December 15, 2010

Technical Director – File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Exposure Draft – Leases (Topic 840)

Ryder System, Inc. (Ryder) is pleased to respond to your request for comment on the Financial Accounting Standards Board Exposure Draft – Leases (Topic 840). Leasing is a significant source of global financing and the existing accounting standard has been criticized by both users and preparers. We appreciate the FASB’s decision to address lease accounting through a convergence project, especially in light of the US’ continued progression toward conversion to International Financial Reporting Standards.

Ryder’s business is divided into three business segments, the largest of which provides long term full service leasing and short term rental of trucks, tractors or trailers to customers principally in the United States, Canada and the United Kingdom. Ryder has over 120,000 vehicles under full service lease agreements with almost 15,000 customers. In addition, we have a fleet of over 30,000 vehicles available for short term rental and our average rental term is approximately 4 days. We are also a lessee of approximately 700 properties. This puts us in a unique position to understand and appreciate the complexity of the current model from both the lessee and lessor perspectives.

We understand the basis for criticism of the existing lease model, particularly as it relates to the off-balance sheet treatment of operating leases and the lack of transparency of the impact on the financial position of a company. The US Securities and Exchange Commission’s (SEC) June 2005 Report, Report and Recommendation Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers, highlighted the criticism of the “all or nothing” balance sheet treatment for leases based on bright-line tests. We support the FASB’s intent to provide users of financial statements with a complete and understandable picture of an entity’s leasing activities. However, given that the SEC’s Report generally focused on balance sheet treatment, we believe improved transparency could have been achieved through significantly enhanced annual footnote disclosure using the new accounting model rather than through application of the new model. As the FASB proceeds with this project, enhanced footnote disclosure under the proposed model may be considered as an alternative to applying the new model to the financial statements.
We provided comments to you in 2009 as part of the Lease Project Discussion Paper (DP) and noted some of our suggestions, specifically around contracts that were in essence purchases, were incorporated into the Exposure Draft (ED). Our comments on the ED are detailed in the Appendix to this letter. Below we have summarized the key points including some fundamental concerns over the proposed model (in order of importance to us):

- We interviewed rating agencies, investors and financial institutions to gather more information about the usability of our financial statements as it relates to leases. Based on our inquiries, we have found that they have already been estimating the impact of off-balance sheet lease treatment. However, their methodologies used to determine these amounts do not explicitly consider contingent rents, residual value guarantees, term option penalties or term extensions.

- The revised lease requirements are complex, from both a preparer and a user perspective. Application of the proposed guidance requires significant estimation of future events that will extend beyond the typical planning horizon for many companies. Therefore, the intent of providing more information to financial statement users will likely be achieved at the expense of reliability. Considering this decrease in quality, along with the considerable incremental effort required by preparers to implement and maintain the proposed accounting, it is clear that the costs will outweigh the benefits of these revisions.

- We agree with the concept of a “right-of-use” asset embodied in a lease. However, we believe the asset and corresponding liability should only include (1) options that are reasonably assured at the inception of the lease of being exercised and (2) contingent rentals that represent disguised minimum lease payments. Our view is based on the fact that neither term extension options nor contingent rents meet the definition of a liability until a future event takes place. Therefore, any corresponding benefit from the additional use of the underlying asset will not be received or begin to be received until that future event takes place.

- We do not agree with the proposed approach to subsequent measurement because it would not reflect the economic substance of the lease transaction. We believe that the lease asset and liability are inextricably linked, and therefore, the value of these balances should remain the same throughout the term of the lease (in the absence of impairment or capitalized initial direct costs). As such, we are proponents of a straight-line cost pattern because we believe it would typically reflect the pattern in which the economic benefits from the lease are consumed by the lessee.

- We believe that “short-term” leases should be excluded from the scope of any new lease accounting standard. Although, we understand that a scope exclusion may lead to more complexity, we are extremely concerned that the costs outweigh
the benefits in applying the proposed model to short-term rental arrangements. The vast majority of lessees are small or medium sized companies that are not likely to have the accounting resources necessary to adopt the significant changes being proposed. In addition, short-term rental arrangements may have an insignificant impact on the financial position of lessees at the end of any reporting period. However, we do not believe that reliance on the typical materiality provision in order to exclude short-term rentals is adequate in this circumstance. In these circumstances, preparers would be required to constantly update materiality assessments in order to ensure compliance. Therefore, we believe it is critical that scope exclusion provisions be included in the final standard in lieu of the typical materiality provisions. We have provided our proposed exclusion definition for short-term agreements in our attached response to the questions.

