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Sir David Tweedie  
Chairman  
International Accounting Standards Board (IASB)  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Ms. Leslie F. Seidman  
Acting Chairman  
Financial Accounting Standards Board (FASB)  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: Exposure Draft – Leases**  
**File Reference No. 1850-100**

Dear Sir David Tweedie and Ms. Leslie F. Seidman:

MetLife, Inc. (MetLife) appreciates the opportunity to provide comments on the exposure draft of proposed Accounting Standards Update, *Leases* (the ED). MetLife is a leading global provider of individual and institutional insurance, employee benefits and financial services. MetLife is also an investor in leveraged leases and, as lessee, has entered into various lease and sublease arrangements for office space, information technology and other equipment.

MetLife continues to believe users and preparers would benefit substantially if participants in all markets agree to a common, understandable set of accounting standards. We support Financial FASB and IASB actions that align with that goal and result in accounting standards that best enhance users' comprehension of companies' financial information and users' decision-making processes.

The following pages present our views on the key proposed guidance in the ED. The Appendix includes responses to certain specific questions addressed from MetLife's perspective as a financial statement preparer.

We once again thank you for the opportunity to respond to the ED and your consideration of our observations and comments. If you have any questions regarding the contents of this letter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Peter M. Carlson". The signature is fluid and cursive, written over a light blue horizontal line.

Peter M. Carlson  
Executive Vice President and Chief Accounting Officer

## **MetLife Views on Key Proposed ED Guidance**

As stated in the ED, it is important that lease accounting should provide users of financial statements with a complete and understandable picture of an entity's leasing activities. In our view, the observations and recommendations below are consistent with the Boards' objectives for lease accounting.

### ***Accounting Model***

We agree that a lessee should recognize a right-of-use asset and a liability to make lease payments under a lease. We believe that recording assets and liabilities arising from a lease on the balance sheet presents a more accurate representation of the economic substance of a leasing arrangement. In addition, this lease model will increase the comparability of financial statements between entities involved in leasing transactions. While we support the recognition of leases on the balance sheet, we do not support the manner in which the amounts for those leases were derived. (See response to Question 8.)

We agree with the general concept that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise. However, we believe that this approach will present difficulties in practice since significant judgment will be required to determine when significant risks and benefits are retained. When such significant judgment is required, entities may reach different conclusions on identical leases, which will contribute to decreased comparability among similar entities. We recommend that the Boards provide more guidance to clarify when a lessor should apply the performance obligation approach versus the derecognition approach through the use of specific examples.

We agree that a lessee should recognize amortization of the right-of-use asset, provided that the pattern of amortization is consistent with the lessee's depreciation methods for similarly owned assets or methods that are customary for those asset classes.

We do not agree that a lessee should recognize interest expense on the liability to make lease payments under all lease arrangements. While the concept of an interest method charge may be consistent with fixed assets acquired through financings, we do not believe that the primary driver of every lease is financing. For example, a lessee of real estate will usually enter into a lease in order to be in a specific location for various business reasons. Further, it may be impractical for the lessee to consider other alternatives to leasing such as buying or constructing a building in a specific location due to the lack of available land or buildings for sale. Other entities' business models may involve having locations in a specific commercial business district or in malls only.

### ***Leveraged Leases***

We believe that the accounting model for leveraged leases, which is currently provided for under U.S. GAAP, best reflects the economics of a leveraged lease transaction and there should be a separate approach for leveraged leases due to the unique characteristics of such a lease. Because the financing provided by the long-term creditor in a leveraged lease arrangement is nonrecourse as to the general credit of the lessor, we believe that lessors should continue to reflect their investment in the lease net of the nonrecourse debt. This presentation best reflects the lessor risk in the leasing arrangement. (See Question 2 (c) for proposed presentation.)

If the Boards decide not to provide a separate approach for lessors with leveraged leases, we strongly recommend that the Boards provide additional guidance regarding which leasing model to apply to leveraged lease transactions. Additionally, we believe the Boards should clarify and provide specific

transition guidance on the nonrecourse debt, deferred income taxes, investment tax credits and the consolidation of vehicles used in leveraged lease structures.

