



**ASSOCIATION OF
AMERICAN RAILROADS**

Finance & Administration

Jeffrey Marsh
Senior Vice President & CFO

September 13, 2013

Technical Director
File Reference No. 2013-270
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: Leases (Topic 842) – a revision of the 2010 proposed FASB Accounting Standards Update, *Leases (Topic 840)*

Dear Technical Director:

The Association of American Railroads (AAR) is an incorporated, nonprofit trade association representing the nation's major freight railroads and Amtrak. AAR members include large (Class I) and small railroads operating in the United States and Canada that prepare financial statements in accordance with U.S. GAAP.¹ In matters of significant and common interest to its members, the AAR frequently appears before Congress, the courts and administrative agencies on behalf of the railroad industry. This proposed Accounting Standards Update (ASU), Leases, Topic 842 represents such a matter.

The AAR appreciates the opportunity to comment on the proposed ASU Topic 842. The AAR is generally in agreement with the Board's objective of recognizing on the balance sheet, assets and liabilities created as a result of lease transactions as long as doing so is simple and straightforward. However, we believe that the cost of implementing the proposed ASU Topic 842 on leases will significantly outweigh the benefits to users of the Financial Statements. There are some changes that could be made to the proposed ASU that would improve the cost/benefit ratio, which are outlined in the following paragraphs. However, even with these changes, AAR believes that the cost/benefit still does not warrant implementing the proposed ASU.

¹ AAR Members include Alaska Railroad Corporation, Anacostia Rail Holdings; BNSF Railway Company; Canadian National Railway; Canadian Pacific Railway; CSX Transportation; Florida East Coast Railway, Genesee & Wyoming; Iowa Interstate Railroad; Kansas City Southern Railway; METRA; National Railroad Passenger Corporation (Amtrak); Norfolk Southern; Union Pacific Railroad; Vermont Railway; Watco Companies; and Wheeling & Lake Erie Railway.

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Cost/Benefit

In order to meet the proposed ASU's requirements companies will need to make significant capital expenditures to purchase new technology systems to manage leases, as well as incur costs to implement and train personnel on those new systems. Currently, such systems are in development and there are no off-the-shelf technology solutions available that would allow for the efficient application of the proposed ASU. Further, the lack of maturity of technology solutions will likely add to the risk and cost of implementation as i) there will not have been adequate time to work through the inevitable programming bugs that happen anytime a large new system is developed, ii) there will be a lack of implementation best practices and iii) companies across the country will all be attempting to implement these new systems at the same time – all competing for the same limited system implementation resources. This is in sharp contrast to the very mature nature of current technology systems available to meet the current Accounting Standards Code (ASC) requirements.

In addition to the technology costs, the reassessment guidance outlined in proposed ASC Topic 842-20-35 will effectively require companies to review all leases on a quarterly basis in order to determine if anything has changed requiring a re-measurement to be performed. Continual reassessments of thousands of leases will necessitate additional personnel resources.

As mentioned previously, while we generally agree with the concept of recognizing lease transactions on the balance sheet in order to improve the Financial Statements for users, we maintain that the cost of implementation is prohibitive and that existing guidance provides the information necessary for investors to make informed decisions. The foundational lease accounting guidance in ASC Topic 840, formerly FASB Statement No. 13, was issued in 1976. The long-standing nature of this guidance has allowed users of Financial Statements to become very familiar with it and develop systems, models, etc. to utilize and tailor it for their purposes. For example, credit analysts currently adjust their credit models for leases that are disclosed in the Notes to the Financial Statements, by adding the present value of the operating lease payments to debt. This in effect is already accomplishing the goal of the proposed ASU (putting all long-term leases on the balance sheet) without the significant costs discussed above and so we believe the benefits are limited. This position is supported by recent opposition from the investor community challenging that the proposed ASU is overly complex and is not an improvement over the current accounting.

Short-term Leases

The AAR agrees with the amended approach to short-term leases, which allows entities to treat leases with a maximum possible term of twelve months or less similarly to existing operating lease requirements of ASC Topic 840. Short-term leases consume an insignificant portion of the economic benefits of an identified asset and therefore no assets or liabilities should be recorded. We agree that the entity should simply recognize lease payments on a straight line basis over the short lease term.

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Suggested Modifications to the Proposed ASU

While the AAR believes the benefit of the proposed ASU is limited due to the maturity and well understood nature of the current ASC requirements as well as the fact that the disclosures in the Notes to the Financial Statements provide the additional information needed by users to accomplish the objectives of the proposed ASU, there are some modifications that could be made that would reduce the significant cost of implementing and complying with the proposed ASU.

1. Transition

While we believe the retrospective approach is appropriate, we feel that the relief provided in the ASU is insufficient. Retroactive restatement (modified or full) would require immense efforts by management of companies that engage in thousands of leases to not only track and review every individual lease, measure and recognize a lease liability, ROU asset, and/or lease receivable but also revise prior year financial statements, financial statement results, and financial statement disclosure to the earliest comparative period presented, entailing two prior year ends. It may be difficult for companies to go back to lease inception for all leases as information may not be available given current system limitations.

