



GATX Corporation  
222 West Adams Street  
Chicago, IL 60606-5314

1850-100  
Comment Letter No. 669

December 15, 2010

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

File Reference No. 1850-100

To Whom It May Concern:

GATX Corporation provides leasing and related services to customers operating rail, marine and other targeted assets. GATX is a leader in leasing transportation assets and controls one of the largest railcar fleets in the world. We appreciate the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Leases (Topic 840)* ("the ED"). Our comments on specific questions posed by the Board are attached.

#### **General Comments**

We generally support the right-of-use approach for lessee accounting as leases both convey the right to use the leased asset and represent an obligation to make lease payments. However, we have significant concerns regarding certain aspects of the ED, specifically:

- Requirement to include optional renewal periods in the measurement of the lease asset and lease obligation
- Requirement to include contingent rentals in the measurement of the lease asset and lease obligation
- Different subsequent measurement provisions for the right-of-use asset and lease obligation that results in a front-loading of expense and a net liability

In addition to the concerns above, we believe the proposals for lessor accounting do not achieve the objectives of the project. The proposal is overly complex, conflicts with the proposals in the Revenue Recognition project, and does not result in an improvement to current lessor accounting. We are concerned that the proposed guidance will create new structuring opportunities depending on whether an entity wishes to account for a transaction as a sale, a lease, or a service contract.

In light of these concerns, we do not support issuance of the ED as a final standard and recommend the Board reconsider the proposal to develop a model that is less complex and will provide more useful information for financial statement users.

We appreciate the opportunity to share our views.

Sincerely,

/s/ William M. Muckian  
Senior Vice President, Controller and Chief Accounting Officer  
GATX Corporation

/s/ Michael J. Maffei  
Director of Accounting Policy, Planning and Research  
GATX Corporation

## ATTACHMENT A

### **Question 1: Lessees**

*(a) Do you agree that 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?*

We support the right-of-use approach for lessee accounting but have concerns about certain initial and subsequent measurement provisions, as discussed further below.

*(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 propose and why?*

The amortization and interest recognition provisions included in the ED result in a front-loading of expense that we believe does not appropriately reflect the economic reality of the lease. While this approach may be consistent with the treatment of other non-derivative financial liabilities, we note that the Board decided not to account for lease liabilities as financial liabilities because an obligation to make lease payments “has features unique to leases because the liability is linked to a right-of-use asset.”

We believe the unique nature of the lease liability would justify alternative accounting treatment. Accordingly, we would support an approach in which the amortization on the right-of-use asset is linked to the amount of interest incurred on the liability such that the total expense would be recognized on a straight-line basis.

### **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 or 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?*

In our view, the lessor approach does not appear to be fully developed and lacks a coherent conceptual justification. Paragraph BC 13 states that existing guidance for lessors is inconsistent with the proposed approach to lessee accounting. However, the proposed lessor approach also appears to be inconsistent with the proposed lessee accounting. Why do the Boards believe a single approach to lease accounting is appropriate for lessees but not for lessors? We believe many of these conceptual issues related to lessor accounting could have been identified and addressed had lessor accounting model been fully considered in the discussion paper.

As drafted, we believe the proposed approach for lessor accounting is overly complex and does not represent an improvement over existing guidance. In some respects, the proposed lessor approach exacerbates complexity by establishing two new accounting models for leases in addition to the models for asset sales/purchases and service contracts. The lessor approach is also inconsistent with the proposed approach for licensing agreements in the revenue recognition project. For example, what is the conceptual difference between a lease of a physical asset and an exclusive license for an intangible asset?

In light of the above concerns, we recommend that the Board reconsider the lessor accounting model in connection with the revenue recognition project. If the Board is compelled to issue the leasing standard prior to completion of the revenue recognition project, we recommend leaving the current lessor accounting guidance in place until the lessor model can be appropriately developed.

- (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?*

See above.

- (c) *Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC 15)? If not, why not? What approach should be applied to those leases instead?*

We do not object to the elimination of leveraged lease accounting. However, due to the complex nature of these transactions, we recommend the Boards allow existing transactions to run their course rather than require application of complicated transition provisions. While this might impair comparability, we observe that application of complex and arbitrary transition provisions is also unlikely to produce comparable results.

**Question 3: Short-term leases**

*This exposure draft proposes that a lessee or 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 lease payments plus initial direct costs. Such leases would recognize lease payments in the income statement over the lease term (paragraph 64).*
- (b) *At the date of inception of 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 any 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).*

*(See also paragraphs BC41-BC46.)*

*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?*

We agree with the proposed exceptions for short-term leases as we believe in most cases the simplified approach would not differ materially from the primary approach. Alternatively, we would also support permitting lessees to apply the lessor approach in (b) above, in which lessees would recognize lease payments in the income statement over the lease term but would not recognize assets or liabilities arising from the short-term lease on the statement of financial position.