### ***Short-term Leases***

We generally agree with the Boards' proposals with respect to short-term leases. However, we believe that the Boards should also simplify the guidance for non-core assets with lease terms of three years or less. We also suggest that the Boards provide guidance on the recognition of income/expense on shorter leases, by either requiring the straight-line method or contractual amounts or some other basis.

### ***Scope***

We generally agree with the proposed scope of the ED; however, we believe that leveraged leases should be excluded from the scope of the ED and subleases should be disclosed in the notes to the financial statements only. Please refer to the Appendix for our responses to Questions No. 2(c) and 12(d).

Our view on the scope of the ED may change once the FASB exposes and finalizes its pending proposed Accounting Standards Update on investment property (real estate).

We observed that the IASB's Leases ED provides for a scope exception for investment property carried at fair value under IAS No. 40, *Investment Property*. We are supportive of the IASB's proposal and we are supportive of the FASB's consideration of a similar standard under U.S. GAAP. We strongly recommend that the FASB provide for a similar scope exception for investment property in its Leases Update. Such a similar standard from the FASB would enable convergence with the IASB's standards on accounting for investment property and provide for comparability across entities with investment real estate portfolios.

### ***Contracts that Contain Service Components and Lease Components***

We believe the Boards should clarify the guidance in paragraphs B1-B4 for distinguishing leases from service contracts, especially related to real estate leases that are not triple-net leases of real estate and where certain services provided by a lessor are customary and expected for that class of real estate under a lease. (See Appendix Question 4 (c).)

### ***Measurement***

We disagree with the Boards' proposal to require the lease term to be 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. We do not believe that an option to renew a lease is binding on a lessee, and therefore does not create an obligation for the lessee when no decision has been reached to renew the lease. Conversely, the chance that a lessee may renew a lease should not create a right to receive future income by the lessor.

We believe that measurement of the lease term should be based on information that is currently available and not predictions for 10 to 20 years into the future. Predicting the probability of exercising lease options is very difficult, especially in circumstances where lease options may go out for several years, with various renewal options, early buy-out options, early termination options or any other combination of renewal options. Such situations could lead to unnecessary loss recognition if, for example, a lessor overestimated the lease term based on an incorrect prediction of the number of years a lessee would stay at a location or continue to use an asset.

If the Boards decide to require entities to include options to extend and terminate a lease in the determination of the lease term, then entities should only be required to consider options that are

reasonably certain of exercise, as evidenced by the attachment of significant incentives to renew or penalties if not renewed. This approach is well understood by lessors, lessees and users of financial statements and will also support comparability of entities with leases.

We believe that information regarding renewal and termination options is critical information related to a lease, but it is better addressed in the notes to the financial statements and not in the balance sheet.

### ***Reassessment***

The proposals in the ED are heavily reliant on the use of estimates, judgment and probabilities, which often will require constant reassessment and measurement in order to maintain faithfully representative financial statements. We believe that the need for remeasurement can be minimized by requiring only amounts that are legally required to be paid (or where there is an economic compulsion) by the lessee under the terms of the lease to be recognized on the balance sheet. If the Boards decide not to change the proposed guidance regarding reassessments, we believe that the Boards should provide more clarity regarding what would be considered a “significant change in facts and circumstances.” Additionally, it would be helpful if the Boards provided examples.

### ***Presentation***

We agree with the proposed presentation requirements for the statement of financial position of a lessee. Classifying a right-of-use asset within property, plant and equipment provides better information about how the leased asset is used by the lessee. In addition, separate presentation of the liability to make lease payments provides users with valuable information about an entity’s leasing arrangements and ties the liability to make lease payments back to the right-of-use asset.

We do not object to the proposed presentation requirements for the statement of financial position of a lessor applying the performance obligation approach. However, if the Boards decide to keep leveraged leases in the scope of the proposed ED, we believe the Boards should expand the presentation guidance for the determination of the net lease asset or liability to include the nonrecourse debt under a leveraged lease. We also recommend separate presentation of the leveraged lease debt in the footnotes to the financial statements apart from other debt of the entity.

### ***Subleases***

We do not agree that a lessee (as lessor in a sublease) should be required to distinguish assets and liabilities that arise under a sublease in the statement of financial position. The lessee is already obligated to make payments on the head lease and has the right to use the property per the terms of the agreement. In most cases, subleases are merely a means for mitigating cost on unused space/assets and are not part of an entity’s operations. We believe that any information required regarding subleases should be disclosed in the notes to the financial statements.

