

# Cronos Canon's Court 22 Victoria Street Hamilton HM12, Bermuda

December 13, 2010

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

International Accounting Standards Board 30 Cannon Street London EC4M6XH United Kingdom

Dear Madam/Sir.

Thank you for the opportunity to offer comments on the proposed changes to the financial recording of leases contained in the FASB/IASB Lease Exposure Draft (ED).

The international container leasing industry developed in the 1960s to provide containers and chassis to the ocean transportation system. Today, container leasing companies own or manage more than 10 million TEUs (Twenty Foot Equivalent Units - the standard unit of measurement within the industry), approximately 40 per cent of the global container fleet, which are utilized in transportation services worldwide. Leases are predominantly long-term, giving the lessees, who are usually carriers, control over their use and routing. Equipment is usually returned to lessors at the end of the lease. Revenue is represented by a stream of lease payments, such annuitized and predictable earnings stream has been viewed as one of the key characteristics of leasing companies, which has afforded them access to capital for future growth.

Container leasing companies have been providing quality equipment to the international transportation industry for over 40 years with a minimum of government intervention and regulatory cost. At no time have significant concerns been raised by cargo owners, ocean carriers or other parties involved in international transportation about leasing practices; nor have these parties sought increased business process oversight for container and chassis leasing, manufacturing, or sales. The regulatory proposals will increase government intervention and regulatory cost, as the proposed expansion to regulate the business processes and global contractual activities of container and chassis leasing companies and container manufacturing companies adds a new layer of regulation.

We have performed an evaluation of the proposed rules and believe that they add complexity, subjectivity and a significant implementation burden without improving lease accounting for our industry.

### Proposed changes for lessor financial reporting are too complex.

It is our understanding that the objective of the review of lease accounting was to increase transparency, primarily by addressing how lessees account for leases. The ED exceeds this objective. We are very surprised at the extent and complexity of the proposed changes to lessor accounting in particular, as we did not believe there was a major deficiency in the financial reporting of lessor activities.

### The proposed rules do not improve lessor financial reporting.

The proposed lessor accounting rules does not add any significant new information that is not already covered by existing disclosures to the financial statements. Instead the proposed new balance sheet line items add complexity and create a compliance burden without providing a major improvement in the level of lessor information available.

### The proposal to account for contingent lease renewals as part of the lease valuation is subjective and will add unnecessary complexity and distortion to financial reporting.

Estimates would be subjective and arbitrary. This would result in a reporting disconnect between lessors and lessees for the same lease and would inevitably lead to a lack of comparability amongst lessors and lessees. Estimates would have to be reviewed and adjusted at each reporting date within the lease period which would increase workloads significantly with little visible benefit. We firmly believe that extension outcomes are difficult to determine at the beginning of a lease and therefore only contractual obligations should be reported.

### The use of estimates on lease renewals would significantly overstate assets and liabilities.

By significantly increasing the amount of debt recorded, there is a risk that loan covenants may be violated despite the fact that there has been no actual change in financial conditions. This could potentially result in restrictions on how much a company is then able to borrow which in turn could have a negative impact on its ability to conduct its business.

#### The proposed rules will also result in conflicting income statements.

Earnings are accelerated by lessors while lessees accelerate expenses. This does not match the cash flows of the lease or recognise that the benefits of the lease are constant for its entirety.

## The objective of accounting disclosures should be to increase transparency and comparability, not change how a customer conducts its business.

The proposed changes could have a material impact on how our customers conduct their business. The reporting burden would be significant, which could result in customers favouring short term leases or even motivating them to buy rather than lease. This has potentially far reaching implications for our business, including our access to capital.

Please do not hesitate to contact me if you have any questions.

Yours faithfully

Frank Vaughan
Executive Vice President & Chief Financial Officer