



INSTITUTE OF INTERNATIONAL CONTAINER LESSORS

12 September 2013

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Gentlemen,

Thank you for the opportunity to offer comments on the proposed changes to the financial recording of leases contained in the FASB/IASB Lease Re-Exposure Draft ED/2013/6 (RED).

The Institute of International Container Lessors, Ltd. (IICL) is a trade association, organized in 1971, representing the majority of lessors of maritime containers and intermodal chassis (lessors). Its member companies¹ own or manage more than eight million containers and chassis, representing nearly half of the world container fleet, and approximately half of the U.S. chassis fleet, operated by ocean carriers, railroads, and other companies.

As described in comments submitted in 2010 on the original Exposure Draft, the majority of container and chassis equipment leasing activity is conducted globally on a long-term operating lease basis. Operating leases are generally structured to allow customers to pick-up containers on short notice and return containers at the end of the lease to a wide range of global locations. The as-needed, where-needed pick-up and drop-off capability provided by operating leases allows our customers to improve the operating efficiency of their container and chassis fleets. Leasing also allows our customers to out-source the capital required for container and chassis investment.

¹ Beacon Intermodal Leasing, LLC; CAI International, Inc.; Cronos Ltd.; Direct ChassisLink Inc., Dong Fang International Asset Management Ltd. Flexi-Van Leasing, Inc.; Florens Container Services Company Ltd.; Seaco; SeaCube Containers LLC; TAL International Container Corporation; Textainer Equipment Management (U.S.) Ltd.; TOUAX Container Services; TRAC Intermodal; Triton Container International Limited

Containers and chassis can remain in service for fifteen to twenty years, much longer than the typical lease duration of three to five years, and containers and chassis are usually leased to several different customers over the life of the equipment.

Rental revenue for leasing companies, represented by a stream of lease payments, is recognized on a straight-line basis over the lease term. This accounting treatment closely aligns the economics of our leases and our cash flow to our reported financial results, minimizes the impact of uncertain management judgments, and makes our financial statements transparent and comparable across our sector. We believe our predictable earnings and cash flow patterns and transparent financial statements are viewed highly favorably by the lending and investing communities. This has afforded lessors ready access to capital to fund their growth.

The following comments are offered for your consideration:

Standard Setting Rules Must Be Simple and Clear

Operating leases of equipment are best viewed as a supply of goods rather than a financial service, and today's accounting rules accurately reflect that view. It is essential to retain the relatively simple, clear and concise accounting rules for the treatment of leases that exists today such that financial statements continue to reflect the true economic nature of operating lease arrangements. Our concerns regarding simplicity and clarity can be summarized as follows:

- The proposed recognition of interest income by lessors and interest expense by lessees under the interest method of accounting does not match the reality of the economics of an operating lease, which is represented by a constant and ongoing stream of rental payments made by the lessee over the lease term.
- All operating leases are the same, yet property and non-property (equipment) leases will receive different accounting treatment under the RED. The rationale for the divergent accounting treatment has not been made clear, and this lack of clarity will create confusion among users of financial statements.
- Additional confusion is likely to arise due to the complexity of the proposed changes and the resulting reporting requirements, and due to the significantly expanded role and impact of management estimates of future residual values. Therefore, the objective of the proposed accounting changes (i.e., to achieve additional transparency) is unlikely to be realized.

- It is unclear how the lease receivable and residual asset model would work for leases that involve multiple assets with different ages and values at lease inception and at lease expiration. Can an averaging of some sort be used, as considering each asset individually would be complex, burdensome and may skew data depending upon the asset mix? How is consistency among companies in similar industries ensured?
- If a right-of-use lease ultimately requires balance sheet capitalization, we urge the FASB and the IASB to modify the proposed rules in order to limit the distortion to our reported financial results. This should include:
 - Maintaining a straight-line pattern of income and expense recognition. This method more truly reflects the cash flow and economics of the lease, as the benefits derived from the equipment by the lessee are constant over the lease term.
 - Reducing the amounts of judgment and subjectivity required by the proposed rules. For example, it is not clear exactly what “insignificant in relation to the total economic life of the asset” means. Would a three-year lease for a new piece of equipment that has an eighteen-year economic life be considered significant or insignificant? These types of subjective decisions (among many others, including estimates of fair values and residual values) would need to be made individually for every piece of equipment in a lessor’s portfolio and will be subject to an intense level of scrutiny by auditors, investors, lenders and others.
 - Eliminating the requirement to estimate the post-lease residual value of the equipment at the inception of each lease. New container prices and used container disposal prices vary widely over short periods of time and there is no meaningful market for the purchase or sale of middle age leasing equipment. As a result, estimates for likely equipment values at the end of a lease period are highly subjective and uncertain. Our depreciation policies already capture our best estimates of how the value of our equipment is likely to change over its useful life.
 - Eliminating the requirement for the lessor to book a gain or loss at the inception of an operating lease. As mentioned, it is impossible to estimate post-lease residual value with a high degree of certainty, and introducing a new non-cash line item to the income statement that would be driven to a large degree by management assumptions would disconnect our cash flow and profitability and make our financial statements less transparent to investors and less comparable across our industry.