### ***Transition***

We generally agree with the Boards’ application of the simplified retrospective approach to transition. However, we believe that the Boards should provide additional guidance with respect to leases in transition at the time of adoption. For example, at the time of transition, an entity may have leases that the entity does not intend to renew. As a result, the entity may have begun reserving for exit costs associated with such leases under FASB Codification Topic 420, *Exit or Disposal Cost Obligations*, which provides guidance related to termination costs for an operating lease. For such situations, we are requesting the Boards provide additional guidance on the interaction with Topic 420 and the ED.

***Benefits and Costs***

Significant costs will be incurred to implement systems and processes to assess the likelihood of renewals and contingent rent at lease inception and throughout the term of a lease. We believe that using the contractual rent term as opposed to the “longest possible term that is more likely than not to occur” would reduce the costs of implementing the proposed ED.

## APPENDIX

The following are responses to questions contained in the ED that are relevant to MetLife as a financial statement preparer.

### *The Accounting Model*

#### **Question 1: Lessees**

**(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We agree that a lessee should recognize a right-of-use asset and a liability to make lease payments. We believe that recording assets and liabilities arising from a lease on the balance sheet presents a more accurate representation of the economic substance of a leasing arrangement. In addition, this lease model will increase the comparability of financial statements between entities involved in leasing transactions. While we support the recognition of all leases on the balance sheet, we do not support the manner in which the amounts for those leases are derived. (See response to Question 8.)

**(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We agree that a lessee should recognize amortization of the right-of-use asset, provided that the pattern of amortization is consistent with the lessee's depreciation methods for similarly owned assets or methods that are customary for those asset classes.

We do not agree that a lessee should recognize interest expense on the liability to make lease payments under all lease arrangements. We do not believe that every lease is entered into for financing purposes. For example, a lessee of real estate will usually enter into a lease in order to be in a specific location for various business reasons. Further, it may be impractical for the lessee to consider other alternatives to leasing such as buying or constructing a building in a specific location due to the lack of available land or buildings for sale. Other entities' business models may involve having locations in a specific commercial business district or in malls only. Similarly, airlines must lease space at airports, where it is not possible for the airline to own that space. Therefore, where the objective of the lessee is to find a suitable location or required to be in a specific space to operate, such lessees should simply recognize rent expenses. Further, we believe that recognizing interest expense on the liability to make lease payments will result in the front loading of expenses on space that is expected to be used over many periods for the same purpose, thus resulting in a mismatch of revenue and expenses.

#### **Question 2: Lessors**

**(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?**

We agree with the general concept that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or

after the expected lease term and (ii) the derecognition approach otherwise. However, we believe that this approach will present difficulties in practice since significant judgment will be required to determine when significant risks and benefits are retained. When such significant judgment is required, entities may reach different conclusions on identical leases, which will contribute to decreased comparability among similar entities. We recommend that the Boards provide more guidance to clarify when a lessor should apply the performance obligation approach versus the derecognition approach through the use of specific examples.

**(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?**

We generally agree with the proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting. However, we do not believe that lessors should record interest income under all leases, especially where lessors are not manufacturers that use leasing as a way to sell their products or the lessors are not otherwise in the equipment finance business.

**(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?**

We believe that there should be a separate approach for lessors with leveraged leases. We believe that the accounting model for leveraged leases which is currently provided for under U.S. GAAP best reflects the economics of a leveraged lease transaction.

Because the financing provided by the long-term creditor in a leveraged lease transaction is nonrecourse as to the general credit of the lessor, we believe that lessors should continue to record the investment in a leveraged lease net of that nonrecourse debt. We further believe that since this nonrecourse debt is directly linked to the leased asset, it would be misleading to record this nonrecourse debt separate from the leased asset. The Boards can accomplish this presentation by requiring that nonrecourse debt be included in the determination of the net lease asset or net lease liability as follows:

- (a) Residual value of underlying asset
- (b) Right to receive lease payments
- (c) Lease liabilities
- (d) Non-recourse debt on leased asset**

The summation of (a) to (d) equals the net lease asset or net lease liability.

