January 15, 2019
Technical Director
File Reference No. 2018-310
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Proposed Accounting Standards Update, *Leases (Topic 842), Codification Improvements for Lessors*

Dear Technical Director:

We appreciate the opportunity to comment on the proposed Accounting Standards Update, *Codification Improvements for Lessors* (the “Update”). We continue to support the Board’s efforts to improve the accounting for leases to provide greater transparency in financial reporting and address the needs of users of financial statements, and we support the Update.

**Coalition Background**

Our Coalition represents many of the largest railcar lessors doing business in North America, with some companies operating globally as well, and some of our members are depository and lending institutions. We have been closely engaged throughout the standard setting process and plan to continue to provide feedback to the Board to support implementation objectives on the new lease accounting guidelines.

**Response and Conclusions**

**Determining the Fair Value of the Underlying Asset by Lessors That Are Not Manufacturers or Dealers**

Question 1: Should a lessor that is not a manufacturer or dealer establish fair value of the underlying asset as its cost, subject to any trade or volume discounts that apply (acknowledging that if a significant lapse of time occurs between the acquisition of the underlying asset and lease commencement, the definition of *fair value* must be used)? If not, please explain why.

Yes, we agree that lessors that are not a manufacturer or dealer should establish fair value using the approach indicated in Question 1 above. As a result, when there is no significant lapse of time between the acquisition of the underlying asset and lease commencement, fair value of the underlying asset at lease commencement would include acquisition costs (e.g., sales taxes, delivery, and installation charges) and there would be no selling profit or loss.

As issued, ASC 842 requires lessors to determine the fair value of the underlying asset in a lease arrangement for purposes of lease classification and measurement using the definition of fair value in ASC 820, i.e., based on an exit price notion. For a lessor that is not a manufacturer or dealer, applying the fair value guidance in ASC 820 would appear to potentially require the lessor to expense acquisition costs that are currently capitalized only to then “recover” these costs over time via higher interest income for direct financing leases and sales-type leases. We do not believe this was an intended outcome for non-manufacturers or dealer lessors.
Question 2: Are the proposed amendments operable? If not, please explain why.

Yes, the Update would allow lessors that are not manufacturers or dealers to continue to apply the fair value exception in a manner similar to what we do today utilizing existing accounting procedures.

Question 3: Would the proposed amendments result in a reduction of decision useful information to users of financial statements? If so, please explain why.

No, we believe the proposed amendments would provide more useful information to investors as they would be representative of a finance lease business model which involves financing the total cost of the underlying asset for the lessee. The proposed amendments also provide for comparability with prior periods.

Presentation on the Statement of Cash Flows – Sales-Type and Direct Financing Leases

Question 4: Should lessors that are depository and lending institutions present “principal payments received under sales-type leases and direct financing leases” in investing activities? If not, please explain why.

Yes, presenting “principal payments received under sales-type leases and direct financing leases” in investing activities is consistent with prior period presentation for lessors within the scope of Topic 942, Financial Services—Depository and Lending, and consistent with the presentation of principal payments received on loans.

Question 5: Are the proposed amendments operable? If not, please explain why.

Yes, the proposed amendments would allow lessors that are depository and lending institutions to continue to classify cash flows arising from sales-type leases and direct financing leases as is done today.

Question 6: Would the proposed amendments result in a reduction of decision-useful information to users of financial statements? If so, please explain why.

We do not believe so, as this treatment would be consistent with current practice and reflective of the nature of these cash flows for depository and lending institutions.

Effective Date and Transition

Question 7: Should the effective date for all lessors within the scope of the proposed amendments be for fiscal years beginning after December 15, 2019, with early application permitted? If no, what effective date should be established andwhy?

Yes, we believe this would most appropriately align the adoption of these proposals with the adoption of Topic 842. We believe permitting early application is appropriate and necessary as we believe most lessors, including depository and lending institutions, would elect early application for fiscal years beginning after December 15, 2018 to provide for comparability with prior periods.
Question 8: Should the proposed amendments be applied at the date that an entity first applied Topic 842 using the same transition methodology in accordance with paragraph 842-10-65-1(c)? If not, please explain why.

Yes, we believe lessors should be permitted to adopt the proposed ASU concurrent with the date of the entity’s initial adoption of ASC 842.

We further believe the Update will reduce the costs and complexity associated with implementing Topic 842, while maintaining the objective of providing decision-useful information to financial statement users.

Thanks again for seeking the perspectives of your constituents as part of the improvement process. We are available to assist the Board and its staff by providing any additional information as may be useful.

Sincerely,

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