



Hilton Worldwide  
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USA

November 10, 2017

Technical Director  
File Reference No. 2017-310  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Board Members:

**Re: Proposed Accounting Standards Update No. 2016-02, *Leases (Topic 842) Technical Corrections and Improvements to Recently Issued Standards***

Hilton Worldwide Holdings Inc. (referred to herein as we, us, our, Hilton or the Company) is pleased to have been given the opportunity to comment on the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update No. 2016-02 ("ASU 2016-02"), *Leases (Topic 842) Technical Corrections and Improvements to Recently Issued Standards*.

**Question 1: Would the amendments in this proposed Update clarify the guidance in Topic 842 or provide a better link between paragraphs within Topic 842 or between the guidance in Topic 842 and other Topics? If not, please explain which proposed amendment(s) you disagree with and why.**

We believe the amendments in this proposed Update do clarify the guidance in Topic 842 and provide better links between paragraphs within Topic 842 and with other Topics.

**Question 2: Will any of the proposed amendments result in the substantive changes to the application of Topic 842 that would require transition provisions or an effective date for the final amendments other than those noted in the Summary section "When Would the Amendments Be Effective?" If so, please describe.**

We do not believe any of the proposed amendments will result in substantive changes to the application of Topic 842 that would require additional transition provisions or an effective date for the final amendments other than those noted in the Summary section.

**Question 3: Should other changes that are directly or indirectly related to the proposed amendments be made? Please note that the Board will conduct Codification improvements projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvements project.**

For reasons described in further detail below, to reduce the cost of transitioning to Topic 842 we propose the Board issue a practical expedient, that at a company's option, allows for the use of the index or rate in existence as of the start of the

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earliest reporting period presented in the financial statements in calculating the minimum lease payments used to determine the lease liability under paragraph 842-10-65-1(l). We believe this proposed practical expedient would align to the Board's intent as described in the Basis for Conclusions for ASU 2016-02 because it would both reduce transition costs and provide a more accurate depiction of the currently existing obligations and the economic benefit obtained through a company's use of operating leases.

Hilton is one of the largest hospitality companies in the world and is primarily engaged in the managing, franchising, owning and leasing of hotels and resorts, including timeshare properties. As of September 30, 2017, Hilton leased the buildings and/or ground below 66 hotels and resorts (our "Hotel Leases") around the world, numerous corporate offices and a significant number of operating equipment arrangements, which we believe are in the scope of Topic 842. Of the 66 Hotel Leases, 62 are accounted for as operating leases with the remainder accounted for as capital leases. Our corporate offices and operating equipment are, similarly, primarily accounted for as operating leases. The implementation of Topic 842 will have a pervasive effect on the Company's accounting processes, systems and consolidated financial statements and related disclosures.

Our Hotel Leases are primarily long-term in nature (terms are typically 20 years or longer) and can include rent with either a fixed or variable component or both. Fixed rent is typically a stated amount established at lease inception. Due to the long-term nature of our Hotel Leases, the fixed rent amounts are typically subject to provisions requiring the fixed amount to be adjusted on a periodic basis by a contractually specified index (e.g., consumer price index, retail price index, etc.) or based on market rent review. The initial fixed amount would be paid from the commencement of the lease to the date of the adjustment, at which point the adjustment would then be applied and the new adjusted rent would be effective at the beginning of the next payment period. This practice is common in the real estate industry.

Under Topic 842, a lessee will be required to record a lease liability and a right-of-use asset for operating leases (excluding short-term leases). Lessees will follow the transition guidance in paragraph 842-10-65-1(l) for leases previously accounted for as operating leases under Topic 840 (including 62 of our Hotel Leases) which will require lessees to initially measure the lease liability at the present value of the sum of the remaining minimum rental payments (as defined under Topic 840), using a discount rate for the lease established at the beginning of the earliest period presented in the financial statements. For leases previously accounted for as operating leases under Topic 840 which continue to be classified as operating leases under Topic 842, lessees will initially measure the right-of-use asset at the initial measurement of the lease liability adjusted for the items noted in paragraph 842-10-65-1(m).

