



TRUCK RENTING AND LEASING ASSOCIATION

December 15, 2010

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

Re: File Reference No. 1680-100

Dear Ms. Seidman:

The Truck Renting and Leasing Association (“TRALA”) appreciates the opportunity to provide comments to the Financial Accounting Standards Board (“FASB” or “Board”) on the proposal contained in the FASB Exposure Draft, Proposed Accounting Standards Update Leases Topic 840 (ED).

TRALA is a voluntary, non-profit national trade association for the truck renting and leasing industry. TRALA's mission is to foster a positive legislative and regulatory climate within which companies engaged in leasing and renting vehicles and trailers, as well as related businesses, can compete without discrimination in the North American marketplace. TRALA's regular membership includes more than 400 companies representing the vast majority of truck renting and leasing operations in the United States. Together, the industry purchases almost 40 percent of all new commercial trucks in classes 3-8 manufactured in the United States and placed into commercial service. TRALA's associate membership includes companies that supply materials, products and services, such as truck and trailer manufacturers, component suppliers, tire makers, engine manufacturers, communications/technology suppliers, finance and insurance companies, graphics suppliers, environmental and legal consultants, and numerous others providing services to the industry. <http://www.trala.org>.

TRALA supports the goals of the SEC and the FASB in improving the transparency and accuracy of financial reporting. TRALA members appreciate the need to capitalize material lessee operating lease obligations much the same as rating agencies currently capitalize lease obligations in their credit analyses. Our members are lessors and users of financial statements, as we review the credit worthiness of our customers.

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TRALA has worked in cooperation with the FASB to facilitate the development of fair and effective accounting standards. These efforts have included inviting FASB staff to brief TRALA's Board of Directors on the Lease Accounting Project in November 2006, submitting a letter to the FASB in February 2008 outlining the scope of the truck leasing industry and the types of leases used in the industry, and submitting a comment letter to the Lease Project Discussion Paper (DP) in 2009.

We note that few businesses commented on the DP. We know that our members and their customers will be greatly affected by this ED but few have the internal resources to spare to read and analyze the ED and then write a comprehensive detailed comment letter. This makes your task all the more difficult as most of the DP comment letters were from professional accountants, not the industry participants who understand the business issues, details and risks involved in leasing and using equipment.

We have several specific areas of concern in the ED and they are substantially the same as in our comment letter to the DP. They are as follows:

Materiality and Complexity

Although we support capitalizing material right-of-use leases (ROU or former operating leases) it must be completed in a practical and principle-based manner. The vast majority of truck lessees are small to medium sized companies that are unlikely to have the accounting resources to adapt to the significant, complex changes and reporting requirements proposed in the ED. These companies will turn to the lessor for help, adding significant customer support costs in helping lessees analyze terms, rates and estimates and figure out how to account for them. The estimation of the lease term and excess mileage based contingent rents and the reassessment and adjustment at each financial reporting date adds additional costs and burdens to the lessee without adding clarity or accuracy to the truck lessee's financial reporting. The requirement to use the probability weighted average method is overkill. What is the value of placing unreliable estimates on the balance sheet? The ED introduces a significant amount of estimation uncertainty and many entities will not be in a position to make those estimations reliably.

The relatively short-terms and low dollar amounts involved in truck and trailer leasing further minimize the cost effectiveness of these reporting reassessment requirements and will not result in meaningful adjustment amounts. We therefore recommend that right-of-use equipment leases with expected lease terms of 60 months or less and less than \$250,000 in equipment costs should continue to be accounted for as operating leases. We think that readers of financial statements understand operating lease accounting and would benefit from increased disclosures for leases that continue to be accounted for as operating leases; such as providing the PV of the rents, the weighted average incremental borrowing rate, and the estimated rents to replace expiring operating leases.

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Form over Substance

We are pleased that you recognized that there are leases where the rights are ownership rights rather than just rights of use and that the two should have different accounting treatment.

P&L and Balance Sheet Presentation

The vast majority of leases utilized in the truck leasing industry are right-of-use leases where the lessee has the temporary right to use the asset for a specified period of time and is obligated to return the asset at the end of the lease term. Under the model provided for in the ED, in a capitalized right-of-use lease, the asset would be presented separately but within Property, Plant and Equipment (PP&E) and would be amortized straight line over the lease term. The ED treats the capitalized lease obligation as a loan with imputed interest.

