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PHH

September 12, 2013

Mr. Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Leases (Reference No. 2013-270, Accounting Standards Update Topic 842)

Thank you for providing PHH Corporation with the opportunity to comment on the Proposed Accounting Standards Update, Leases (Topic 842), a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840). PHH Arval, a subsidiary of PHH Corporation, is a leading outsource provider of fleet management services that provides commercial fleet management services to corporate clients and government agencies throughout the United States and Canada. During 2012, we had over 500,000 vehicle units under management.

While we appreciate the effort involved in identifying changes that may benefit financial statement users, we do not agree that the proposed standard is the best solution. We believe that many of the changes proposed are too onerous on both lessees and lessors and would require additional costs that outweigh the benefits of the updated approach. As the interests of financial statement users have driven the need for change, we trust that you will consider their feedback on the complexities of the standard and their preference for an enhanced disclosure package.

Our specific comments are as follows:

Question 2: Lessee Accounting

Amortization of the Type B lease

We do not agree with the proposed method for calculating amortization, i.e., the difference between the periodic lease cost and the periodic unwinding of the discount on the lease liability.

This approach represents an unnecessary complication for system implementations given that lease expense is presented on a single line of the income statement and will continue to be recognized on a straight-line basis. We suggest that the current practice of straight-lining expense be incorporated into the standard as the change will not provide significant benefit to financial statement users.

Reassessment of the Lease Liability

We agree that the lease liability should be reassessed if the lease is modified. This practice appears reasonable for matters such as a change in the lease terms.

We do not agree that this reassessment should include all of the changes included in paragraph 842-20-35-5. At a minimum, there should be clarification of amounts “expected to be payable” under residual value guarantees. There should also be consideration as to the frequency and level of analysis required, as preparing such analysis on a monthly or quarterly basis will be extremely burdensome for financial statement preparers considering that the changes may never have a significant financial statement impact.

Question 3: Lessor Accounting

While we recognize the driving force behind the need for updated lessee accounting, we do not believe that there are significant flaws in the current lessor accounting treatment that require the proposed changes and justify the costs that accompany implementation. As such, we propose that the current lessor accounting model remain unchanged, as expanded footnote disclosure is a preferable solution for financial statement users.

If keeping the current lessor model is not deemed to be acceptable due to the existing bright-line tests in current U.S. GAAP, we suggest that the current lease classification criteria be replaced with criteria similar to International Accounting Standard 17 - Leases.

Question 4: Classification of Leases

Given the significant judgment required in determination of the Type A and Type B leases, we do not believe the proposed model improves the current classification model as leases with similar economic characteristics will be subject to different accounting treatment. We believe that all leases should be subject to one set of criteria.

Question 8: Disclosure

While we agree with proposals that include maturity analyses of undiscounted lease payments and enhanced narrative disclosures about leases, we do not agree with the proposed reconciliations of amounts recognized in the statements of financial position. Such disclosure is too onerous on financial statements preparers. We feel that even without the rollforward detail, financial statement users will have adequate information and financial data included in the financial statement disclosures and statement of cash flows.

Thank you again for the opportunity to respond to the revised Exposure Draft.

Sincerely,

Bradley J. Howatt
Senior Vice President and Chief Financial Officer
PHH Arval

Leon F. Kurtz
Director, Finance
PHH Arval