February 14, 2012

Ms. Leslie Seidman  
Chair  
Financial Accounting Standard Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: Comment Letter to the Investment Property Entity Exposure Draft - File Reference No. 2011-210

Dear Ms. Seidman:

Thank you for the opportunity to comment on the Investment Property Entity Exposure Draft ("ED"). Our company, Chicago Freight Car Leasing Co., is a privately owned freight railcar leasing and services business established in 1928. We provide our services throughout North America.

We are writing to provide two recommendations to the Board regarding how any new standards are put forth as they relate to Lessor's of certain types of equipment, i.e., equipment (e.g. railcars) that has long economic lives (~50yrs.) and are leased over the asset life to multiple parties.

Our first recommendation is that investment property accounting be applied to lease contracts, not to the lessor’s business entity, i.e., IAS 40 would be appropriate to adopt versus a business entity based accounting method. Our second recommendation is to include in the definition of investment property, equipment lessors who lease their assets multiple times under new leases while actively managing the equipment. Here are some specifics associated with our recommendations that we hope you will find helpful.

**Why should Lessors of certain types of equipment, like railcars, also be included in the definition of investment property if IAS 40 is adopted as proposed?**

- Certain equipment lessors, like our company, have business segments that actively manage equipment assets, such as railcars, and lease these multiple times over the assets‘ useful lives. Our railcar equipment assets and associated services are our “stock in trade” that produce revenue versus an asset that is strictly a financial investment.
- Our customers rely on us to supply/lease them railcars as well as provide repair/maintenance management and administrative services (e.g., regulatory and property tax compliance) for those railcars.
- Our customers can customize our product offerings individually or combined as a full service lease. Our leases are typically full service and generally have terms of 3, 5 or 7 years. The railcars have an economic useful life of 50 years, thus we may lease one or a series of railcars as many as 15 times to multiple lessees. We depreciate our cars over a long period irrespective of whether the car is on or off lease.
- Lessors of certain types of equipment, like railcars, should have the option of using operating lease accounting or investment property accounting as it provides the best financial information regarding the operations of the business.
• Equipment lessors often have multiple business models for different types of leases. To qualify as an investment property entity, the leasing company must apply fair value to all its activities yet its other activities may not be conducive to fair value accounting.

**What are similarities between investment property and equipment with long lives leased to multiple parties over the life?**

• Similar to investment property, we actively manage the provision of services associated with the asset. Railcar residuals fluctuate based on supply and demand and the prevailing economic environment. The time value of money is not the driving factor in pricing, instead it is market supply and demand driven.

• Railcars are assets that generate operating revenues (rent) for our company rather than financial investments that generate interest revenue. We lease the rail cars to companies who have short and medium term needs for the assets and who want to outsource the maintenance and administration of those assets. The majority of our leases are full service leases, meaning the lessor will have operating and administrative expenses related to the equipment in the full service lease contract. Full service leases may include providing replacement cars when repairs are needed.

• When you look at key components of our financials, major cost items include depreciation and the operating costs to deliver our maintenance, repair, and administrative services. Our lease contracts have straight line rent patterns so the revenue is straight line. The bottom line measurement of the profitability of our business is the net earnings per rail car. There is no priced implicit rate that derives the lease rate. Although an implicit rate could theoretically be mathematically calculated, it would not be the driver of pricing. If we employed the Receivable and Residual lessor accounting method, as required under the proposed Leases ED, our revenue pattern would be front loaded and would not match the majority of the costs in the business.

As an issue separate from this ED, but associated, we understand that recent decisions in the Leases project allow an exception in lessor accounting to use the current operating lease method for investment property assets. We think the operating lease accounting method best reflects the results of our business model/financial results and we would like the same option. Ours is not an “investment” business model, of a typical third party or captive leasing company, in which the equipment is ordered new by a lessee who then engages the lessor to finance the use of the equipment. A third party or captive leasing company structures its lease like a discrete investment where at expiration the equipment is renewed for a short period, bought by the lessee, or returned and sold immediately by this type of lessor. The cost of money is the major cost for these types of lessors. Their lease pricing (implicit rate in the lease) is based primarily on prevailing interest rates.

To summarize, an entity based approach to lease accounting would be inappropriate for our type of business. The accounting of the proposed rule should apply to the transaction or class of transactions. In order for us to comply with the currently proposed ED requirements, a change in our legal structure may be required. Those leases that are not “operating leases” would be put in one legal entity and use the Receivable and Residual method. Those leases in our actively managed leasing business would be isolated in a separate legal vehicle to comply with the fair value accounting requirement.