For leases accounted for under the derecognition approach, we believe the nonrecourse debt under a leveraged lease should also be derecognized and separately disclosed in the footnotes to the financial statements apart from other debt of the entity.

If the Boards decide not to provide a separate approach for lessors with leveraged leases, we strongly recommend that the Boards provide additional guidance about which leasing model to apply to leveraged lease transactions. Additionally, we believe the Boards should clarify and provide specific transition guidance on the nonrecourse debt, deferred income taxes, investment tax credits and the consolidation of vehicles used in leveraged lease structures.

### Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

(See also paragraphs BC41–BC46.)

**Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?**

We generally agree with the Boards' proposals with respect to short-term leases. However, we believe that the Boards should also simplify the guidance for non-core assets with lease terms of three years or less. For example, lessees and lessors could be permitted to account for a short-term lease of a non-core asset using the minimum lease payments to recognize the lease with no requirement to reassess the lease other than when there are significant changes to the lease, such as early terminations or lease extensions. We also request that the Boards provide guidance on the recognition of income/expense on shorter leases, by either requiring the straight-line method or contractual amounts or some other basis.

#### *Definition of a Lease*

### Question 4:

**(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?**

We believe that a lease is defined appropriately, and it is consistent with preparers and users of financial statements understanding of what constitutes a lease.

**(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?**

We agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale. The criteria provide useful information to assist a lessee or lessor in determining whether control of the underlying asset is transferred at the end of the contract.

**(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?**

We do not believe that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient. We believe the Boards should clarify the guidance for distinguishing leases from service contracts, especially related to real estate leases. Unlike a triple-net lease which requires the lessee to pay substantially all of the property expenses which normally would be paid by the lessor (such as taxes, insurance, maintenance, repairs, cleaning, and utilities), in most multi-tenant Class A real estate buildings such costs are paid by the lessor. Further, in addition to these costs, lessors offer various services which are generally not itemized in the lease agreement. To the extent that a lessee is not able to decline such services or where it is not economically beneficial for the lessee to contract separately for such services, we believe that a lessee should not be required to separately consider those services. We further believe that such services are directly connected to the lease, and that to account for those services separately would not provide decision-useful information to financial statement users.

### *Scope*

#### **Question 5: Scope exclusions**

**This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46). Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?**

We generally agree with the proposed scope of the ED; however, we believe that leveraged leases should be excluded from the scope of the guidance and subleases should be disclosed in the notes to the financial statements only. Please refer to our responses in Questions No. 2(c) and 12(d).

Our view on the scope of the ED may change once the FASB exposes and finalizes its pending proposed ASU on investment property (real estate). These changes may impact our view on the appropriateness of the scope of the ED.

We observed that IASB's Leases ED provides for a scope exception for investment property carried at fair value under IAS No. 40, *Investment Property*. We are supportive of the IASB's proposal and we are supportive of the FASB's consideration of a similar standard under U.S. GAAP. We strongly recommend that the FASB provide for a similar scope exception for investment property in its Leases Update. Such a similar standard from the FASB would enable convergence with the IASB's standards on accounting for investment property and provide for comparability across entities with investment real estate portfolios.

### **Question 6: Contracts that contain service components and lease components**

**This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:**

- (a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.**
- (b) The IASB proposes that:**
  - (i) A lessee should apply the lease accounting requirements to the combined contract.**
  - (ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.**
  - (iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with Customers.**

**Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?**

We agree with the FASB's proposal that service components should be accounted for separately from lease components. However, we believe there should be additional guidance to clarify the distinction between service components and lease components, particularly for real estate leases that are not triple-net leases. Please refer to our responses in Question No. 4(c).

### **Question 7: Purchase options**

**The exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).**

**Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?**

We believe that a lessee or lessor should account for purchase options only when they are exercised. This is consistent with our view (see response to Question 8) that lease extension options should not be considered when recognizing amounts on the balance sheet, until exercised. Therefore, we believe that there should be no difference in the accounting treatment between purchase options and lease extension options in that they should only be recognized when exercised.

## *Measurement*

### **Question 8: Lease term**

**Do you agree that a lessee or a lessor should determine the 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?**

We disagree with the Boards' proposal to require the lease term to be 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. We do not believe that an option to renew a lease is binding on a lessee and therefore does not create an obligation for the lessee when no decision has been reached to renew the lease. Conversely, the chance that a lessee may renew a lease should not create a right to receive future income by the lessor.