- The ED contemplates potential reassessment of the asset and liability balances at each reporting date if there appears to be a significant change. Although the reassessment may provide users with more relevant information, it will most likely only result in minor adjustments that do not impact the usefulness of the financial statements. We believe the costs of reassessing the portfolio of leases at each reporting date based on new facts and circumstances far outweigh the benefits. The final standard should provide specific key indicators for reassessment such as changes in contract terms.

- We do not agree with the proposed approaches to lessor accounting. The performance obligation approach results in double counting the benefits of the underlying asset and fundamentally contradicts the proposed lessee approach (and the definition of a lease). The partial derecognition approach is comparable to the current finance lease model; however, it does not appropriately capture the expected cash flows of the residual asset. Therefore, we believe that (1) lessors should continue to follow current operating lease accounting if exposure to significant risks/benefits is retained, and (2) the proposed partial derecognition approach should be amended to require full derecognition of the underlying asset.

We appreciate the opportunity and invitation to comment on this Exposure Draft and hope our comments are helpful. We are happy to provide further explanations and clarification if required. If you would like any further information on the comments made above or in the Appendix, please contact me at (305) 500-4290 or Ryan Mosley, Director, Corporate Accounting at (305) 500-5141.

Sincerely,

[Signature]

Cristina A. Gallo-Aquino
Vice President and Controller
Appendix

Ryder’s detailed responses to the Exposure Draft questions:

**Question 1**
(a) Do you agree that a 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 agree that a lessee should recognize a right-of-use asset and liability to make lease payments for material leases. However, we disagree with the definition of the lease term as we believe the asset should only include options that are reasonably assured at the inception of the lease of being exercised. (See response to Question 8). In addition, we do not agree with the inclusion of obligations arising under contingent rentals as we do not believe they meet the definition of a liability. The obligation for a contingent rental does not arise from a past event but rather a future event. (See response to Question 9).

The criticism of the existing lease model focused on the off-balance sheet nature of the accounting. Although the proposed changes address this specific concern, the changes have enveloped many other considerations which were not part of the original criticism. We believe the inclusion of these other amounts makes the standard more complex and harder to apply, without providing tangible benefit to the users.

(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?

While we agree that the balances need to amortize over the term of the agreement, we do not agree with the proposed approach.

The ED excludes contracts that are in essence purchases from the scope of this proposal. However, the proposed approach accounts for an intangible right-of-use asset similar to a purchased asset that is being financed. We believe this is not consistent. There are fundamental differences between a lease contract and a financed purchase, as follows:

- Leases are unique in that the asset and liability cannot be settled separately. A lease contract, by definition, conveys the right to use specified assets in exchange for consideration, creating any and all rights and obligations related to the use of the underlying asset. As the ultimate settlement of the contract (whether upon expiration or early termination) will concurrently remove these rights and relieve these obligations, componentizing the
contract by using an approach other than a linked one is not consistent with
the terms and nature of the agreement.

- A purchased asset can be sold at any time, whereas a lessee is typically
  restricted from selling or subleasing an asset.
- Someone who purchases an asset will have more control over the asset than
  someone who leases it and will therefore have greater flexibility as to how the
  asset is used.

The proposed approach will result in a mismatch of the asset and liability, which
will likely impact the income statement upon expiration or early termination. We
believe this is inconsistent with the nature of a lease and is equating the impact of
leases to that of financed purchases for which we strongly disagree.

Since purchases have been scoped out of the proposal, we believe there is an
acknowledged difference between leases and purchases. Therefore, there should be a
different model for a right-of-use contract (lease).

Under a right-of-use model, we believe the linked approach is most appropriate
because it reflects the pattern in which the economic benefits from the lease are
consumed by the lessee (i.e. the lessee pays for its right to use the leased item at the
same time it receives the right and consumes its benefits). We do not believe that
the recognition of higher expenses during the early years of a lease agreement is
consistent with the economic benefits the lessee is entitled to during the lease term.
The value derived from the use of the asset by the lessee would not be expected to
change over the term of the agreement (with all other factors held constant). The
recognition of straight-line expense, identified as “rent”, also captures the periodic,
operating expense nature of leases. We believe the related asset and liability are
inextricably linked and their values should typically be the same throughout the
term of the lease. In addition, from the perspective of both preparers and users, the
simplicity of having the asset equal the liability throughout the term is pragmatic.