TRALA's position is that under a capitalized right-of-use lease, the profit and loss (P&L) cost pattern should be straight line, reflecting the operating expense nature of the lease. The value of the asset and the liability, absent impairment, are the same over time and equal to the present value of future payments. The asset and liability under such a lease should be amortized at the same rate (mortgage amortization) to rent expense, rent expense should be accrued and as rent is paid, it should be charged to accrued rent payable. This also avoids the need for significant deferred tax accounting impacts that result from the accelerated lease cost pattern proposed in the ED.

The right-of-use asset should have a separate classification within PP&E on financial statements so that users understand that it is only a temporary right to use the asset. Rather than inventing a whole new standard, TRALA proposes using the existing FAS 13/IAS 17 as the basis for the new lease accounting standard, modified to capitalize former operating leases but leaving definitions of lease term/lease payments, P&L accounting and cash flow treatment as-is and leaving capital lease accounting as-is.

Discount Rates

The incremental borrowing rate is the right rate to value the right-of-use asset and liability in material leases. It is important that the implicit rate be used in capital leases or leases that transfer ownership rights. It may not seem important to use the implicit rate but it is the rate that the IRS and legal rules use. The difference between it and the incremental borrowing rate should never be material in our types of leases yet if it is used it will trigger the need for deferred tax accounting and create other needless complications.

Contingent Rents

Many truck leasing transactions provide for contingent rents based on usage of the asset. These charges are generally immaterial and are intended to protect the lessor's residual asset from decline due to excessive use. They should not be counted as liabilities at the

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time of the lease inception because the event that triggers the liability has not occurred. We feel strongly that you are ignoring your own definitions of liabilities and assets. The typical contingent rental does not meet the definition of a liability because the obligating event does not arise from a past event but rather from a future event. Current GAAP (SFAS #5) states that expenses are not recognized until the amount is measurable and the obligation has been incurred.

TRALA supports the process under current GAAP, where usage-based contingent rents are not accounted for until incurred. Usage-based contingent rent liabilities can be avoided by the lessee through changes in usage practices. Further, the ED's accelerated lease cost pattern is exacerbated when estimated contingent rents are included in lease payments capitalized. Usage based contingent rents typically occur towards the end of the lease term yet the ED's cost recognition method would cause a portion of those costs to be recognized in the first month of a lease.

Since the contingent rent costs are typically incurred towards the end of the lease term, time affects the reliability of estimates. We feel the cost of using a truck in excess of the agreed to miles means the lessee is using more of the ROU value and is presumably getting more benefit in the period of use. Accounting for the contingent rents as incurred would match revenue with costs giving a better picture of the results of operations of a lessee. It would increase reliability and decrease volatility in reported results from operations. It would also go a long way in simplifying compliance.

Bundled Executory Contracts

Many truck leases are "full-service" leases that incorporate non-fixed costs including vehicle maintenance costs, tax and regulatory compliance costs, and other executory costs bundled into the lease rate. All the services are distinct. Unbundling these costs would present significant administrative costs and competitive concerns for truck lessors. However, capitalizing any of these costs by lessees would misrepresent the real value of the leased asset and would detract from the accuracy and clarity in financial statements sought by the FASB. In addition, capitalizing these costs could cause the lessee's right-of-use asset to be valued at an amount greater than the value of the underlying asset. What would be the justification for having a right-of-use asset reflected at an amount greater than the asset itself? Customers view the entire amount of full service lease costs as operating costs.

This a new concern as current GAAP treats the operating lease cost and executory/service costs the same – that is they are generally recognized on a straight line basis or as incurred. Also, neither was capitalized so now this is a big issue. We think the ED's requirement to default to capitalizing the full bundled lease payment if the lessee cannot is unreasonable and onerous. A lessee should be allowed to use a reasonable estimate of the lease and service components if it can't get more precise observable market information. Maybe

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something along the lines of the more likely than not estimating method could be acceptable.

Lessor Accounting

TRALA believes that lessor and lessee accounting should be dealt with together as many of the issues are the same or interrelated. TRALA also believes that there should be symmetry, that is if the lessee is acquiring the right to use an asset and recording that asset as well as a liability, the lessor should derecognize a portion of the asset and record a receivable.