We believe that measurement of the lease term should be based on information that is currently available and not predictions for 10 to 20 years into the future. Predicting the probability of exercising lease options is very difficult, especially in circumstances where lease options may go out for several years, with various renewal options, early buy-out options, early termination options or any other combination of renewal options. Such situations could lead to unnecessary loss recognition if, for example, a lessor overestimated the lease term based on an incorrect prediction of the number of years a lessee would stay at a location or continue to use an asset.

If the Boards decide to require entities to include options to extend and terminate a lease in the determination of the lease term, then entities should only be required to consider options that are reasonably certain of exercise, as evidenced by the attachment of significant incentives to renew or penalties if not renewed. This approach is well understood by lessors, lessees and users of financial statements and will also support comparability of entities with leases.

We believe that information regarding renewal and termination options is critical information related to a lease, but it is better addressed in the notes to the financial statements and not in the balance sheet.

The proposed guidance would require an entity to reassess assets and liabilities arising from the leasing arrangement based on new information. We believe that this requirement adds an unnecessary burden by requiring lessors and lessees to constantly change recorded amounts, thus introducing volatility to the income statement.

We believe a better approach would be to record the asset and the liability for the lease obligation based on the stated and legally binding contractual lease term. Again, this approach, along with enhanced disclosures about an entity's leasing arrangements, would result in consistent comparability across business entities.

### **Question 9: Lease payments**

**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?**

**Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?**

We do not believe that contingent rentals and expected payments under term option penalties and residual value guarantees should be included in the measurement of assets and liabilities arising from a lease, because these payments do not meet the definition of an asset or a liability. We believe that measuring such items will require significant judgment in assessing the required probabilities and will most likely result in inaccurate amounts. We therefore propose that contingent rent and payments under term option penalties and residual value guarantees should be recognized as incurred. While we do not believe that contingent rentals and expected payments under term option penalties and residual value guarantees should be included in the measurement of assets and liabilities arising from a lease, we believe that entities should disclose such items associated with current leases in the notes to their financial statements.

### **Question 10: Reassessment**

**Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or 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 (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?**

The proposals in the ED are heavily reliant on the use of estimates, judgment and probabilities, which most likely will require constant reassessment and measurement in order to maintain faithfully representative financial statements. We believe that the need for remeasurement can be minimized by requiring only amounts that are legally required to be paid (or where there is an economic compulsion) by the lessee under the terms of the lease to be recognized on the balance sheet. Therefore, remeasurement would only be performed in instances where a lease is terminated early or at the effective date of a revised lease agreement that extends the contractual lease term in the lease agreement. We believe that the requirement for continuous reassessment could create an unnecessary burden by requiring lessors and lessees to constantly change recorded amounts, which could introduce volatility to the income statement.

If the Boards decide not to change the proposed guidance regarding reassessments, we believe that the Boards should provide more clarity regarding what would be considered a “significant change in facts and circumstances.” Additionally, it would be helpful if the Boards provided examples.

## *Presentation*

### **Question 12: Statement of financial position**

**(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We agree with the proposed presentation requirements for the statement of financial position of a lessee. Classifying a right-of-use asset within property, plant and equipment provides better information about how the leased asset is used by the lessee. In addition, separate presentation of the liability to make lease payments provides users with valuable information about an entity's leasing arrangements and ties the liability to make lease payments back to the right-of-use asset.

**(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We do not object to the proposed presentation requirements for the statement of financial position of a lessor applying the performance obligation approach. However, if the Boards decide to keep leveraged leases in the scope of the proposed ED, we believe the Boards should expand the presentation guidance for the determination of the net lease asset or liability to include the nonrecourse debt under a leveraged lease. We also recommend separate presentation of the leveraged lease debt in the footnotes to the financial statements apart from other debt of the entity.

**(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We agree with the proposed presentation requirements for the statement of financial position of a lessor applying the derecognition approach. However, if the Boards decide to keep leveraged leases in the scope of the proposed ED, we believe the nonrecourse debt under a leveraged lease should also be derecognized and separately disclosed in the footnotes to the financial statements apart from other debt of the entity.