**Question 4: Definition of a lease**

- (a) *Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?*

We agree with the definition of a lease, which we note is mainly consistent with existing guidance. However, as noted below, we believe additional guidance is needed.

- (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?*

We are concerned that the proposed guidance to distinguish a lease from a purchase or sale is not consistent with the guidance in the Revenue Recognition project. For example, the ED states that a contract represents a purchase or sale if all but a trivial amount of the risks and benefits associated with the underlying asset are transferred at the end of the contract. In contrast, the Revenue Recognition ED provides that a sale is recognized when the customer obtains control of the asset (i.e. the present right to use the asset for its remaining useful life).

*(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 additional guidance do you think is necessary and why?*

Distinguishing between leases and service contracts will become more important under the ED as the accounting treatment will be very different (whereas today, operating lease accounting is generally consistent with the accounting for service contracts). We are concerned that the proposed guidance does not provide a sufficient basis to consistently differentiate between a lease and a service contract.

For example, a contract for the right to use 100 specifically identified railcars clearly would be treated as a lease. However, suppose the contract does not identify the specific assets, but rather provides the customer with access to a pool of 100 railcars. While the railcars are in use, the customer would have control over a specific asset, but the specific assets comprising the pool might change over time.

We view these two contracts as substantially similar, but it is not clear whether the “pool” arrangement above would be treated as a lease under the ED. In our view, disparate accounting treatments for similar transactions will lead to the structuring of transactions to avoid application of the lease guidance and will impair the usefulness and comparability of the information provided.

***Question 5: Scope exclusions***

*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?*

We generally agree with the proposed scope but question why leases of intangible assets are excluded. As noted above, we fail to see the difference between a lease of a physical asset and an exclusive license for an intangible asset and believe the Board should clarify why such exclusion is necessary.

***Question 6: Contracts that contain service components and lease components***

*This 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 (paragraph 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 the lessee and lessor should apply the lease accounting requirements to the combined contract.*
- (b) The IASB proposes that:*
  - a. A lessee should apply the lease accounting requirements to the combined contract.*
  - b. A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.*
  - c. 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 the 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?*

We agree with the Board's proposal that lessees and lessors should account separately for distinct service component in a contract that contains both service and lease components. We observe that if the contract is not separated, the lease asset and lease liability would be overstated. This would result in inconsistent treatment for identical distinct service components depending on whether they are included in a lease contract or a separate contract, which creates obvious structuring opportunities.

We also recommend the Board clarify the guidance to specifically exclude executory costs (such as taxes, insurance and common area maintenance) from the measurement of the lease asset and lease liability.

***Question 7: Purchase Options***

*Do you agree that a lessee and lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that lessee or lessor should account for purchase options and why?*

We agree with the Board's proposal.

***Question 8: Lease term***

*Do you agree that a lessee or 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?*

We disagree and believe that the lease term should continue to be defined as the non-cancelable term plus bargain renewal periods. We do not believe potential lease payments for optional periods meet the definition of a liability<sup>1</sup> and we generally agree with the Alternative View included in the basis for conclusions of the IASB's ED.

Consider three leases:

- Lease A – 10 year lease with no renewal options
- Lease B – 5 year lease with a 5 year renewal option with a 51% probability of exercise
- Lease C – 5 year lease with a 5 year renewal option with a 49% probability of exercise

Under the ED, leases A and B will be accounted for as 10 year leases while Lease C is accounted for as a 5 year lease. In our view, Lease A has very different economic risks from Leases B and C, which are very similar. We do not believe useful information is provided by accounting standards that a) require dissimilar transactions to be accounted for the same way or b) require similar transactions to be accounted for differently.

***Question 9: Lease payments***

*Do you agree that contingent rentals and expected payments under term option penalties and residual guarantees that are specified in the lease 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*

---

<sup>1</sup> “Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events” [footnotes omitted]. FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, paragraph 35.

*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 lessors 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?*

We disagree for the reasons cited in the Alternative View of the IASB proposal. We do not believe the contingent rentals based on asset usage or other variables under control of the lessee should be accounted for until the contingency is resolved and the lease payments can no longer be avoided.

As a lessor, we observe the requirements to estimate likelihood of renewal option exercise and the expected outcome of contingent rentals would require us to make assumptions about customer intentions regarding the future use of the leased assets. We do not believe that reporting information in the financial statements based on these inherently subjective estimates will provide useful information that is comparable across entities.