The Recommended Changes May be Costly to Implement/Maintain and Likely to Outweigh the Potential Benefit of Balance Sheet Transparency

The proposed new accounting rules will create an incredibly costly administrative burden on lessors and lessees related to the implementation and administration of such rules. This costly administrative burden will greatly outweigh the value, if any, of the proposed rules to the users of the financial statements. The anticipated burdens for lessors are summarized below:

- It is entirely possible that lessors and lessees will have to maintain multiple sets of books and records to satisfy GAAP, tax, legal and debt compliance requirements.
- These changes and the associated complexity will make it difficult for lenders to our industry to understand lessors' financial results, which, in turn, will make it difficult for such lessors to raise growth capital. This could potentially result in a reduction in the amount of capital provided to lessors, increased financing costs, increased compliance and regulation and a complete overhaul of current lending procedures.
- The proposed lessor accounting rules do not add any significant new information to the detail currently provided under existing financial statement disclosure requirements. Instead, the proposed new accounting rules add complexity and create a compliance burden without improving the level of lessor financial statement disclosure. The rules proposed by the RED will make lessors' financial statements less meaningful to users of such statements because they will reflect a vast amount of judgment and subjectivity. The costs and complexity of financial statement audits will be greatly heightened and will result in inevitable disagreement between financial statement issuers and their auditors.
- Under the present accounting rules, the classification of leases in the financial statements is clear and easily understood by users, and the accounting for such leases is consistent among lessors. Disclosures in the notes to financial statements (required by FASB, IASB, SEC and other organizations) are comprehensive and provide all relevant data to financial statement users. There already exists a high degree of consistency between accounting requirements as set out by FASB and IASB, so accounting divergence and lack of financial statement comparability among lessors are not issues that exist today.

As an example of how the proposed rules can lead to accounting divergence, assume that three container lessors each buy a new twenty-foot dry van container, on the same day and at exactly the same cost. Assume that each lessor responds to a lease tender request from a shipping line, and that each of the new containers are leased to the shipping line under separate leases with exactly the same lease terms. Under existing accounting rules, each lessor would account for the acquisition of the container and its ensuing lease exactly the same. Under the proposed accounting rules, it is likely that each of the three lessors would record the receivable and residual assets at different values depending on their estimates of useful lives, residual values and implicit interest rates. This example illustrates how financial statement comparability will be impaired.

We should note that the predictability of optional lease extension outcomes are difficult to determine at the beginning of a lease and therefore only contractual obligations should be reported. Any estimated valuations of such lease extensions would be subjective and arbitrary. The valuations would have to be reviewed and, if necessary, adjusted at each reporting date within the lease term. This will result in a significant increase in workload without any benefit to financial statement users.

It is recommended that the current definitions of lease term and minimum lease payments be left in place for lessors and lessees. We view the existing definitions to be more objectively measurable, therefore promoting greater comparability and symmetry.

Unintended Impact on Operating Practices

The proposed accounting changes are expected to have a material impact on shipping line decision-making regarding whether to purchase or lease containers. Shipping lines may be motivated to buy, rather than lease, containers in order to avoid the burdensome accounting, reporting and systems implications of complying with the new requirements. Shorter-term leases may also be favored to avoid these burdens. Today, most leasing companies have more than 70% of their assets deployed on long-term operating leases. This has provided the industry with significant protection during market down-cycles as well as opened up the debt capital markets. Any shift back to a short-term master lease model driven only by accounting rules could have negative implications on the industry in terms of additional risk that lessors would assume, as well as disrupt their access to capital. This will have devastating implications for the health and viability of the container and chassis leasing businesses.

Conclusion

It is hoped that these comments are found to be informative and constructive as it is recognized that the changes proposed in the Re-Exposure Draft are significant and could have a profound impact on many industries.

Please contact me if you require any clarification or have any questions, which I will be happy to address.

Sincerely yours,



Steven R. Blust
President