Following the guidance for minimum lease payments in paragraph 840-10-25-4, the rent payment amount a company will use to calculate the lease liability and right-of-use asset for operating leases will be the initial fixed rent at inception of the lease. Lease payments that depend on an existing index or rate shall be included in minimum lease payments based on the index or rate existing at lease inception with any subsequent changes considered contingent rent. In cases where a lease extension or modification has triggered a "new lease" under Topic 840, the latest date when a "new lease" arose is considered to establish a new lease inception date for the purposes of determining minimum lease payments under Topic 840. Based on our understanding of paragraphs 840-10-25-4 through 25-7, as of the date of transition to Topic 842, the measurement of the lease liability for an existing operating lease should exclude any increases in fixed rent due to changes in an index or a market review arising after the later of original lease inception or the latest event which caused a "new lease" under Topic 840, if applicable. For example, if a lease executed in 2002 was subsequently modified in 2006 to include a lessor-controlled extension option, the 2006 modification would have extended the lease term and triggered a "new lease" which requires an updated determination of minimum lease payments based on the factors (such as indexation levels) that existed at the date of modification. If the lease has not been modified since 2006, the current minimum lease payments under Topic 840 would reflect the 2006 rent levels because any indexation adjustments occurring after the modification would represent contingent rent.



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The average inception date of the Company's Hotel Leases was approximately 1998 and the current fixed rent payments include significant amounts of upward adjustments for historical indexation or market reviews in the arrangements where these provisions are applicable. In some cases, a lease may have been extended or modified numerous times since inception and as a result, the date of the latest event that caused a "new lease" under Topic 840 could vary widely from lease to lease, causing leases with similar remaining economic obligations to be measured very differently in transition to Topic 842. We expect other lessees in the real estate industry to have a similar fact pattern.

The distinction between the portion of current fixed rent that relates to indexation or market review adjustments arising since the latest lease inception date and the portion of current fixed rent which represents minimum lease payments does not affect the recognition or measurement of lease expense under Topic 840. Due to the long term nature of many real estate leases, in cases where the lease has not been extended or modified recently, many companies may face administrative burdens due to the ready availability of historical records. As such, application of the transition guidance in paragraph 842-10-65-1(l) to measure the lease liability based on minimum rental payments as defined under Topic 840 would require significant effort to identify and analyze all of the events which may have caused a "new lease". The result of this exercise will reduce transparency of current day lease obligations (and corresponding right-of-use assets) by measuring the lease obligations at historical rent levels which may be significantly lower than the true economic obligation as of the date of adoption of Topic 842.

As noted above, to reduce the cost of transitioning to Topic 842 we propose the Board issue a practical expedient, that at a Company's option, allows for the use of the index or rate in existence as of the start of the earliest reporting period presented in the financial statements in calculating the minimum lease payments used to determine the lease liability under paragraph 842-10-65-1(l). We believe this proposed practical expedient would both reduce transition costs and provide a more accurate depiction of the currently existing obligations and the economic benefit obtained through a Company's use of operating leases. Additionally, the proposed practical expedient would not affect the lessee's measurement of rent expense, as the sum of the minimum and indexed payments would still represent the periodic recognition of expense. Lastly, we believe the inclusion of the aforementioned practical expedient would improve the understanding and consistency of information within an issuer's lease portfolio, reduce the burden of implementation on issuers with existing leases, and provide better decision-useful information to investors, creditors and other users of financial statements, which we feel aligns to the Board's intent of reducing the cost of transition while still reflecting the primary improvement of Topic 842 as described in the Basis for Conclusions for ASU 2016-02.

We appreciate the opportunity to comment on this proposed Accounting Standards Update and its application. We would be pleased to discuss our views with you at your convenience.

Very truly yours,

/s/ Michael Duffy

Michael Duffy  
Senior Vice President and Chief Accounting Officer  
Hilton Worldwide Holdings Inc.