The effective date should consider the challenge of implementing new technology systems and processes to accommodate the proposed ASU. As discussed above, there are no off-the-shelf technology solutions that would allow for the efficient application of the proposed ASU. Even once these systems become available, companies will need to assess them, select a system for purchase, negotiate that purchase, blueprint the system implementation, input thousands of lease contracts and then proceed with implementation and training of personnel. Since it will likely be 2014 before the proposed ASU is finalized, we ask the Board to consider an effective date no earlier than the end of 2018, with retrospective application to 2017 and 2016. That would allow 2014 for these systems to be developed and tested, and 2015 for implementation before the first retrospective application date of January 1, 2016.

2. Remeasurement/Reassessment Proposal

As mentioned above, we have significant concerns regarding the continual reassessment requirements outlined in proposed ASU Topic 842-20-35. Continual reassessments of potentially thousands of contracts will be costly and challenging to apply timely. For example, the requirement to reassess the lease term based on the importance of the leased asset to the lessee's operations would require a significant level of judgment, including soliciting input on the assessment from business development and operations. We believe that the reassessment should be performed only when there is a significant triggering event, such as a modification to the contract or an exercise of a renewal option, extension or cancellation.

These types of triggering events achieve the proposed objective by accounting for the majority of circumstances that would necessitate a remeasurement without the

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complexities of reviewing thousands of lease contracts on a quarterly basis. This approach would significantly reduce the reassessment effort by making it more objective so that exceptions can be flagged systematically for further detailed evaluation versus evaluating each individual leased item every quarter. This approach could be further augmented with an annual reassessment of leases using the criteria in the proposed ASU. This is similar to the impairment analysis of goodwill, which is only evaluated annually unless there is a triggering event.

3. Lease Term

The proposed ASU states that the lease term includes periods covered by an option to i) extend the lease if the lessee has a significant economic incentive to exercise the option or ii) periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise that option. A renewal option is most often a unilateral right of the lessee that does not create any financial obligation until exercised. Under the proposed ASU, a company would need to judgmentally determine whether or not they, as the lessor, or the counterparty, as the lessee, might have an incentive to exercise an option in the distant future. This judgment could lead to variations between companies with similar facts and circumstances as those options may or may not ever become obligations and so they should not be valued as future liabilities and assets. We propose that the base lease term should be the primary lease term as there is a risk that the lease term will be interpreted differently by preparers and auditors leading to inconsistent accounting of similar leases.

4. Lease Classification

The proposed ASU uses the terms “insignificant”, “majority part” and “substantially all” in order to determine the classification of a lease but does not provide definitions or include any bright-line guidance on how these terms should be applied. We propose that the guidance be clarified to include the meaning of these terms as there is a risk that these terms will be interpreted differently by preparers and auditors leading to inconsistent classification of similar leases.

Additionally, the guidance is unclear on the treatment of assets considered integral equipment with land that are treated as leases of real estate under the current lease guidance. The definition of property under the proposed ASU appears to exclude integral equipment and the concept of primary asset does not clarify or address the term, leading to uncertainty in whether a lease of integral equipment would be classified as a Type A or Type B lease. We believe integral equipment (i.e. track affixed to land) is a real estate property asset that should be largely classified as Type B under the proposed ASU. A subdivision of track from land would be artificial because a lessee can benefit only from the use of the assets as a whole and not individually.

We propose that the guidance be clarified so that it is clear that integral equipment is considered property as there is a risk that these terms will be interpreted differently by preparers and auditors leading to inconsistent classification of similar leases.

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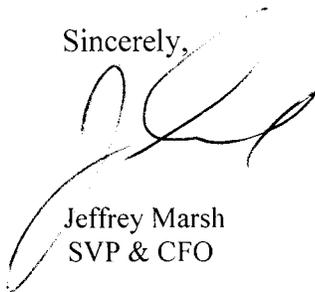
5. Disclosures

The proposed ASU lists significant additional disclosures, including a reconciliation of opening and closing balances of certain items and the disclosure of information about significant assumptions and judgments. The disclosure requirements are onerous and we do not believe they are necessary or useful for financial statement users. Much of the proposed new disclosure requirements relate to the many estimates required under the proposed methodology, particularly in regards to the lease term, options and variable lease payments. We propose that the Board reconsider the need for new disclosures, as we believe the current disclosure requirements are sufficient.

In summary, the AAR commends the FASB's ongoing efforts to improve financial reporting. However, we believe the costs of this proposed ASU far outweigh its benefits. While we have proposed some modifications that would reduce the cost of implementing, we believe that even with these modifications, the cost/benefit does not warrant proceeding with the proposed ASU. Additionally, the complexities and judgments involved with the ASU detract from one of the original goals of a new standard: to provide a simplified approach to lease accounting.

Thank you for the opportunity to comment on this very important issue. If you have any questions on the AAR's comments, please feel free to contact me at (202) 639-2118.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey Marsh", is written over a faint, light-colored signature line.

Jeffrey Marsh
SVP & CFO

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Sincerely,

Jeffrey Marsh
Vice President & CFO

Encl.: