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December 15, 2010

**VIA E-MAIL AND USPS**

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

***File Reference No. 1850-100***

***Re: Proposed ASU Leases (Topic 840) Leases Exposure Draft***

Dear Mr. Golden:

CSX Corporation (CSX) appreciates the opportunity to provide comments to the Proposed Accounting Standards Update, *Leases*. CSX, based in Jacksonville, Florida, is one of the nation's leading transportation suppliers. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers. The Company's transportation network spans approximately 21,000 miles, with service to 23 eastern states and the District of Columbia, and connects to more than 70 ocean, river and lake ports. CSX supports and joins in the comments on the exposure draft prepared by the Association of American Railroads (AAR). CSX's comments are intended to supplement the comments to be filed by the AAR.

We commend the Financial Accounting Standards Board (FASB) for its efforts to advance the prevailing standards for lease accounting under the FASB Statement No. 13, later codified as FASB ASC Topic 840. Overall, we support improvements to accounting principles that enhance the transparency of financial statement disclosures. However, we have significant concerns regarding the proposed accounting requirements as they relate to the definition of a lease and specifically short-term leases. We have other concerns noted as well.

**Definition of a Lease:** This exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration. This exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale and on distinguishing a lease from a service contract.

CSX is concerned that the proposed definition is too broad and is inconsistent with the definition of a liability. See discussion below in the Measurement section. We suggest keeping the original definition of a lease intact, but making no distinction between capital leases and operating leases. We believe this will meet the Board's intended objectives without broadening the scope of what is considered a lease in today's standards.

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*Short-term Leases:* CSX believes that all short-term leases for both lessees and lessor be accounted for as rental agreements and that no assets or liabilities be recorded. The exposure draft does not treat short-term leases consistently between lessors and lessees. Railroads are actually in a position every day to either be a lessor or lessee as noted below in the next paragraph. The exposure draft proposes that a lessor may apply simplified requirements or elect not to recognize assets or liabilities related to short-term leases (defined as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less). However, the lessee must apply the simplified requirements and recognize assets or liabilities related to short-term leases.

An example for the railroad industry of a rental arrangement that should not be accounted for as a short-term lease under the proposed guidance is car hire. Car hire charges are assessed by railroads and other equipment owners when their railcars carry revenue-producing traffic over the lines of a third party railroad. For example, ABC railroad might send one of its empty railcars onto CSX rail lines. CSX might decide to utilize that empty railcar to ship a commodity to a customer located on the ABC line. To do so, CSX would load the railcar with the commodity and send it back from its lines to the ABC lines. In such a transaction, CSX would owe ABC for the time spent, which could be a matter of hours or a number of days in any given transaction. CSX would also owe ABC for the amount of mileage traveled by the railcar on CSX lines.

Car hire transactions are currently accounted for as rental agreements, but it is not clear whether they would be considered a short-term lease under this proposed guidance. Each railroad is subject to industry-specific car hire rules and, once a third party railcar enters a railroad's line, that railroad may use the railcar, but must compensate the third party based on the negotiated usage rates. These rules do not specify a length of term of allowable use and the usage rates are determined based on a bid/ask process. As such, if car hire were determined to be within the scope of the proposed guidance, it would involve significant judgment on the part of the railroad as it would need to estimate 1) the level of usage of the third party railcars running on its rail lines, 2) its level of usage of those third party railcars, and 3) possible changes in the usage rates. In addition, CSX is under no obligation to ever use the railcars from third parties traveling on its lines; usage is at will. In light of the nature of these rules-based transactions and the fact that no contractual obligation exists for the utilization of those assets, we believe such arrangements should be excluded from the scope of the exposure draft and that short-term leases are appropriately accounted for as rental agreements in the financial statements.

*Scope Exclusions:* CSX believes that existing capital leases should be grandfathered in (i.e. exempted from the new standard). This will enable lessees and lessor to continue current accounting for those leases and not subject them to the remeasurement requirements in the exposure draft. The unwinding of existing capital leases would be a burdensome and costly process that would outweigh any presumed benefits received by applying the proposed accounting requirements.