**(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

We do not agree that a lessee (as lessor in a sublease) should be required to distinguish assets and liabilities that arise under a sublease in the statement of financial position. The lessee is already obligated to make payments on the head lease and has the right to use the property per the terms of the agreement. In most cases, subleases are merely a means for mitigating cost on unused space/assets and not part of an entity's operations. We believe that any information about subleases should be disclosed in the notes to the financial statements.

We do agree that a lessee (as lessor in a sublease) should distinguish assets and liabilities that arise in a sublease in the statement of financial position if the lessee leases the asset from the lessor under a Master Lease agreement with the intent to release that asset.

If the Boards decide that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position, we believe that more guidance is needed to clarify which leasing model should be used by a lessor in a sublease. Examples would be helpful.

### **Question 13: Income statement**

**Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?**

We believe that it should be optional (policy election) for lessees and lessors to present lease income and lease expense separately from other income and expense in the income statement. However, for entities with diverse investment portfolios, certain components of net income are better addressed by way of disclosures in the notes to the financial statements.

### **Question 14: Statement of cash flows**

**Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?**

We believe that it should be optional for cash flows arising from leases to be presented in the statement of cash flows separately from other cash flows. However, for entities with diverse investment portfolios, certain cash flow components are better addressed by way of disclosures in the footnotes.

### ***Disclosure***

**Question 15: Do you agree that lessees and lessors should disclose quantitative and qualitative information that:**

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and**
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows? (paragraphs 70–86 and BC168–BC183)?**

**Why or why not? If not, how would you amend the objectives and why?**

We agree that lessees and lessors should disclose quantitative and qualitative information as described above. These disclosures will provide useful information about an entity's leasing arrangements to the users of its financial statements.

## *Transition*

### **Question 16:**

**(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?**

We generally agree with the Boards' application of the simplified retrospective approach to transition. However, we believe that the Boards should provide additional guidance with respect to leases in transition at the time of adoption. For example, at the time of transition, an entity may have leases that the entity does not intend to renew. As a result, the entity may have begun reserving for exit costs associated with such leases under FASB Codification Topic 420, *Exit or Disposal Cost Obligations*, which provides guidance related to termination costs for an operating lease. For such situations, we are requesting the Boards provide additional guidance on the interaction with Topic 420 and the ED.

**(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**

We believe that all entities should apply the same transition approach.

**(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

For leases accounted for under the derecognition approach, at the date of initial application a lessor would be required to recognize a residual asset at fair value. This would require an entity to obtain costly appraisals to determine the fair value of each residual asset. Depending on the size of an entity's leasing portfolio, this could result in significant expenditures. We believe that the Boards should consider allowing a lessor to record the residual asset at its current carrying value (as determined under the direct financing model of the current leasing guidance), subject to any adjustments necessary to reflect impairments.

## *Benefits and Costs*

### **Question 17:**

**Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?**

We believe that significant costs will be incurred to adopt the proposed ED as currently written. Entities will be required to review all leases and implement new systems and processes to assess the likelihood of renewals and contingent rent at lease inception and throughout the term of a lease. We believe that using the contractual rent term as opposed to the "longest possible term that is more likely than not to occur" and simplifying the lease guidance for non-core leased assets would significantly reduce the costs of implementing the proposed ED.

*Other Comments*

**Question 18:**

**Do you have any other comments on the proposal?**

*Interaction with other existing guidance*

Since the Boards are proposing to apply Topics 310, 350, 360 rather than Topic 420, we propose the Boards consider scoping out leases in Topic 420.

In addition, the ED does not discuss interaction of the proposed guidance with other existing guidance such as guidance on foreign currency translation (Topic 830). According to Topic 830, when translating assets, liabilities, revenues, expenses, gains and losses measured or denominated in a foreign currency, consideration should be given to monetary vs. nonmonetary classification and appropriate exchange rates should be applied based on this classification. The following balance sheet accounts and related expenses are currently classified as nonmonetary: Prepaid expenses such as rent, Property, plant, and equipment, Accumulated depreciation on property, plant, and equipment and Depreciation of property, plant, and equipment. We would like to ask the Boards to address assets and expenses classification in the context of the new proposed guidance. We believe that proposed guidance should be consistent with existing guidance and we ask the Boards to take this into consideration.