***Question 10: Reassessment***

*Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts and 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 options 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?*

As discussed above, we disagree with the proposed approach to determining the lease term and measuring contingent rentals. In addition to the conceptual concerns noted above, we believe the reassessment requirements would be costly for preparers to implement and maintain and would provide information of marginal value. We are also concerned that the inherently subjective nature of the estimates required will be easily manipulated, further impairing the usefulness and comparability of the information provided.

As leases represent contracts that are signed at a single point in time, we believe leases should be remeasured only upon a modification or revision of the agreement (including a decision to exercise an existing option).

***Question 11: Sale and leaseback***

*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 and why?*

We believe the criteria for classification as a sale-leaseback should be consistent with the guidance in the revenue recognition proposal for when a transfer qualifies as a sale. While additional guidance describing application of the revenue recognition provision to sale-leaseback transactions may be informative, we do not understand why a transaction that would qualify as a sale under the revenue recognition guidance should not also qualify for sales treatment in the lease guidance.

We are also concerned that the guidance will inappropriately preclude buyer/lessors from accounting for the transaction as a purchase and a lease due to the existence of certain fixed-price purchase options.

In addition, we recommend that the Board provide transition guidance for prior sale-leaseback transactions. For example, how would the buyer/lessor of a past sale-leaseback transaction apply the provisions of the proposal? Also, how would a seller/lessee account for deferred gains/losses carried on the balance sheet at the date of initial adoption?

**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, what do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you disclose and why?*

We do not believe that the standard should prescribe a particular presentation. The relative importance of lease transactions varies greatly among different reporting entities and preparers should have the discretion to determine what presentation will be most appropriate (including whether a footnote disclosure is more appropriate than presentation on the face of the financial statements). Further, we believe matters of presentation are better addressed in the financial statement presentation project.

- (b) *Do you agree that a lessor applying the performance obligation approach should present underlying assets, right to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC 148 and BC 149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?*

As noted above, we do not agree with the Boards' proposals for lessor accounting. However, if the Board retains the performance obligation approach for lessor accounting, we believe preparers should have discretion to determine the most appropriate presentation.

- (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 60, BC 154 and BC 155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?*

As noted above, we do not agree with the Boards' proposals for lessor accounting. However, if the Board retains the partial derecognition approach for lessor accounting, we believe preparers should have discretion to determine the most appropriate presentation.

- (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 this information in the notes instead?*

We believe preparers should have discretion to determine the most appropriate presentation.

**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, 62, BC146, BC152, BC 157 and BC159)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?*

As noted above, we believe preparers should have discretion to determine the most appropriate presentation, including whether the separate presentation of lease income and lease expense should be

included in the footnote disclosures. Further, we note these issues are more appropriately addressed by the financial statement presentation project.

**Question 14: Statement of Cash Flows**

*Do you think that cash flows arising from leases should be presented in 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?*

As noted above, we believe preparers should have discretion to determine whether these amounts should be presented separately in the on the face of the statement of cash flows or disclosed in the notes. Further, we note these issues are more appropriately addressed by the financial statement presentation project. Also, we do not understand why all lease payment cash flows, including the interest component, should be classified as financing cash flows while cash flows for interest on debt instruments are classified as operating cash flows.

**Question 15: Disclosure**

*Do you agree that lessees 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 the 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?*

We generally agree that lessees and lessors should provide information that will allow users to understand how amounts related to leases are reported in the financial statements. However, we believe disclosures addressing uncertainty of cash flows represent subjective, forward-looking information that would be better suited to management's discussion and analysis. We also think certain of the disclosure requirements (such as the reconciliations for the lease assets and lease liabilities) will be very costly to prepare. We believe preparers should be allowed some discretion as to what information will be most useful to users and will achieve the disclosure objectives.

**Question 16: Transition**

- (a) This 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 the lease requirements should be permitted? Why or why not?*
- (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?*

We agree with the simplified retrospective approach but believe that entities should be permitted to apply the full retrospective method.

**Question 17: Benefits and costs**

*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 would outweigh the costs? Why or why not?*

As noted above, we do not understand the benefits of including lease payments related to optional lease periods or contingent rents that can be avoided in the measurement of the right-of-use asset and lease obligation (or lease receivable for lessors) provides useful information.

In addition, we believe providing and reassessing that information will be costly for preparers. Significant systems changes will be required, particularly for entities that may have many thousands of leases outstanding at a given time. Further, we believe that the model is overly complex and requires many subjective estimates that will impair comparability across entities.

As a result, we do not believe the proposed requirements would provide benefits that would outweigh the costs.

***Question 18: Other comments***

*Do you have any other comments on the proposals?*

As noted above, we recommend the Board clarify whether executory costs are intended to be included in the initial measurement of the lease asset and liability.

***Question 19: Non-public entities***

*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?*

As leases are common transactions for all types of entities, we do not believe different guidance should apply for non-public entities.