We think the current GAAP direct finance lease model better reflects the economics to the lessor versus the Derecognition method per the ED. The major difference is the failure to accrete the residual asset to its expected value. Residuals are expected cash flows from a sale or re-lease of the leased asset in the investment analysis of a lessor. Lessors in our industry have the ability to predict residual values with a high degree of accuracy due to their experience and the amount of data available on the large and active used truck market.

Some lessors in our industry use leveraged leases to finance their lease portfolios to reduce funding costs as tax benefits reduce the lease pricing. If leveraged lease accounting is eliminated, their cost of funding new assets will increase.

We also include the answers to the questions in the DP as an attachment to this letter. We appreciate the opportunity to comment and offer our services in the event you need any information on our segment if the industry. We are committed to helping you produce accounting standards that are simple, workable and reflect the substance of our transactions in the financial statements of our members and their customers.

Sincerely,



Thomas James
President and CEO

Attachment

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Questions for Respondents

The exposure draft proposes a new accounting model for leases in which:

- (a) A lessee would recognize an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraph 10 and BC5-BC12). The lessee would amortize the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.*
- (b) A lessor would apply either a performance obligation approach or a derecognition approach to account for the assets and liabilities arising from a lease, depending on whether the lessor retains exposure to risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraphs 28, 29 and BC23-BC27).*

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?*
- (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 apply?*

Response

We agree that, for material leases, the obligation to pay rent as defined by current GAAP for the lease term should be capitalized. We disagree with the proposed definition of lease term because the more likely than not threshold is too low. We disagree with capitalizing estimated payments because they do not meet the definition of a liability. The requirement to use probability weighted average method calculations is far too complex and to have to repeat it at every reporting date is too costly. The requirements to estimate lease terms and lease payments creates the compliance issues for little value in our industry. Our leases generally are not material in both size and term.

We think that the lease cost pattern should be straight line to match the use benefits derived from the use of the asset. We think the cost is rent and it is an operating expense. A lease is unique. It is the acquisition of a temporary right to use an asset.

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The rights and obligations arise from a two party contract so the asset and liability are linked.

Neither the asset nor liability can be settled separately. The Boards have chosen to account for the contract as the unit of account. We think the value of the ROU asset and the resulting lease liability resulting from the lease contract should amortize at the same rate. The proposed cost pattern may be appropriate for the acquisition of a tangible asset that is financed by a separate loan. In that case the tangible asset survives after the loan is paid off or settled early and the straight line amortization of the asset is an appropriate cost allocation method. The Boards should consider licensing agreements with payments over time and leases of intangibles as they will find the same cost allocation issues with those types of transactions.

Also, with respect to P&L cost pattern, the proposed bundling of executory costs, capitalization of future estimated renewal options and contingent rents, the overall capitalized amount is of course larger. Using the imputed interest method as proposed in the ED, a much larger portion of the payment in the early years will be allocated to interest expense. This is unrealistic and a distortion as the probability of the lease extension is unreliable and as stated, the events resulting in contingent rents have not occurred and any estimates would be unreliable as well.

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

Response:

We think that the ROU concept when applied to leases of the whole of an asset to one lessee for a term of more than one year results in Derecognition accounting because the lessor is transferring a right-of-use to the lessee and the lessee is obligated to pay the

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contractual rent. We think an asset is a bundle of rights and the lessor has sold a right. We do think that the de-recognition model as proposed should be amended to recognize the residual as an expected cash flow from the lease investment and therefore should be accreted.

We think that short term leases should be accounted for under the operating lease method in current GAAP.

We do not agree with the Performance Obligation method. If the lessor has performance obligations that cause the collectability of the lease payments to be uncertain, the operating lease method should be used. In that case the lessor has not sold the right-of-use for the full lease term as it has to continue to perform. Our full service leases have a lease element and service element. Our track record is such that the risk of non-performance of the service is remote.

Our larger members use leveraged leases to fund the acquisition of equipment that is ultimately leased to end users. The main reasons why leveraged leases are used is that the cost is much lower than a non-leveraged lease. The cost advantage is due to tax benefits transferred (and reflected in the lessor accounting revenue pattern) and reflecting only the net investment on the books of the lessor. We know that our cost to finance assets will increase if you eliminate leveraged lease accounting.

Question 3: short-term leases

The 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 the 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 a 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).*

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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?

Response

We think that both lessors and lessees should use the current GAAP operating lease model. The proposal for lessees to record the undiscounted asset and liability will be an administrative burden. The simpler method would be to have lessees use the current operating lease method but accrue material assets and liabilities from short term leases whenever they report balance sheets and reverse the entry immediately thereafter.

Definition of a lease

The exposure draft proposes to define a lease as a contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1-B4 and BC29-BC32). This exposure draft also proposes guidance on distinguishing between a lease and a purchase or sale (paragraphs 8, B9, B10 and BC59-BC62) and on distinguishing a lease from a service contract (paragraphs B1-B4 and BC29-BC32).

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?*
- (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?*
- (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 alternative guidance do you think is necessary and why?*

Response

We agree with the definition of a lease contained in the exposure draft. It is very important to distinguish leases, especially the former operating leases, from service contracts now that the accounting will be very different. We suggest the following definition with additional guidance.

“A lease is a contract that, in exchange for consideration, conveys to a lessee the right to use a specified asset for a period of time that is more than a minor part of its economic life”

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The existence of one or more of the following features implies that an agreement conveying the right to use a specified asset is a lease *and not a service contract*. This list is non-exhaustive:

- An option to purchase the asset
- A renewal option that allows the lessee to extend the contract to a term that equates to substantially all of the economic life of the asset
- A residual value guarantee provided by the lessee or a party related to the lessee

An asset is not a specified asset when lessor can substitute and the assets are easily exchangeable/fungible or assets that are ancillary in providing a service.

We agree with the criteria for determining when a lease is really a sale, except we wonder about the need to include the phrase “and all but a trivial amount of the risks and benefits associated with the underlying asset to another entity” in paragraph 8.

We agree with the guidance for distinguishing leases from service contracts.

Scope

Question 5: scope and scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposals 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?

Response

We agree with the scope, however, if you included intangibles in the scope it might cause you to reconsider the proposed lease cost pattern. We believe that the cost pattern of a lease of intangibles and licensing agreements with payments over time should be level as that is the pattern of economic benefits received for those types of contracts. Those types of contracts are linked contracts and executory contracts much like leases.

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Question 6: Contracts that contain both service and lease components

The 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 that the lessee and lessor should apply the lease accounting requirements for 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?

Response

Lessee Accounting

We believe a lessee should account for the lease portion separately from service and executory cost elements in a full service lease. This has not been an issue under current GAAP as, if the lease is an operating lease, the lease and service/executory costs are accounted for as periodic expenses. The ED changes this so that it is very important to break out service/executory elements of a lease payment and account for them separately. We think the default should ***not*** be for the lessee to capitalize the whole bundled lease payment if the lessee cannot readily find pricing for each element in observable markets. We think this is overkill. We think the lessee should be able to use reasonable estimates if precise observable market information is not available. Again we say our leases are not material in term or amounts and the split between service/executory elements and lease elements are therefore even less significant.

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Lessor Accounting

As with lessee accounting we believe the lessor should exclude service elements and executory costs from lease accounting.

Question 7: purchase options

The exposure draft proposes that a contract ceases to be a lease 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 a purchase option and why?

Response

We agree.

Measurement

The exposure draft proposes that a lessee or a lessor should measure lease assets and lease liabilities arising from a lease on a basis that:

- (a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16-20 and BC114-BC120)*
- (b) Includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease contract by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121-BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be reliably measured.*
- (c) Is updated 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 (paragraphs 17, 39, 56 and BC132-BC135).*

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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?

Response

As stated above, we think the lease term should be measured using the existing GAAP definitions and see little benefit in moving to the new definition contained in the ED. The lease term is the fixed, non-cancelable period plus any additional periods for which the lessee has the right to extend the lease and for which, at inception of the lease, it is REASONABLY ASSURED that the lessee will exercise its option. (SFAS No. 98)

Using the longest possible term that is more likely than not to occur will mean that payments that are not liabilities will be capitalized. There are practical concerns with this approach regarding whether entities are able to appropriately estimate lease terms especially for future renewals. It also means frequent adjustments that create earnings volatility. The existing GAAP definition of the lease term would include bargain renewals and renewals where the lessee is compelled to renew due to economic penalties.

