GAAP measure used by many users of financial statements. Such users will likely adjust the results for the impact of the ED in order for rent expense to be considered part of the on-going operating expenses of the company. In addition, the inclusion of estimated contingent rent and renewal periods results in higher expense in early periods which may have lower revenues and exacerbate the difference between cash rent as provided for in the contract and expenses recorded in the financial statements.

The Company's advertising contracts are based on a fixed price and grant the exclusive right to its customers to display their advertising on the Company's advertising structures for a specific period of time (generally 1–6 months) in exchange for consideration. It is unclear whether the ED is intended to require the Company to consider its advertising contracts as leases. The Company believes that classifying its advertising contracts as leases and therefore reporting a portion of its advertising revenue as interest income would not represent the substance of its business. Accordingly, the Company believes the ED should be clarified to clearly exclude those types of arrangements from its scope.

The Company is concerned with the burden of compliance associated with the new standard. The Company does not currently have the infrastructure in place to track changes in estimated revenue and renewal assumptions on a lease by lease basis and the cost of internal and external resources to implement and manage such a requirement would be significant.

The Company's responses to specific questions posed in the ED are set out in the Appendix to this letter. The Company appreciates the Board's consideration of its comment letter and urges the Board to consider the burden of application to each of the Company's leases and the resulting financial statement presentation issues and volatility that would occur upon adoption of the ED in its present form.

If you have any questions in relation to this letter please do not hesitate to contact Scott Hamilton, Senior Vice President/Chief Accounting Officer, at 210-822-2828.

Sincerely,

CC Media Holdings, Inc.

Appendix – Responses to Certain Questions in the Exposure Draft on Leases

Question 4(c) – Do you think that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

The Company does not believe the guidance in paragraphs B1 – B4 is sufficient for distinguishing leases from service contracts. The Company is uncertain how to interpret the definition of right to control. The ED states the right to control an underlying asset is not met if the price that the entity will pay is contractually fixed per unit of output or at the current market price as of the time of delivery of the output. Unit of output is not an applicable measure of the utility of the Company’s advertising structures. Therefore, the Company suggest including examples of contracts that do and do not convey the right to control. In the Company’s case, its advertising contracts convey the utility of its advertising structures to its customers for a fixed price at inception of the contract or current market price over the term of the contract and therefore should not be considered leases.

Question 8 – Do you agree that a lessee or lessor should determine a lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

The Company does not agree that the lease term should be defined as the “longest possible term that is more likely than not to occur.” Each of the Company’s significant number of leases for land under its advertising structures worldwide is strategic to the Company. The Company sells advertising packages that provide its customers advertising exposure across the Company’s network of advertising structures. Critical to the success of this strategy is maintaining the ability to keep its advertising displays on leased property. Many of the Company’s land leases are short-term with renewal options. Therefore, significant judgment will be required by the Company, as a lessee, and others in its industry resulting in inconsistent application of the lease term definition in the ED. This results in a lack of symmetry and comparability due to the subjectivity in assessing the lease term. As a result, we propose keeping the current definition of a lease term as that definition can be objectively applied.

Question 9 – Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

The Company does not agree that contingent rentals should be included in the measurement of the asset and liability arising from the lease. The Company manages its outdoor advertising business in the United States by market and internationally by country. As discussed, one of the strategies of the Company is to sell its advertising in network packages, which involves multiple advertising structures in a single customer purchase. Given the short term nature of the Company’s contracts and the fact that the Company manages its business at a market level, estimates of revenue for individual advertising structures are not currently performed, and if calculated would be inherently imprecise. Forecasting revenue for individual advertising structures within a market or country for purposes of estimating contingent rentals to be paid as a lessee would therefore create significant volatility as the forecasts are reassessed.

The Company proposes retaining the current accounting for contingent rents by recognizing contingent rent expense if the contingency occurs.

Question 10 – Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts and circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments? Why or why not? If not, what other basis would you propose for reassessment and why?

The Company does not believe the measurement of lease assets and liabilities is a useful requirement because of the significant level of uncertainty and judgment inherent in the estimation process. The volume of the Company's leases to be evaluated against the remeasurement provisions of the ED would make remeasurement as proposed prohibitive. Remeasurement as described in the ED would over burden the Company's resources in preparing an updated estimate that is no more reliable than the previous estimate due to the uncertainties surrounding future renewals and contingent payments. Please refer to the Company's response to Question 9.

The Company proposes keeping the current definition of lease term and retaining the current accounting for contingent rentals which would lessen the need for remeasurement as the current definitions are more objective and may be calculated more precisely, resulting in more relevant and reliable financial information.