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February 5, 2018

Chairman Russel G. Golden
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116
director@fasb.org

RE: File Reference No. 2018-200

Dear Chairman Golden:

Prologis, Inc. ("PLD", "our", "we" or the "Company") appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (the "Update"), *Leases (Topic 842): Targeted Improvements.* As a preparer of financial statements, we are in support of the targeted improvements for both transition relief and the option to not separate components of a contract as a lessor. We appreciate the FASB's continued efforts to increase the transparency and comparability of leasing transactions. To that end, we commend the FASB's responsiveness to constituent feedback and believe the considerations in the proposed Update provide meaningful and practical approaches to account for, and report on, leases under ASC 842 (the "New Standard").

We are the global leader in logistics real estate with a focus on high-barrier, high-growth markets. We own, manage and develop high-quality logistics facilities in the world's most active centers of commerce. Across the globe we own and operate approximately 3,300 logistics properties and lease space to over 5,000 customers. We maintain over 3,600 leases globally with an average term of 4 years. As of December 31, 2017, we owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects of approximately 684 million square feet in 19 countries. As a global industrial Real Estate Investment Trust ("REIT"), rental operations comprise the largest component of our operating segments and contributed approximately 90% of our consolidated revenues, earnings and Funds From Operations ("FFO") in 2017. We collect rent from our customers through operating leases and under the terms of our leases most of our rental expenses are recovered from our customers. Our rental expenses primarily include common area maintenance ("CAM"), real estate taxes and insurance. We are also a lessee of ground and office leases.

The following discussion provides our supportive considerations for why we strongly agree with the proposals outlined in the Update. Our responses represent the views of Prologis management.

Issue #1: Transition- Comparative Reporting at Adoption

The FASB's proposal to allow prepares to recognize a cumulative effect adjustment to the opening balance sheet of retained earnings in the period of adoption would provide significant adoption relief. While we do acknowledge the Board's concerns about the decrease in consistency in how entities initially apply the requirements of the New Standard, we agree that the optionality of adopting the proposed method is limited to *when* the entities choose to adopt and not *how* the entities apply the New Standard. We believe the existing disclosures required under current GAAP provide sufficient information for our financial statement users during the comparative periods. We do not believe that the comparative period optionality will lead to inconsistent financial reporting or information loss for users. Overall, we believe the option to exclude the comparative period reporting requirements provides an easier transition for preparers of financial statements and aligns with the practical expedients available for adoption.

Specific to costs and complexities, we believe the proposed transition method optionality will reduce our internal and external costs to implement the New Standard. The primary areas of cost and complexity reduction relate to implementing a new lessee accounting software module on a retroactive basis, financial statement disclosures, and internal controls. In addition to our internal cost and complexity reductions, we also believe there will be savings relating to our external audit requirements.

Implementation of New Accounting Software

As our implementation efforts have evolved, we have identified the need to implement a new lessee accounting software module. Our current lease accounting module functionality is limited to tracking leases under the lessor model with few lessee-specific tracking capabilities which primarily includes accounting for rent expense and population of our operating lease commitments disclosure. We have worked closely with our third-party service provider to create a lessee accounting module ensuring that the module is in alignment with the New Standard. We have evaluated other off-the-shelf software options; however, these alternative solutions would need to be integrated with our accounting system which would require significant costs. In evaluating our software solution, we note that our global complexity has led to certain challenges such as leases generated in local currencies as well as accounting for specific IFRS and statutory requirements. As a result, building a software solution that meets our requirements has taken significant time and effort. Management has also observed that defining and documenting internal accounting policies around discount rates and lease modifications to be time intensive. We believe the transition optionality will also provide relief by removing the requirement to assess these criterium for the comparative periods. Overall, we find the transition relief will provide us the ability to focus our resources on testing an effective software solution to ensure accurate and complete financial reporting and disclosures at the effective date and going forward.

Disclosure Requirements

Given the enhanced disclosure requirements under the New Standard, we anticipant more time, resources and processes required to meet the disclosure requirements upon adoption. We believe that the ability to focus on increased disclosure requirements upon adoption, and not provide the disclosures for the comparative periods, will reduce the costs and complexities of our financial reporting framework and implementation process. In addition to disclosure relief, we also acknowledge the time and cost savings associated with not having the requirement to recast our FY'2017 and FY'2018 financial statements. The benefit of alleviating the comparative periods will reduce the time required to prepare, review and audit the re-casted financial statements. We also acknowledge that the information most useful to the investor is the impact at adoption as that represents the right of use asset and related liability as of the most current date. We believe comparative lease information has less utility to the end-user.

Internal Controls Requirements

We believe the elimination of the comparative periods will lead to a reduction in costs attributed to our implementation controls. The efforts to track, review, account, and audit each of our leases requires considerable time and effort. These efforts are compounded by our global nature which requires the resourcing of adequately trained individuals who are able to understand the multiple languages in our lease contracts. While we will continue to follow our implementation control framework and timeline for adoption, we will experience substantial internal and external time and cost savings by eliminating the need for separate controls over comparative period reporting.