**Question 2**

(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 approach would you propose and why?

(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?
While we agree with the use of two lessor approaches, we (1) do not support the performance obligation methodology and (2) believe the derecognition approach should be amended.

We disagree with the performance obligation model which contemplates that the lessor’s right to receive rentals under a lease is a separate asset. We believe the value of the revenue earning asset recognized in the balance sheet already captures the benefit the asset is expected to provide over its useful life, which in this case is the contractual revenue stream. Also, the lessee is required to recognize an asset for their right-of-use at commencement, which would indicate that the lessor has performed under the terms of the contract by delivering the asset to the lessee. Therefore, it is inconsistent that the lessor be required to record a performance obligation liability as this would indicate that performance will be required throughout the lease term. One of the criteria under the ED definition of a lease is that “the contract conveys the right to control the use of a specified asset”. If the lessee has control of the asset, it would reason that the lessor has already relinquished control and would not have any further obligations to perform.

As the asset is already represented on the balance sheet and we do not believe the criteria have been met for a liability, the current operating lease accounting should continue to be applied in situations where the lessor retains exposure to significant risks or benefits associated with the underlying asset.

With respect to the use of a derecognition approach, we believe that such an approach is appropriate for situations where the lessor does not retain exposure to significant risks or benefits associated with the underlying asset. In these instances, the transaction is comparable to a sale, and therefore derecognition of the underlying asset and the recording of an asset for the right to receive payments is reasonable, reflecting the fact that the underlying asset has been effectively converted into a receivable that earns interest income, for which there is associated credit risk. However, we think the derecognition model as proposed should be amended to recognize the residual as an expected cash flow from the lease investment (i.e. no partial derecognition), essentially current finance lease accounting.

(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 BC15)? If not, why not? What approach should be applied to those leases and why?

We agree that the same approach should be taken for leveraged leases as would be required for other lease agreements.
Question 3
This exposure draft proposes that a lessee or a 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 lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a 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).

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 believe that short-term leases should be excluded from the scope of the new standard because compliance costs for lessees clearly outweigh the benefits in applying the proposed model to short-term rental arrangements. In addition, short-term rental arrangements often have insignificant impact on the financial position of lessees at the end of any reporting period. The current operating lease model should be used for short-term leases.

We propose to define short-term leases as:
   a) Leases with a maximum possible lease term, including options to renew or extend, of 12 months or less (consistent with ED); or
   b) Leases with a term that represents a minor portion of the economic life of the underlying asset. For example, the present value of lease payments on a five year building lease would likely represent a minor portion of the fair value of the building assuming it has a 30 year life.

Question 4
(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(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?
(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?

We agree with the lease definition and the criteria for distinguishing a lease from a contract that represents a purchase or a sale. If the lease guidance qualifies something as a purchase or a sale, then close attention will need to be given to the revenue recognition guidance to ensure that the same item qualifies as a sale.

We believe that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient, but would request that multiple examples be provided in the final guidance to facilitate preparer application to potential embedded lease scenarios.

In addition, it would be helpful for the ED to address executory costs from the perspective that they should not be included in the measurement of the lease payments and provide explicit guidance as to the fact that they should not be considered services.

**Question 5**

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46). 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 do not agree with the proposed scope. We believe short-term leases should be excluded from the scope of the new standard. (See response to Question 3)**

**Question 6**

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 (paragraphs 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:
(i) A lessee should apply the lease accounting requirements to the combined contract.
(ii) A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
(iii) 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 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 do not agree with either approach to accounting for leases that contain service and lease components. We believe that only the lease portion of such agreements should be accounted for using the lease accounting requirements. All service components (distinct and non-distinct) and executory costs, should apply the proposed revenue recognition guidance.

