13 December 2010

International Accounting Standards Board,
First Floor
30 Cannon Street
London, EC4M 6XH,
United Kingdom.

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116,
Norwalk,
Connecticut 06856-5116,
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Re: Lease Exposure Draft ED/2010/9 Leases 17 August 2010

Global Aviation Asset Management ("GAAM") thanks the International Accounting Standards Board and the US Financial Accounting Standards Board (together the "Boards") for the opportunity to comment on the exposure draft ED/2010/9 Leases.

GAAM operates in the aircraft leasing industry owning 49 commercial jet aircraft which are leased to 23 airlines around the world.

Our comments below are provided from a lessor's perspective and are intended to aid the Boards in understanding the effects the proposed standard would have on the aircraft leasing industry.

Lessor accounting
Global Aviation Asset Management

We understand that the Boards’ proposals are in response to long-standing criticisms that current lease accounting is too permissive of off-balance sheet accounting by lessees and dominated by a plethora of rules. Although we believe the new proposals address certain of these, GAAM believes that the Boards’ proposals on lessor accounting are less fully developed. The points below cover some of the areas in which GAAM has concerns:

- **Revenue presentation** – Reported income will become less informative and less reflective of the underlying contracts. A business, such as ours, which acts solely to lease assets to customers will no longer show lease revenue. The statement of comprehensive income will no longer show the straight line monthly lease rental, but will show instead two streams of income, performance obligation income and interest income on the new leased asset. We note that total revenue over the life of the lease will be the same under the new and old methods, but believe that users of the accounts will wish to calculate straight line revenue in order to form comparisons. Similarly, the new presentation will be disregarded by management and reporting of income as generated by the underlying contracts will still be required.

- **Relevance of new asset and liability** – A new leased asset will be created (based on the present value of the lease rentals) and a new performance obligation liability will be created matching the leased asset. We understand that these can be presented net. This appears tacit acknowledgement that the creation of the asset and liability is pointless and confusing. The new leased asset is amortised using the effective interest method while the performance obligation liability is based on the pattern of use of asset (straight line). These two amounts will match each other closely over the term of the lease and the net figure will only be shown in the accounts. It is difficult to see what value this will add, since the users of the accounts (Financiers) tend to concentrate on the underlying aircraft asset (the value of which is regularly compared to external appraised values) and its respective cashflows.

- **Comparability compromise** – New leases will show higher revenue than older leases due to the front loading of the new leased asset interest income. Such a front loading of income is not reflective of the underlying lease contract. Comparability is further compromised by different rules governing the measurement of the leased asset / liability for lessors and lessees. Whilst the lessee must include the impact of contingent rentals and residual value guarantees, the lessor will only do so if these can be measured reliably. The implication is that the lessee should include amounts that it cannot reliably measure.

- The discount rate should be the implicit rate in each lease contract, however, practically it will more likely be the WACC for each entity. Again therefore, this decreases comparability between different entities’ financial statements.
Global Aviation Asset Management

- For the lessor there is an availability of alternative approaches (Performance obligation v Derecognition) which does not seem consistent with the Boards' drive for one accounting model for lessors and for comparability between reporting entities.

- Judgements and estimates - The measurement basis for the leased asset will call for an increased use of judgement and estimates both at inception and throughout the lease. It is commercially naive to believe that the parties to a lease contract will have any idea about the likelihood of exercising future extension options until the exercise dates are relatively close. The fact that expectations will change through the term of lease means that significant work will be required in periodically re-assessing each lease contract.

- Tax impacts - Under the proposed implementation current deferred revenue liabilities (calculated on a straight-line basis) will have to be unwound, with a large resulting profit which will be subject to tax in certain jurisdictions (including Ireland where we and many other aircraft leasing companies are based) – a real cashflow impact.

- Operating lease contracts often deliver little or no cash flow to the lessor whilst the associated financings are being repaid. Front loading of revenue will bring forward taxable income and could result in the need to pay a tax liability without the cash to finance it having been generated.

- Covenant Impacts - The statement of comprehensive income will change in nature as a result of the proposed changes, potentially triggering covenants under financing facilities. In the current environment, where funding costs have increased significantly, this could result in a considerable cost if a bank renegotiates, or uses the covenant breach to terminate the financing arrangement.

- Statement of financial position covenants could also be triggered dependent upon the final presentation requirements for the new leased asset and performance obligation liability.

- Systems impact - We have invested considerable expense in systems which hold details of all our lease contracts and which automatically generate invoices and post all income journals. This expense will become partially redundant as a result of the proposed changes and additional non-value adding administration expense will be incurred.

We believe that current lessor accounting is well understood by users of financial statements as well as reflecting the underlying business model. We believe that the proposed performance obligation model provides less clarity to users of the financial statements and that the proposed changes would add an additional level of complexity and administrative (both time and cost) burden without any real value being added.
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With this in mind we would urge the Boards to reconsider the lessor accounting proposals contained within ED/2010/9 Leases and thank the Boards for their consideration in this matter.

Yours Sincerely,

Will Gramolt, ACA
Chief Financial Officer