Issue #2: Separating Components of a Contract

As a lessor of real estate through gross and triple net lease contracts, we are supportive of the proposed Update to allow lessors to account for lease and nonlease components as a single lease component when the proposed criteria in ASC 842-10-15-42A are met. We find the separation of lease and nonlease components within the New Standard to be inconsistent with our leasing practices. More specifically, we view our leasing of properties and CAM services as a single, integrated activity. In application of Topic 606 *Revenue from Contracts with Customers*, our leasing of the property and providing CAM services represents a single performance obligation as the timing and pattern of revenue recognition are generally the same and are provided ratably throughout the term of the lease. We do not view CAM as a separate service as CAM represents costs incurred in operating the property and are not offered separately to our tenants without leasing the property. While we acknowledge that the separation of the service component may be appropriate for certain industries, we do not believe the separation of lease and nonlease components applies to our business and industry.

Moreover, the New Standard requires lessors to allocate the consideration in the contract to lease and nonlease components on a relative standalone selling price basis, consistent with ASC 606-10-32-29. This requirement is not only burdensome, but will require significant judgement as we do not separately price and negotiate rental rates and CAM services on a standalone basis. CAM services are generally provided as a pass-thru cost to the tenant with little to no margin. Based on our leasing practices, we would be required to estimate the standalone selling price for each component using a subjective estimation methodology and present this breakout in the financial statements. It would be time consuming to apply this estimate to all our leases. The breakout and presentation of rental income and CAM services does not supply the users of our financial statements with meaningful information. We also emphasize that the users of our financial statements have not historically requested separate presentation and disclosure of lease and nonlease components under ASC 840. As the timing and pattern of recognition of operating revenues, net income, and FFO (as defined by NAREIT) remains unchanged, we do not believe the separation of lease and nonlease components provides more useful information to our users. Without this proposed Update, the separation requirements currently stated in the New Standard would purely drive additional disclosures which we do not believe achieve the FASB's objectives of making lease transactions more transparent and comparable.

In addition to the reasons set forth above, we also believe the Update will generate significant internal cost savings and reductions in implementation complexities for our routine lease accounting processes, financial reporting processes, and internal controls. Further considerations for our internal cost and complexity reductions are detailed below. We also anticipate substantial cost and complexity reductions for the external audit, specifically relating to the auditing procedures over standalone selling prices. External cost reductions will also result from reduced disclosure and internal control testing requirements.

Impact to our Lease Accounting Process

The requirement to separate the lease and nonlease components would require meaningful changes to our lease accounting processes. We anticipate the need to institute new manual processes to quantify the standalone selling prices of the lease and nonlease components, which would be challenging. As a result, significant efforts would be made to define our internal policies and train our global leasing teams. We would also have to assess the ability of our lease tracking system to separately account for this information and consider additional lease reporting functionality to ensure our systems are capturing accurate and complete information. The ability to treat lease and nonlease components as a single lease component will greatly reduce our implementation and on-going efforts as our current lessor accounting model will remain largely unchanged.

Financial Reporting Process

Consistent with the financial reporting cost savings identified for the comparative period relief, we believe similar positive impacts would be achieved by avoiding separate lease and nonlease component disclosures. We believe material disclosures would be required to explain our allocation methodology to users. We find that these additional disclosures would not only be time intensive to prepare and audit, but may also create confusion for our readers as the allocation methodology may not be consistent across other real estate preparers. As a result, the separation of lease and nonlease components may lead to inconsistent accounting practices across the industry which would not align with the objectives of the FASB. For these reasons, we strongly believe the proposed Update would eliminate unnecessarily complicated, time-consuming, and potentially confusing disclosures from our financial statements.

While lease and nonlease components can be combined as a single lease component by asset class under the Update for GAAP, it is not clear to us if the SEC, under regulation S-X, defines rental and service income as a single class of income or if separation of tenant reimbursements will be required for presentation purposes based on materiality of the activity. We believe the conclusion to present lease and nonlease components as a single line item in the Statement of Operations under US GAAP may be applied differently under SEC Rule 5-03.1 of Regulation S-X.

Internal Control Requirements

Maintaining a strong internal control environment is critical to establishing and maintaining our global accounting practices and policies. Our internal controls over financial reporting

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framework includes risk assessment considerations which require additional procedures be performed over areas with significant judgment. Under the New Standard, allocation of consideration to lease and nonlease components on a relative standalone selling price basis is an area that constitutes significant judgment. Consequently, we believe the ability to treat lease and nonlease components as a single lease component will eliminate the judgement required to apply the allocation methodology. As a result, we can avoid the internal and external control costs relating to the identification and testing of specific controls over the allocation methodology. We will also experience similar internal control cost savings by avoiding the need to perform and test controls over the disclosure of the lease and nonlease components.

Conclusion

In summary, we strongly support the FASB's proposals included in the Update and appreciate the FASB's response to constituent feedback. We feel the Update would substantially decrease the costs, complexities, and overall resources required to implement the New Standard. We find the proposed Update to be operable and do not find that the transition optionality or elimination of separating the lease and nonlease components would lead to information loss for our users. On the contrary, specific to the separation of components in a contact, we find the Update more clearly aligns with our industry practice and strongly feel that CAM services are an interrelated component of our leases. As an overarching objective of our financial reporting framework, we strive to provide useful, relevant information to the users of our financial statements. We strongly believe that the Update removes requirements from the New Standard that do not provide useful information to our financial statement users and more closely aligns with our leasing model.

We appreciate the opportunity to comment on the proposed Update. If you have any questions, please contact me at 303-567-5294.

Sincerely,

Lori A. Palazzolo
Prologis, Inc., *Managing Director and Chief Accounting Officer*