The current accounting requires companies to break out the service from the lease component and account for it accordingly. The proposed accounting will change that premise and require that some services (non-distinct) be accounted for as leases. We do not believe the default should be to capitalize the entire contractual payment if there is a lack of an observable market for a component of the contract. We believe a reasonable estimate, similar to current accounting, should be permissible for bifurcating the payment between the lease and all service components. The requirement to distinguish between distinct and non-distinct service components adds further complexity to the standard without adding value for the user.

We would also request that multiple examples be provided in the final guidance to facilitate preparer application.

**Question 7**
This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?
We disagree that a lessee or a lessor should account for purchase options only when they are exercised. We believe that there should be consistent accounting between purchase options and extension options included in a lease contract. Both of these options can be used by a lessee to provide some level of control over the asset beyond the initial lease term. We believe purchase and extension options should be included if their exercise is reasonably assured.

Question 8
Do you agree that a lessee or a 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 do not agree with the approach of determining the lease term as the longest possible term that is more likely than not to occur. This method results in potentially capitalizing future payments that are not liabilities today (i.e. avoidable extension options). In addition, the constant reassessment of the inherent estimates associated with renewal options will create volatility in earnings with the periodic adjustments and may result in reduced reliability of financial statements.

We support the use of a qualitative assessment of the lease term that considers contractual, non-contractual, business and other lessee-specific factors. We also believe we should retain the concept of “reasonably assured” from ASC 840 in determining the appropriate options to include in the term.

Question 9
Do you agree that contingent rentals and expected payments under term option penalties and residual value 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 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 that contingent rentals should be included in the measurement of assets and liabilities arising from a lease. We do not believe a typical contingent rental arrangement meets the definition of a liability because the obligating event is the
resolution of the contingency and not the existence of the contingency. The obligation does not arise from a past event but rather a future event. By its very nature the future rental payment cannot be determined until the future event requiring the payment has occurred. In general, expenses are not recognized until the amount is measurable and the obligation has been incurred. Including contingent rentals in the measurement of lease related liabilities would distort the basic premise of accounting for liabilities, reduce the reliability of the balances recorded, create potentially significant and meaningless volatility and add complexity and undue administrative burden.

We believe that contingent rental arrangements structured to disguise minimum lease payments (i.e. lease with all variable payments), should be included in the measurement of assets and liabilities arising from a lease. Under a principles-based regime, all disguised minimum lease payments should be included in the measurement. While the intent of minimizing opportunities for abuse is understandable, we do not feel that this intent justifies disregarding the definitions of assets and liabilities that are the foundation of accounting standards.

Should the FASB continue to require inclusion of contingent rentals in the measurement of the lease asset and liability, we would not agree with the proposed probability weighted approach. We support a best estimate approach because the costs of applying the proposed concept far outweigh the benefits based on the inherent estimates involved.

**Question 10**
Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or 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 option 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?

No, we do not agree with the proposed reassessment requirement at each reporting date. The incremental effort involved in quarterly reassessment outweighs the benefit of updated information being considered.

With respect to lease term changes, we believe the FASB should provide specific triggering events consistent with those provided for goodwill and asset impairments. We believe the reassessment should be triggered when it is reasonably assured that the lease term has changed. Reasonable assurance would be gained when there are contractual changes or factors such as an investment in significant leasehold
improvements. Reassessments based on these specific circumstances would provide for more relevant information to financial statement users.

With respect to the reassessment of contingent rents, while our position continues to be that contingent rents should not be included in the measurement of the lease related assets and liabilities, if they are ultimately included under the terms of the final guidance, we would propose that reassessment not be required unless a significant event occurs that would result in a revision that is material to the financial statements. The desire to provide users with additional transparency should be tempered against the realization that assets and liabilities related to contingent rents are based on estimates of events that have not taken place and therefore may not be as useful as the simple disclosure of agreement terms.

Although reassessments may provide users with more relevant information, it will most likely result in only minor adjustments that do not impact the usefulness of the financial statements. While inclusion of the language “when changes in facts or circumstances indicate that there is a significant change …” would appear to be helpful, considerable effort would still be required to determine whether such “changes in facts or circumstances” have occurred. We believe the costs of reassessing the portfolio of leases at each reporting date will typically far outweigh the benefits. The final standard should provide specific key indicators for reassessment such as changes in contract terms.

**Question 11**

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 agree with the proposed criteria for classification as a sale and leaseback transaction as long as it is consistent with the criteria in the revenue recognition guidance.

