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September 14, 2013

Mr. Russell Golden

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

Re: Leases – Topic 842 Proposed Accounting Standards Update (Revised), Issued: May 16, 2013

Dear Mr. Golden:

TRW Automotive Holdings Corp. ("TRW") appreciates the opportunity to comment on the Financial Accounting Standards Board ("FASB") Proposed Accounting Standards Update (Revised), *Leases* ("the Proposed ASU"). TRW is among the world's largest suppliers of automotive systems, modules, and components to global automotive manufacturers and related aftermarkets. Since TRW is in the lessee position, our comments will focus on the lessee accounting issues of the Proposed ASU.

TRW supports the overall objective of the Proposed ASU; that is, to require all companies to recognize all leases on the balance sheet, with the exception of short term leases. This appears to be consistent with the long standing request from many financial statement users. However, we do not support certain aspects of the Proposed ASU and have some significant concerns. We would like to first summarize our primary concerns and then address any specifics in our responses to your questions.

First, it appears the FASB has overreached the purported objective of the Proposed ASU. While the Proposed ASU may provide users with asset and liability information, we don't believe the end product will be useful to the financial statement users. Yes, all leases will be on the balance sheet, but the users will likely not understand the economic and operational differences between Type A and B leases which by definition are intended to generally be equipment and property, respectively, but may include a mix of both assets. We do not believe these new classifications will be useful.

Secondly, the Board has created an entirely new way of looking at leasing products and we are concerned about the unknown cost to preparers to reevaluate all existing leases under the new model, not to mention the significant time commitment that will be required.

Third, we question the resulting complexity of the Proposed ASU. On its face, the Proposed ASU is over 300 pages long. Not including the Basis for Conclusions, the Proposed ASU is 180 pages long. We question why a "principles based document" is so long so as to achieve the simple objective of recognizing all leases on the balance sheet.

Our specific concerns and responses to questions are addressed below.

Question 1 – Identifying a Lease

Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

> **TRW Response** – We agree with the proposed definition. We believe that, for TRW, it will operate in effectively the same way as current GAAP.

Question 2 – Lessee Accounting

Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

> **TRW Response -** No. We do not believe the "more than an insignificant portion" test is helpful, but in fact complicates what should instead be straightforward. The problem resides in the fact that "insignificant" is not defined anywhere and this will lead to confusion in the application of the standard and disparate treatment of similar leases recognized and reported amongst industry peers. We realize the FASB has stated it does not believe the proposal would result in significant differences between industry peers and is also more principles based, but we point to the comparability issues within the IFRS landscape which, similar to the proposed lease accounting, at times can be too principles based.
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> Instead, TRW believes the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ based on the criteria used in current GAAP to differentiate between "Operating Leases" and "Capital Leases." This is a straightforward methodology rooted in the economic reality of lease arrangements and how they are used in everyday business. It also contemplates the legal nature of the arrangements. Furthermore, the current methodology more effectively, and we would argue more pragmatically, accomplishes the same result the "insignificance test" is intended to accomplish. The big difference between the current methodology and the proposed methodology is that, under the current methodology, there is little to no second guessing. Under the proposed methodology, lessee accounting may always be up for debate between auditors, regulators, and preparers. Should the Proposed ASU be enacted as written we believe that, over time, "insignificance" would eventually be defined by auditors and industry norms anyway. We believe that thresholds subject to a rebuttable presumption would be a better approach.
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> Our alternative is also consistent with what the Board has asserted is the major concern of users; that is, the issue of not recognizing operating leases on the balance sheet. The Board has not determined that users have issues with the actual criteria used to determine lease classification or that operating leases are executory contracts, but that the impact of operating leases on the balance sheet is not always transparent or readily determinable. We encourage the Board to stay focused on the actual concerns of financial statement users.
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> Please also see our related response to Question 4 below.

Question 3 – Lessor Accounting
Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

> **TRW Response** – While we are not generally in the position of a lessor, we do not believe the proposed "more than an insignificant portion" test is helpful from either a lessee or lessor perspective.