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 contract 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 lessor 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?

Response

We think that only payments that meet the definition of a liability should be included in lease payments to be capitalized.

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Entities may have difficulty in performing analysis on the expected outcome approach as defined in the ED. In addition, this process could be very time consuming and costly, especially if the requirement is to reassess these estimates, nor would it necessarily result in more decision-useful information for financial statement users.

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 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?

Response

If you agree with our definition of the lease term and lease payments, the need for re-measurement would be limited to changes in the contract, exercise of options and contingent rents becoming liabilities because a triggering event increased current and future rents.

Sale and Leaseback

This exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents a sale of the underlying asset, the leaseback also would meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66-67, B31 and BC160-167).

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose?

Response

We agree that a sale leaseback should first be a sale and if not should be considered a financing.

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With regards to lessor accounting, we think that derecognition is the method that is consistent with the ROU model.

Presentation

The exposure draft proposes that lessee and lessors present the assets and liabilities, income (or revenue), expenses and cash flows arising from lease contracts separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25-27, 42-45, 60-63 and BC142-BC159).

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?*
- (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 its statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? What alternative presentation do you propose and why?*
- (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 80, BC154 and BC156)? Why or why not? What alternative presentation do you propose and why?*
- (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 the information in the notes instead?*

Response

No comment.

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,

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62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? Why or why not?

Response

No comment

Question 14: statement of cash flows

Do you think that cash flows arising from lease contracts should be presented on 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?

Response

We think that rent is the lease expense and it is an operating cash outflow.

Disclosures

Question 15

Do you agree that lessee 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 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?

Response

We think that the extensive amounts of disclosures about estimates capitalized on the balance sheet are necessary only because of the inclusion of non-liabilities in the capitalized amounts. These disclosures are necessary so that a reader can figure out what the actual liabilities are versus what the possible liabilities are. If the Boards were to reduce the complexity of the proposed accounting model and the reliance on judgments and estimates then the required disclosures would be reduced.

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Transition

Question 16

- (a) The 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?*
- (b) Do you think full retrospective application of these accounting requirements should be permitted? Why or why not?*
- (c) Are there any additional transition issues the boards need to consider? If yes, which ones and why?*

Response

We think the transition for both lessees and lessors will be onerous due to the number of leases and the extensive changes caused by the ED. In addition, the accelerated cost recognition pattern will cause negative results for lessees. Even allowing full retrospective transition will not solve the issue that the charge to equity and the deferred tax asset that results from accelerated cost recognition will be permanent for companies that continue to lease at the same pace in the future.

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 outweigh the cost? Why or why not?

Response

We do not see benefits beyond capitalizing real liabilities. The other changes to both lessor and lessee accounting distort the economic effects of leases. It is therefore hard to justify the changes regardless of the costs to comply. But the costs will be large. Lessors and lessees will need to make extensive systems changes to handle the new initial lease accounting and the ongoing review and adjustment. The lessee lease administration function will need to interact with many other units in the company each time earnings are reported to get new estimates of lease terms and contingent rent factors. Much of the information needed regarding contingent rents and renewals is so far into the future that the estimates are not part of the current management process – like forecasting the use of a

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truck five years in the future. The fact that the estimates will be of events so far in the future also makes them unreliable and virtually assures that they will be adjusted several times.

Other comments

Question 18

Do you have any other comments on the proposals?

Response

We do think the Boards should explicitly state a de minimus exception based on the size of the lease contract. Most of our leases are for vehicles and trailers that are less than \$250,000 in cost and the lease terms are generally seven years or less for a truck and ten years or less for trailers.

Another reason for a materiality exception is the complexity caused by estimating the lease term and estimating contingent rents using a probability weighted average method. Virtually all of our leases have contingent rents but they are controllable by the lessee and are not designed for financial engineering – they are needed to protect the residual of the lessor. If the concepts for estimating payments were changed and the current GAAP definitions were used as suggested by Mr. Stephen Cooper’s alternative view, then there is less of a need to simplify the rules.

Non-public entities

Question 19

Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

Response

Conceptually, it is hard to argue that private companies should be exempt but many of our lessees are small and medium sized private companies who will have difficulty with the complexities caused by the approaches in the ED. They are short staffed and have limited IT resources.