Global Ship Lease, Inc
•
Portland House
Stag Place
London SW1E 5RS
United Kingdom
•
T +44 (0) 20 7869 8006
F +44 (0) 20 7869 8119
•
www.globalshiplease.com

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

September 13, 2013

Dear Sirs

Exposure Draft on Lease Accounting

Our company business is to invest in container ships and then lease out the vessels on long term fixed rate charters, which originally ranged from five to 17 years, out of a useful life of 30 years. We report under US GAAP.

After reviewing the Exposure Draft, we have the following comments on the Lessor proposals:

1. The split of charterhire into a lease element and a service element will have to be based on in-house estimates of future vessel operating costs as there are no observable stand alone measures available. Service costs can be assumed to trend upwards through the life of a long term charter, so consequently the lease element will reduce over time and could be considered as variable.

2. With certain operational estimates, such as offhire, it is not clear whether any 'true up' of the lease receivable to recognise the actual performance of the vessels is required, or whether actual results would only be recognised through cash flow.

3. Our decision to recognise a lease as Type A or Type B will be based on length of charter. Whilst most of our charters would initially be Type A it is likely, especially under current market conditions, that any new charters would be shorter, and then, with improved markets, the preference would again be for longer fixings. Consequently, there could be reclassifications from Type A to Type B and then back again. This changing of accounting treatment on individual vessels and therefore inconsistency across the fleet would clearly add complexity to our financial statements.

4. Given the long term nature of our charters and a 30 year useful life, a small change in discount rate will have a significant effect on the present value of both lease receivable and gross residual asset. Additional guidance is required to cover areas such as (i) how the rate implicit in the lease is to be calculated and (ii) whether it is appropriate to use the same discount rate throughout the life of the asset.

5. At transition, when fair value is below book value, as can arise under US GAAP when the initial step in an impairment test compares carrying value to undiscounted future cash flows, there is no guidance on how any such loss should be treated.

Conclusions

1. Implementation of the Exposure Draft as it stands, as well as affecting our balance sheet, will have a major impact on our Income Statement. Our revenue, rather than recognising actual charterhire received, will be purely based on estimates made at the commencement of each charter and which will then be used over the charter period of which our longest is 17 years. We have concerns about basing all income of a company on estimates rather than an observable actual. EBITDA and other revenue based financial covenants will be significantly affected and will require discussions with lenders.

2. Our company has a straightforward business model. We already disclose details of charter and future receivables by maturity within our financials. The proposed additional complexity and the estimated income as proposed under the ED will significantly change the presentation of our financial statements.

Yours faithfully