Question 4: Classification of Leases
Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

> **TRW Response** – No. We do not believe the requirements set out in said paragraphs to be helpful nor do we believe they reflect the business use of leases. Further, these paragraphs are confusing. The distinction made between property and equipment seems contrived, especially in light of the fact that sometimes property and equipment are fully integrated (e.g. fully automated warehouses).
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> We believe that current GAAP lease tests sufficiently accomplish the goal of classifying leases according to their legal and economic nature. The current classification guidance in U.S. GAAP has stood the test of time since 1977. Thus, we question the need to change anything with regard to lease classification.
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> We recommend all leases be recognized on the balance sheet, with the exception of those with a term of 12 months or less that have no renewal options. The four point test in current U.S. GAAP should continue to be used to determine whether the lease should be classified as a capital lease or an operating lease and, as discussed in question 2 above, used to determine the recognition, measurement, and presentation of expenses and cash flows arising from a lease. If the lease qualifies as an operating lease, the expense and asset amortization should be straight line whereas if the lease qualifies as a capital lease, the effective interest method would be used.
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> While we realize the Board is attempting to move toward a more principles based approach, we do not believe the Proposed ASU as written will lead to the comparability expected by users. Again, we point to the incomparability of industry peers within the current IFRS landscape that contains accounting guidance that can sometimes be too generic or ambiguous, similar to the ambiguity of the Proposed ASU.
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> This problem is clearly evident in the implementation guidance as presented in 842-10-55-62 through 842-10-55-65. In the Equipment lease example, 17% of the useful life of the asset is considered more than an insignificant part of the economic life of the asset, whereas in the Commercial Property example 38% of the useful life of the asset is not considered a major part of the of the remaining economic life of the asset. These examples are not helpful. We believe the lack of clarity or helpfulness in the examples will result in significant differences in how the "more than insignificant portion" test will be applied across industries and even within entities. It's confusing and not helpful and we do not believe applying this approach to lease agreements will add any incremental value to the financial statements that users will notice or appreciate. Again, we believe that thresholds subject to a rebuttable presumption would be a better approach.

Similar to the financial engineering performed by some entities to achieve certain financial statement outcomes for leases today, we also believe the proposed lease classification methodology will do nothing to mitigate preparers from orchestrating agreements to be Type A verses Type B in order to smooth the income statement impact. This all raises the question as to how useful will the Proposed ASU really be. The proposed lease classification is confusing at best, complicating what could be simple.

Question 5: Lease Term
Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

TRW Response – We agree with the proposals on lease term, including the reassessment. We understand U.S. GAAP to be a substance over form concept that reflects the economic realities of business transactions. Not including the suggested renewal periods in the lease analysis based on economic incentive, as discussed in the Proposed ASU, would ignore certain economic realities related to the context in which lease arrangements are executed.

With that said, we understand the Proposed ASU will require preparers to perform, at a minimum, a quarterly review of lease contracts to ensure the original assessments have not changed and, if they have, preparers will need to remeasure and account for the resulting changes. We see this as overly burdensome and would recommend limiting the reassessment to an annual exercise or a triggering event.

Question 6: Variable Lease Payments
Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

TRW Response – No. We believe current GAAP sufficiently addresses variable lease payments. The proposed reassessment of variable lease payments will significantly increase the time and cost burden on preparers while not providing an equal or greater value to financial statement users. We would not take issue if the variable payment reassessment was contingent on a change in the lease term as a result of the lease term reassessment as discussed in Question 5.

Question 7: Transition
Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the Boards should consider? If yes, what are they and why?

TRW Response – We believe the FASB should provide clearer guidance on the transition to ensure the comparability amongst industry peers. Again, the Board has created an entirely new way of looking at leasing products and we are concerned about the unknown cost to preparers to reevaluate all existing leases under the new model, not to mention the significant time commitment that will be required. While we believe a modified retrospective approach is helpful and cost saving, we question how well users will understand the new information at transition given that the periods will not be entirely comparable in addition to the underlying information being, in substance, different. We believe the modified retrospective approach would be more useful if the classifications were instead more consistent with current U.S. GAAP.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

TRW Response – No. Since the key concern of financial statement users is identified by the FASB: namely, "…there has been a longstanding request from many users of financial statements and others to change the accounting requirements so that lessees would be required to recognize those assets and liabilities" (Proposed ASU, page 1), then we do not see any need to require additional disclosures over and above what is currently required under U.S. GAAP.

Sincerely,

/s/ TAMMY S. MITCHELL

Tammy S. Mitchell
Vice President & Corporate Controller