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### **Other Comments**

**Lessor Accounting:** The proposed model allows a dual approach for lessor accounting: derecognition or performance obligation. Under the performance obligation approach, the lessor would create an asset in its financial statements while at the same time, the lessee is also recognizing the same asset in its financial statements, resulting in a double counting of assets. For example, if car hire transactions were determined to be in the scope of the proposed accounting requirements, a situation could arise in which two railroads each would record an asset relating to the same railcar movement. CSX does not believe this is an accurate representation of the economics of a lease. As such, we recommend allowing only use of the derecognition method.

**Measurement:** CSX has several comments on the measurement questions posed in the exposure draft.

*Lease Term:* CSX suggests that the base lease term should be the primary lease term. This exposure draft proposes that leases should be measured assuming the longest possible term, taking into account options to extend or terminate the lease. A renewal option is most often a unilateral right of the lessee that does not create any financial obligation until exercised. Under the proposed standard, a company would need to judgmentally determine whether or not they, as the lessor, or the counterparty, as the lessee, might exercise an option in the distant future. This judgment could lead to variations between companies with similar facts and circumstances as those options may or may not ever become obligations and so they should not be valued as future liabilities and assets. This could ultimately lead to similar situations being accounted for differently, decreasing comparability across companies. We believe this is unintentionally in conflict with the boards' belief that the new model would increase comparability.

*Lease Payments:* The exposure draft proposes that lease payments should include contingent rentals and expected payments under early termination penalties and guarantees regarding the asset's end of lease value specified by the lease, if they can be reliably measured, using an expected outcome technique. CSX believes that current GAAP should remain and that estimated contingent rents should not be included in the lease liability. Contingent rents based on usage do not meet the definition of a liability, because the obligating event has not occurred and is not within the lessor's control. The lessor would be forced to speculate on the future behavior of the lessee. Estimating contingent rents will also create lack of symmetry between lessees and lessors in accounting for the same contract, as well as a lack of comparability among lessors and lessees. The estimation of possible contingent rents also becomes less reliable the longer the period of time involved.

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**Disclosures:** CSX believes the current disclosure requirements are sufficient. The exposure draft proposes significant additional disclosures, including a reconciliation of opening and closing balances of certain items and the disclosure of information about significant assumptions and judgments. We do not believe all of the disclosures are necessary or useful for financial statement users. Much of the proposed new disclosure requirements relate to the many estimates required under the proposed methodology, particularly in regards to the lease term and contingent payments. Removal of these estimations from the model, as suggested in our comments above, will reduce the level of disclosures required.

**Discount Rate:** CSX seeks clarification on the duration to be used in determining the lessee's incremental borrowing rate if the effective interest method is to be used. This exposure draft proposes that at the date of inception of the lease, a lessee shall measure the liability to make lease payments at the present value of the lease payments, discounted using the lessee's incremental borrowing rate or, if it can be readily determined, the rate the lessor charges the lessee. However, our incremental borrowing rates vary based on the length of maturity of debt that we issue. The Company prefers a duration equal to the weighted average term of a company's outstanding leases.

**Effective Date:** CSX requests that any resulting standard be effective no sooner than two years after the final rule. We believe that the effective date should allow sufficient time to accurately and reliably implement the new requirements. As discussed above, this proposal will result in a significant increase in the amount of required disclosures and create a considerable administrative burden to reporting entities. We believe a minimum of two years would provide a reasonable time frame for preparers to review and appropriately implement the new guidance in its final form.

CSX appreciates the opportunity to raise these concerns regarding the exposure draft and appreciates the Board's consideration of the comments contained in this letter.

Very truly yours,



Carolyn T. Sizemore  
Vice President and Controller

cc: Oscar Munoz  
Ellen Fitzsimmons  
Nathan Goldman  
David Boor  
Melissa Mucha