## TRINITY INDUSTRIES, INC.



December 1, 2010

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

Sir David Tweedie, Chairman

International Accounting Standards Board
30 Cannon Street

London EC4M 6XH

United Kingdom

Subject: Lease Accounting Exposure Draft

Dear Chairman Seidman and Chairman Tweedie:

Trinity Industries is a multi-industry manufacturing company that produces railcars and railcar parts, inland barges, concrete and aggregates, highway products, beams and girders used in highway construction, tank containers, a variety of steel parts, and structural wind towers. We lease a variety of equipment and facilities under operating leases in support of our multiple business segments. Our Rail Group, which is a leading railcar manufacturer in North America, is also a leading provider of railcar leasing and management services. Our managed and owned lease fleets total over 70,000 railcars, or approximately \$4.6 billion in equipment, operating throughout the United States, Canada, and Mexico. We serve a wide variety of lessees ranging from smaller regional businesses to large corporations with extensive international lines of distribution. Our lease terms are typically three to five year operating leases. The railcars have a useful life that average thirty to forty years. As lessor, we take real residual risk with no lessee guarantees. End of lease terms are typically renewed at market rates or return the asset.

We are writing to you in response to the Lease Accounting Exposure Draft issued on August 17, 2010. We appreciate the amount of effort and resources the FASB and IASB have committed to this project. It is difficult to overstate the importance of the project and the impact that the proposed standards would have across businesses globally. We would like to offer some insights and recommendations based on our thirty years of experience in the leasing industry.

Although we support the broader objectives of the project, including greater transparency regarding operating lease liabilities, we do not agree with the changes that are proposed in the Exposure Draft. Our main concerns with the proposed standards are as follows:

- We do not agree with the boards' assessment that the benefits of the proposed standards outweigh the costs.
  - O Reducing the requirement of a detailed lease inspection to only instances where a significant change has occurred does nothing to eliminate the need for continuous monitoring. An effective system of monitoring would inherently require a calculation of the re-valued assets and liabilities in order to determine if the change would be considered significant.

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- O It is unclear whether right of use assets and liabilities, based on subjective estimates, offers benefits above the current disclosures that provide purely objective and contractually based future lease payments.
- We fail to understand how a dual lessor approach is in any way consistent with the objective of establishing a uniform standard.
  - The boards' inclusion of two different approaches for lessors highlights the fundamental difficulties in attempting to apply a single standard to a broad population of leases with potentially unlimited variations in contract terms and underlying economic objectives. The boards' dual approach presents many of the same problems that are present in the existing standards.
- We do not feel that the performance obligation or derecognition approaches offer an improvement over the existing standards.
  - The performance obligation approach is inconsistent with the lessee model which infers a transfer of a portion of the benefits and risks to the lessee upon lease inception. In cases where the lessor is deemed to have retained exposure to the benefits and risks of the asset, then the lease agreement should be viewed as more of a service agreement than a transfer of assets. In this case, both lessee and lessor must continuously perform on their contractual obligations over the course of the lease. The operating lease model more accurately reflects the economics of this on-going performance by both parties.
  - O The derecognition approach is more consistent with the lessee model. However, the stated requirements for applying this method (lessor does not retain exposure to significant risks and benefits of the asset) is effectively a less specific version of the requirements used in the existing capital lease model.
  - The inclusion of lease renewal option estimates is not consistent with fundamental accounting principles.
    - Until a lessee exercises an option to renew or extends a lease term, there is no obligation to make payments beyond the contractual lease term, and therefore, there is no basis for recording and reporting a liability.
  - Period costs should be excluded from the expected lease payments.
    - To the extent that lease payments explicitly or implicitly include amounts to cover maintenance, property taxes, and other similar costs to be incurred by the lessor, these are period costs which do not represent a right-of-use asset to the lessee.
  - The proposed standards will distort income and expenses through accelerated recognition and periodic valuation adjustments.
    - The new standards would result in front-end weighted recognition of income and expenses which does not accurately reflect the economics of a lease arrangement.
    - Uneven amortization of the right of use asset and lease liability would result in potentially significant gains for lessees and losses for lessors when anticipated renewal options are not exercised.

We fully support a re-examination of the current standards and any improvements that might be made for the benefit of financial statement users. However, changes to the accounting standards

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should not be so impractical or burdensome so as to detract from the actual economic value of the leasing model. Given the magnitude of operating leases currently in place, particularly in the current economic climate, a comprehensive analysis of the costs and potential adverse affects should be performed before new lease accounting standards are adopted.

We thank you for your consideration of our comments and suggestions and we appreciate your position as a mediator between all interested parties to this issue. Our main hope is that all of the issues, from all stakeholders, will be fully developed, discussed, and well-understood prior to the issuance of new accounting standards.

Sincerely,

James Perry

Vice President and Chief Financial Officer

Trinity Industries, Inc.

Mary E./Henderson

Vice President and Chief Accounting Officer

Trinity Industries, Inc.

D. Stephen Menzies

Senior Vice President and Group President

TrinityRail

Eric Marchetto

Chief Financial Officer

TrinityRail