August 15, 2013

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Ladies and Gentlemen,

On behalf of Textainer Group Holdings Limited (NYSE:TGH) ("Textainer", "we", "our"), the world’s largest lessor of intermodal shipping containers, I am submitting our comments on the Exposure Draft on lease accounting. Textainer was formed in 1979 and today operates a fleet of 1.9 million shipping containers. Our customers are international shipping lines that value the operational flexibility of leasing and the service we provide when they want to try new trade routes or experience new or unexpected demand for containers.

Textainer objects to the changes that are proposed in the exposure draft. This is largely due to:

- Onerous implementation and on-going requirements for lessors and lessees, particularly those in our industry. The proposed standard would involve significant costs to organizations while providing seemingly little to no additional value to the users of the financial statements.
- The proposed standard will result in financial statements that are less meaningful for the users of the financial statements (banks, analysts, shareholders and others in the same industry) given that the existing standards have not changed in the last 30 years and the key performance metrics for the industry would now be stale or the financial statements would need to be adjusted to arrive at those metrics – adding more cost and decreasing the value of the financial statements.
- The proposed standard would introduce additional judgment which would likely lead to disparity in practice.

We believe the proposed standard will only add confusion to readers of the financial statements. Many of the requirements involve arbitrary judgments, such as estimates of future residual values and fair values, which are difficult to estimate because of the unpredictable direction of container prices. Over the past five years the purchase prices for new 20’ containers have been as low as $1,900 and as high as $2,700 often moving up and down and then back up several times within a single year. The realized residual values for 20’ containers sold at the end of their useful lives in marine service over this same period have also fluctuated between $800 and $1,700. We believe we will be open
to criticism and unnecessary scrutiny because of the judgments that we will be required to make which can have a material impact on the financial statements.

To understand our business, 95% of our leases are what are currently considered operating leases. Most leases are five years or less in duration for containers with an economic life of 18 or more years. At the end of the lease we generally try to negotiate an extension of the lease, otherwise the containers will be returned by the lessee. This is a mere rental of an asset. The lessee has no ownership interest in the container and bears no residual value risk. It currently makes perfectly good sense to all readers of our financial statements to understand that the rentals that we receive are properly reported as rental revenue. Recognizing revenue on the interest method and possibly recording gains or losses at lease inception due to highly judgmental estimates of fair values and future residual values will only confuse readers of our financial statements. In our opinion this will make our financial statements less meaningful to the investors, analysts, shareholders and bankers that truly understand our business and rely on the financial information in the current way that we report it. In addition, at the end of the contractual minimum lease period it typically takes the lessee one year or longer to return the containers if the lease is not renewed or extended. We may therefore also be required to make yet another highly judgmental estimate of the likely lease term until the containers are returned which is very difficult to estimate accurately. While the container is off-lease it would return to our balance sheet and then when re-leased it would again be removed from the balance sheet. With thousands of containers going on and off lease each month this will only add further confusion to readers of our financial statements.

In addition, we currently manage approximately one quarter of our container fleet on behalf of third party investors. They are concerned with one thing – the cash return on their investment. The current revenue recognition under FAS 13 for operating leases is a reasonable measure of the returns on a cash basis. The proposed rules will be meaningless to these investors and will require us to modify our entire compensation structure with these investors who will not be willing to accept accounting under the proposed rules if they feel it has no basis in reality.

The administrative burden this will place on Textainer and our lessees is disproportionate to any perceived benefit and we therefore reiterate that we object to the changes proposed in the Exposure Draft.

Thank you for your consideration,

Ernest J. Furtado  
Senior Vice President and Chief Accounting Officer