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Via Email: director@fasb.org

Invitation to Comment: Leasing Exposure Draft

Dear Board Members:

Chicago Freight Car Leasing Co. (CFCL) is a lessor providing long term leases of freight cars that typically have lease terms of 3 – 7 years in the United States. We have over 82 years of experience in this business. We also have a wholly owned subsidiary, Union Leasing Inc. (UL), which is also a lessor providing long term leases of autos and trucks that typically have lease terms of 2 - 5 years in the United States. UL has been a lessor for over 25 years.

CFCL acknowledges that financial reporting related to leases is currently not consistent in reflecting assets and liabilities and can be improved. Doing away with operating leases will bring substantial dollars on to the balance sheets for lessees. It is odd that symmetry between the lessor and lessee will go away under the new requirements since both parties may be recording the same asset on their balance sheet. There is also a perception that simplification is being replaced due to an overreaction in attempting to combat potential abuse of the current rules. This is resulting in the new reporting being very complicated and confusing.

It appears that FASB / IASB is under tremendous time pressure to finalize the new lease accounting requirements along with other financial regulatory reform. It appears that all of the proposed regulations need to be completed at about the same time. A big issue is the cost it will take for lessees and lessors to be in compliance compared to the benefits obtained by the reader of the financial statements. Under current GAAP certain details of operating leases are disclosed in the footnotes to the financial statements. Will the user of
these statements be necessarily better informed because the transaction will now be required to be capitalized? The proposed goal is to take the lease information out of the footnote and place it on the balance sheet. Again, will the benefits justify the tremendous costs of compliance?

Can anyone truly predict how every bank or credit manager is going to react to substantial dollars coming onto the balance sheet for leases? How will it affect credit decisions and particularly covenants? It will be confusing to be looking at operating expenses that in the future will appear as financing transactions. EBITDA will go up due to leases becoming a financing transaction and no longer an operating expense.

Will lessees be discouraged from leasing due to the additional reporting requirements under the right of use rule? These additional reporting requirements will mean increased administrative cost. The measurement, unbundling, and reassessment of contingent rentals and lease extensions as part of the financial reporting process will be very confusing to all. The new requirements for depreciating the asset and amortizing the liability results in the timing of the lease cost to be more front end loaded, whereas as now it is straight lined. Additionally, will assumptions be formulated for footnote purposes to circumvent the intent under the new regulation in similar fashion to what is allegedly happening with regard to FASB 13? How can assumptions be verified to allow for consistency in the financials?

For the lessor, the currently simple process of booking a lease becomes much more involved and potentially confusing. The lessor must now examine the transaction and determine if the proper accounting approach meets the criteria to be based on performance obligation or de-recognition. The lessor, under the performance obligation approach, will now be required to account for two assets on the balance sheet along with an offsetting liability (contra asset). If that is not confusing enough, the additional asset as a lease receivable will be amortized based on the unpaid balance. Conversely, the lease liability will be amortized straight line. So, on day one the lease receivable and lease liability are the same, but going forward they amortize differently. This will result in the timing of recording income for the lessor to be accelerated, which may be more accurate but also more difficult to administer.

In conclusion, it’s our opinion that these proposed rules would be more applicable to leases for revenue generating assets as opposed to leases on assets that merely support general operations and overhead. We also believe it would make sense to have a dollar amount floor as part of the new rules to avoid unnecessary effort and cost on leases for small items that are immaterial.

CFCL urges the FASB / IASB to continue to engage in a thorough due diligence process and take into consideration the feedback of the many enterprises with a practical focus on the costs vs. benefits of the proposed changes. Once this review is complete a true assessment can be made on the comprehensive impact of these changes, while determining if the new rules would meet the objectives as originally set forth. By forcing a timeline through beforehand would defeat the purpose of eliciting input from the
constituents in practice, and promote confusion and inconsistencies in application. This would likely result in damage to business, investor confidence, and other unforeseen consequences.

We appreciate the ability to respond and thank you for your consideration.

Respectfully,

[Signature]

Harry L. Lukens, Jr.
Chief Financial Officer