**Question 12**

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

The right-of-use assets should be presented separately as intangible assets, with required disclosure of the remaining amortization period and annual amortization amount.
The liabilities should only be separated on the face of the balance sheet if they are material. Lease obligations should be identified separately from other liabilities in the financial statement footnotes and the five year payment table should continue to be disclosed.

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalizing to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? 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 at Question 2, we disagree with the performance obligation methodology. However, if the performance obligation methodology is adopted, gross presentation in the statement of financial position, totalizing to a net lease asset or lease liability, would be our favored approach.

(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, BC154 and BC155)? 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 in Question 2, we disagree with the derecognition approach, as proposed. However, if the proposed derecognition approach is adopted, we would agree with the presentation of rights to receive lease payments separately from other financial assets if they are material and residual assets separately within property, plant and equipment.

(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?

No, we do not believe that the assets and liabilities arising under a sublease should be distinguished in the statement of financial position. The identification of these balances should be required in the financial statement footnotes, allowing for visibility to these balances with their unique characteristics, while not adding further detail to the statement of financial position that may cloud the desired transparency for users.

**Question 13**
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, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

Lease expense should be labeled as rent expense and separately presented in the income statement. Regardless of which approach is taken, we believe this component, if material, should be separately presented so that users can determine the comparable historical costs.

**Question 14**
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?

We agree that the cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows. However, we do not believe that lease payments should be classified by lessees entirely as financing activities. Although compelling arguments could be made for classification as financings, today, interest as well as vendor payments are both deemed operating activities. We support the treatment of all lease payments or lease collections as operating activities consistent with our proposed characterization of lease payments as rent expense in the income statement.

**Question 15**
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

(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 believe that in principle the disclosures proposed would provide sufficient detail to allow further user understanding of both the lessee and lessor financial statements. However, our concern is that with the extensive estimation and judgment required under the proposal (along with the related impacts of accelerated expense recognition, volatility from re-measurements and expirations/renewals, etc.), companies that have historically strived to achieve an elevated level of transparency in their reporting, will be overwhelmed with the
quantitative and qualitative disclosure information required to provide a comparable level of understanding to users.

**Question 16**
(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 lease accounting requirements should be permitted? Why or why not?

We feel that full retrospective application should be permitted. The trade-off for the preparer would be the additional burden of going back to the commencement of each lease for the benefit of reducing the front-loaded expense impact subsequent to adoption and providing a more faithful representation of their business in the income statement. The simplified retrospective approach results in an income statement impact that would be unique to the years immediately following adoption, because all leases outstanding at the date of initial application will have front-loaded expense for the first half of their remaining terms. As these leases expire and new leases are entered into, the lease portfolio expense will normalize, reflecting the varying stages of the lease terms.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Yes, we would propose that all leases currently accounted for as finance/capital leases be grandfathered and allowed to keep their current accounting through the end of their terms. Specific disclosures regarding these amounts could be provided to allow sufficient transparency. The ED requirement to bring these agreements into compliance with the new standard is unduly burdensome considering that the transaction would already be reflected on the balance sheet.

**Question 17**
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?

We interviewed rating agencies, investors and financial institutions to gather more information about the usability of our financial statements as it relates to leases. Based on our inquiries, our users have historically adjusted our results for the estimated impact of off-balance sheet leases based on information already disclosed in the footnotes. They indicated that the new lease guidance will only change their current estimates to reflect the estimated amounts under the new guidance. However, we would anticipate the differences between their current estimates and
the obligations ultimately recorded under the proposed guidance to be insignificant, and therefore, not worth the effort.

To emphasize the significant time commitment required for the implementation and application of the proposed standard, we have provided our estimates. Please note that these do not include the considerable system development efforts that will be required, as we have not yet made determinations regarding those solutions.

**Ryder as Lessor**
One-time: 2000+ hours  
Recurring: 4000+ hours

**Ryder as Lessee**
One-time: 1000+ hours  
Recurring: 2000+ hours

Please keep in mind that there will also be extensive effort related to processes, administration, internal training, investor education, etc.

**Question 18**
Do you have any other comments on the proposals?

We would propose that lease incentives be specifically identified as an acceptable initial direct cost for purposes of capitalization.

**Question 19**
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?

No comment