We think the FASB should adopt IAS 40 as it is transaction based. It allows cost or fair value residual accounting as an option. We ask that the definition of investment property be expanded to include certain
equipment lease businesses. Lessors who are in the “operating” lease business consider their leased assets their stock in trade. These assets should be on the balance sheet and should be depreciated over the asset’s useful life to a salvage value irrespective of the lease term or whether it is off lease. The repair, maintenance and service costs are all reflected as incurred or accrued. The P&L should show the periodic net earnings per rail car. Fair value should be an option only, but not required. We do not think the volatility in earnings caused by fluctuating residual values is helpful to the evaluators/users of our financial statements, accordingly, we would then not elect a fair value option.

We have attached our answers to the questions in the ED.

Thank you again for this opportunity to comment.

Sincerely,

[Signature]

Paul B. Deasy
President
The following are our answers to the questions in the ED. We eliminated the text and combined the answers where the question related to accounting by the “entity” which we do not think is appropriate.

**Question 1:** The proposed amendments would require an entity that meets the criteria to be an investment property entity to measure its investment property or properties at fair value rather than require all entities to measure their investment properties at fair value. Should all entities measure their investment properties at fair value or should only an investment property entity measure its investment properties at fair value? Why? Is fair value measurement of investment properties operational? Please describe any operational concerns.

**Answer:** We think the rule should be applied at the transaction level not to the whole entity. We are not proposing to measure our railcars’ equipment residuals at fair value although they can easily be fair valued. Residual values fluctuate and fair valuing them would create unnecessary volatility in earnings. We favor operating lease accounting with no fair valuing of the asset.

**Question 2:** The proposed amendments would require an investment property entity to measure its investment property or properties at fair value rather than provide an option to measure its investment property or properties at fair value or cost. Should fair value measurement of investment properties be required or permitted? Please explain.

**Answer:** We think it should be an option. We would rather not have the volatility in earnings that would result. We think footnote disclosure of the fair value is adequate information for users.

**Questions 3 through 11:**
These questions all deal with the theme of applying the accounting method to an entity rather than to transactions.

**Answer:** We do not think it is right to limit investment property/operating lease accounting to an entity rather it should be applied to classes of transactions.

**Question 12:** The proposed amendments would require real estate properties, other than investment properties, that are held by an investment property entity to be measured in accordance with other U.S. GAAP. Should an investment property entity be required to measure those properties at fair value with all changes in fair value recognized in net income instead of applying other U.S. GAAP? Why or why not?

**Answer:** We do not agree with fair valuing the other assets of the company for the same reason that we do not agree with fair valuing investment property assets. We would rather not have the volatility in earnings that would result. We think footnote disclosure of the fair value is adequate info for users.

**Question 13:** The proposed amendments would require a right-of-use asset in which the underlying asset meets the definition of an investment property to be measured at fair value with all changes in fair value recognized in net income. Should those right-of-use assets be measured at fair value with all changes in fair value recognized in net income? If not, why and which measurement attribute would you recommend for those right-of-use assets?

**Answer:** We think measuring a residual at cost or fair value should be an option. We would rather not have the volatility in earnings that would result from fair value accounting. We think footnote disclosure of the fair value is adequate info for users. Another option would be to allow the lessor to re-set the depreciation useful life and or salvage value when facts and circumstances regarding the leased assets change and the change is viewed as permanent with the P&L impact reflected in the amount of depreciation recognized over the term. This would reduce volatility in earnings.
Questions 14 through 17:

Answer: We do not think it is right to limit investment property/operating lease accounting to an entity rather it should be applied to classes of transactions.

Rental Revenue Recognition

Question 18: The proposed amendments would require an investment property entity to recognize rental income on investment properties subject to a lease when lease payments are received or as the lease payments become receivable in accordance with the contractual terms of the related lease rather than on a straight-line or other basis. Is that basis of recognizing rental revenue appropriate for investment properties measured at fair value? If not, why?

Answer: We think rental income should be recognized when earned and expenses recognized when incurred. The results of operations should reflect rental income as well as the costs of managing the assets and providing services. This approach is consistent with that of an operating lessor and represents the business model in the most fair and accurate way.

Question 19 through 23:

Answer: We do not think it is right to limit investment property/operating lease accounting to an entity rather it should be applied to classes of transactions.

Nonpublic Entities

Question 24: The proposed amendments would apply to both public and nonpublic entities. Should the proposed amendments apply to nonpublic entities (such as private companies and not-for-profit organizations)? If not, how should the proposed requirements differ for nonpublic entities and why?

Answer: We are a non-public company and we think users of our financial statements are able to understand our business using the current operating lease method. Using the receivable and residual method would present a revenue pattern that is front ended and does not match the costs that generally are reported on a straight line basis as they are incurred or accrued.