December 14, 2010

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

Re: File Reference No. 1850-100

Dear Sir or Madam:

Air Lease Corporation ("ALC" or the "Company") appreciates the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update of Topic 840, Leases (the "Proposed Update"), recently issued by the Financial Accounting Standards Board (the "FASB"). ALC's primary business is to acquire commercial jet transport aircraft and lease those aircraft to airlines throughout the world.

ALC agrees that "it is important that lease accounting should provide users of financial statements with a complete and understandable picture of an entity's leasing activities". We do not believe that the Proposed Update meets this principle or the Proposed Update's objective to "establish principles so that lessees and lessors report relevant and representationally faithful information to users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases".

Under the Proposed Update, the lessee would recognize an asset representing its right to use the leased ("underlying") asset for the lease term (the "right-of-use" asset) and a liability to make lease payments. We do not believe it is appropriate to recognize a right-of-use asset when a lessee enters into a lease that under current guidance would be considered an operating lease. As the lessee does not take ownership of the asset being leased, the recognition of a right-of-use asset does not provide users of financial statements with a complete and understandable picture of the assets held by the lessee. The rights of the lessee are more appropriately considered through a model that accounts for leases according to the characteristics of the lease, similar to the current model which separately considers the recognition and measurement of operating and capital leases.

The Company believes that the initial and subsequent measurement requirements in the Proposed Update for lessors are onerous and the overall benefits of the resulting information do not justify the costs of obtaining it. Too many estimates are required by the lessor. This leads to unnecessary complexity and volatility in the lessor's financial statements. Specifically, there is too much complexity relating to the estimation of contingent rental lease payments and lease terms. As Stephen Cooper observes in the International Accounting Standards Board's (the "IASB") Exposure Draft, Leases, paragraph BC123(b) of the Proposed Update "states that one reason for
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Update should consider “that it is possible to avoid structuring opportunities by establishing principles for identifying where optional lease periods and contingent rental arrangements lack economic substance and represent disguised minimum rental payments and through appropriate disclosure”.

In addition to the general comments above, we have provided our comments to certain of the FASB’s questions below:

Question 1: Lessees

(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 do not agree that a lessee should recognize a right-of-use asset and a liability to make lease payments. Recognizing an asset for the right-of-use of an underlying asset does not provide relevant and representationally faithful information to users of financial statements. As a lessor, when making a leasing decision we consider the credit standing and financial statements of our potential lessees. A right-of-use asset recognized on a potential client’s financial statements will not provide representationally faithful information to creditors because in the event of borrower or lessee default, a right of use asset could not be used to compensate creditors for the monies owed. By recording a right-of-use asset and liability on the lessee’s balance sheet for what is currently considered an operating lease, the lessee’s balance sheet is unnecessarily grossed up with information that is more appropriately included through disclosures rather than on the face of the financial statements.

We believe it is more appropriate to eliminate the bright-line guidance within ASC 840 to allow preparers to make determinations under the current model using more judgment and less bright-lines. This, along with additional disclosures will provide users of lessee financial statements with a more complete picture of the transactions entered into by lessees.

Question 2: Lessors

(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?

We do not agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation approach to lessor accounting. We believe it is more appropriate to eliminate the bright-line guidance within ASC 840 to allow preparers to make determinations under the current model using more judgment and less bright-lines. This, along with additional disclosures will provide users of lessor financial statements with a more complete picture of the transactions entered into by lessors.
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The performance obligation approach results in the front-loading of income which we believe is inappropriate. That is, under the performance obligation approach, we will recognize more income at the beginning of a lease and less income towards the end of a lease. This income recognition pattern is not consistent with the economic reality of our leases. Instead, we believe it is more appropriate to recognize revenue consistent with the use of the asset over the life of the lease. The performance obligation approach also results in a redundant asset and liability associated with the lease of the asset in addition to the actual underlying asset itself which remains on the lessor’s balance sheet.

Question 8: Lease term

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 that 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. In our business of leasing aircraft to commercial airline customers, operating leases are designed to provide our customers with flexibility. This flexibility significantly complicates the estimation process, as many of our customers do not know their intentions within a reasonable degree of certainty until the time of renewal. The decision to extend is based on a multitude of factors which extend over many years in the future. Consistent with the alternative view of Stephen Cooper in the IASB Exposure Draft, Leases, we do not believe it is appropriate to require optional lease periods to be included in the recognition and measurement of the lessor’s receivable. It may be appropriate to include optional lease periods in the measurement of recognized assets and liabilities only under limited circumstances such as when the arrangement includes an incentive to extend the lease period. Such incentives might include penalties payable on cancellation, reduced rentals in the optional period, or instances where costs of customization or installation make renewal likely.

The likely extension of a lease should not in and of itself lead to the inclusion of optional lease periods in the measurement of the lessor’s lease receivable. As Mr. Cooper identifies, “the consequence of including all optional lease periods in the recognition and measurement of the lessor’s receivable (under both the performance obligation and derecognition models) is that investors may underestimate the business risk of the lessor.” This leads to an overstatement of the receivable which implies credit risk when the lessor is in fact exposed to risk associated with the underlying asset. We believe this results in the recognition of contingent gains, and the recognition of a receivable that the lessor may not have the right to collect.

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1 Our average operating lease term is seven years.

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Question 9: Lease payments

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 do not agree that contingent rentals should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique. Consistent with the alternative view of Stephen Cooper in the IASB Exposure Draft, Leases, we do not believe that lessors should include contingent rentals in the calculation of expected lease payments, regardless of whether the lease payments can be reliably measured. We agree with Mr. Cooper that reflecting all expected contingent rentals in the measure of the lessor’s liability does not provide relevant information about the economics of such leasing arrangements. There are concerns over “the reliability of measures that include estimates of contingent rentals based upon management forecasts of business performance over many years”. Reflecting all expected contingent rentals in the measure of the lessor’s liability results in the recognition of contingent gains, and the recognition of a receivable that the lessor may not have the right to collect.

Question 10: Reassessment

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?

We do not 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 since the previous reporting period. We believe the reassessment for lessors considered under the Proposed Update is necessitated by the proposed initial measurement of contingent rents and lease terms. If the current U.S. GAAP definition of lease term and lease payments is retained, the reassessment described in the Proposed Update is not needed which will reduce the unnecessary volatility created within the financial statements through reassessment.
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?

We do not agree with the boards’ assessment that the benefits of the proposals would outweigh the costs. We believe that the new guidance will not meet a significant need and that the overall benefits of the resulting information do not justify the costs of obtaining it. The leases project has been driven by the impression by some that the current lessee accounting model is inappropriate and we believe that the project should therefore be limited to lessee accounting. Changing lessor accounting will result in significant costs for lessors, but will not present a corresponding significant benefit to the users of lessor’s financial statements. Instead, the current lessor accounting model should remain with more judgment allowed in place of the current bright-line guidance coupled with additional footnote disclosure.

We agree with the views of other preparers that the cost of reassessing contingent rentals and options to extend or terminate a lease on a lease-by-lease basis at each reporting date is unduly burdensome, especially for entities that have a large volume of leases, and such reassessment does not necessarily result in more accurate or useful information.

We acknowledge that the boards’ addressed respondents’ concerns raised in the Discussion Paper, Leases relating to reassessment of lease terms and expected lease payments by adding to the Exposure Draft that a “detailed examination of every lease is not required unless there has been a change in facts or circumstances that would indicate that there is a significant change in the lease asset or lease liability”. However, this does not sufficiently address the concerns of respondents that the reassessment required by the Proposed Update will be onerous to apply.

Conclusion

We thank the Board for its careful consideration of our points within this Comment Letter. We strongly support the principle that lease accounting should provide users of financial statements with a complete and understandable picture of an entity’s leasing activities, but we do not believe the Proposed Update is consistent with this principle.

We appreciate the opportunity to express our opinion on this matter and would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Greg Willis
Vice President, Finance & Chief Accounting Officer

Air Lease Corporation