

September 13, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Sir / Madam:

**Re: File Reference No. 2013-270 Exposure Draft of Proposed Accounting Standards Update
(Revised) Leases (Topic 842)**

TTX Company is pleased to provide our comments on the proposed accounting for leases contained in the referenced Exposure Draft.

TTX Company is North America's leading provider of railcars and related freight car management services to the North American rail industry. Our pool of railcars – over 200,000 cars strong – is ideal for supporting shippers in the intermodal, automotive, lumber, machinery, building materials, steel, and other commodity groups where flatcars, boxcars, and gondolas are required.

Our comments are attached.

Sincerely,

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Controller
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TTX Company
Comments on Proposed Accounting Standard on Leases (ASC 842)
September 13, 2013

Question 1: Identifying a Lease

This revised Exposure Draft defines a lease as — “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” An entity would determine whether a contract contains a lease by assessing whether:

- 1. Fulfillment of the contract depends on the use of an identified asset.**
- 2. The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.**

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

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.

We concur with the proposed guidance on how an entity would determine whether a contract contains a lease. We agree it is important to have a specific asset and a specified term identified in the contract. If a specific asset is not identified in a lease, it would not be possible for the lessor to derecognize the asset on their balance sheet in the case of a Type A lease. Consideration should also be given as to whether the contract provides the right to cancel the contract at any time. In that case, no obligation would be recorded and payments would follow current accounting guidance. On the concept of control of the assets, we agree the lessee needs to have the right to control the asset.

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?

We conceptually concur with this approach, as it reflects the underlying financing nature of certain lease contracts as opposed to the temporary use of an asset. There are some practical considerations that need to be considered in contractual arrangements that contain both lease and service or other components, particularly the separation of the lease component.

However, we would like further clarification on the definition of “insignificant” and “significant” in determining the lease classification. The current draft, as written, leaves open the opportunity for different interpretations which could complicate the preparation of financial statements and use of those statements

by investors. As we know the Boards' desire is to not define a "bright line" on this topic, we would like the Boards to narrow how this concept should be applied.

We also believe that using the remaining economic life of the asset to classify a lease may be difficult to implement, particularly for similar assets when there is little difference between the utility of a relatively "new" vs. "old" asset, and when these assets are part of the same contract.

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?

We concur conceptually that a lessor should apply different accounting approaches to different lease types. In the case of a Type A lease, the lessor should derecognize the asset, as it will be substantially consumed at the end of the lease. In that case, if the lessor does take repossession of the asset at lease termination, consideration needs to be given to the value of the asset to be re-recognized on the balance sheet of the lessor, which is the required recognition of estimated residual value at lease inception. In the case of Type B leases, we believe it is important for the lessor to continue to recognize the underlying asset, since the lease term will be insignificant to the life or value of the asset and the asset will be retained by the lessor at lease termination.

We reiterate our comments noted in Question 2, regarding further clarification on the definition of "insignificant" and "significant" and identification of the service component.

This approach may be difficult to implement inasmuch as a determination will be needed to classify each lease and may result in different classifications for similar assets, particularly for relatively "older" assets that have similar utility to "newer" assets, and when these assets are part of the same contract.

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?

We concur conceptually with this principle. However, as noted in our comments above, further clarification and guidance on the definition of "insignificant" and "significant" and to the application to "older" assets is needed.

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?

We concur with the general concepts regarding lease terms. We also agree that leases with initial terms of fewer than 12 months be afforded the opportunity to be excluded from the guidance set forth in this exposure draft, if an accounting policy election to do so is made. While we agree only those extension periods for which there is a significant economic incentive to extend be included in the calculations of the

asset and liability to be recorded on a company's balance sheet, we believe that in practice this may be difficult to determine, particular early in a lease, and costly to implement. We recommend that only the base lease term be included, and perhaps re-assess the impact of any options within 12 months of the end of the base lease term and record a new lease if appropriate.

Additionally, we agree with the reassessment of lease term if and only if there is a significant triggering event and not a regular period defined reassessment such as quarterly or annual reassessment. We fully concur with paragraphs 842-10-25-3 and 842-10-55-5 laying out the relevant factors that would trigger a reassessment.

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?

We concur that initial recognition and measurement include the variable component as proposed, but that annual re-measurement is cumbersome and less useful. We recommend the Boards provide for expensing changes in performance or index terms in the year they occur.

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?

We concur these approaches are reasonable if sufficient time is provided to begin the initial reporting year with prior presented years' data. Public companies must report both three years of Statements of Comprehensive Income as well as a five-year summary. Guidance on presenting summary information for earlier historical periods presented in adoption of the modified retrospective approach would be useful.

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?

We believe that a roll-forward analysis, or reconciliation, of the lease obligations is cumbersome and will entail extensive effort for limited, if any, value. We suggest that the requirement for a roll-forward of the lease obligation be eliminated. We concur with the remaining requirements.

Question 9: Nonpublic Entities (FASB Only)

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

1. **To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.**
2. **To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.**

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

We believe the primary proposed guidance should be applied to both public and non-public companies. The Board may want to consider the proposed permission to use, and disclose the use of, a risk-free discount rate for private companies that have no debt outstanding and do not borrow from banks or other parties; for these companies an incremental borrowing rate may be difficult to reliably ascertain. We noted in our answer to question 8 that we recommend the requirement for a roll-forward reconciliation of the opening and closing balances of the lease liability be eliminated.

Related Party Leases (FASB Only)

The FASB decided that the recognition and measurement requirements for all leases should be applied by lessees and lessors that are related parties based on the legally enforceable terms and conditions of the lease, acknowledging that some related party transactions are not documented and/or the terms and conditions are not at arm's length. In addition, lessees and lessors would be required to apply the disclosure requirements for related party transactions in Topic 850, Related Party Disclosures. Under existing U.S. GAAP, entities are required to account for leases with related parties on the basis of their economic substance, which may be difficult when there are no legally enforceable terms and conditions of the agreement.

Lessees should disclose terms and conditions that are not documented, where applicable, as well as the related party relationship. The basis of estimates, and the terms and conditions estimated, which are used for recognition and measurement should be disclosed.

Question 10: (FASB Only)

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

We reiterate our comment noted in Question 9, regarding related party leases.

Question 11: (FASB Only)

Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

We concur with the disclosures proposed in this standard, plus those included in topic 850 addressing transactions with related parties are sufficient and no additional disclosures are needed.

Question 12: Consequential Amendments to IAS 40 (IASB Only)

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40, Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

Not applicable to TTX.

Other Comments

We believe the Boards should further deliberate on the cost/benefit relationship of the proposed lease accounting standards. If the proposal is adopted, the scope of leases would broaden significantly and greater administrative burden would be placed on reporting entities to measure leases on a contract-by-contract basis, including changes thereto, each reporting period. In addition, the proposed rules appear to add complexity rather than providing simplification. Significant resources in terms of time and costs will be required to interpret, apply and implement these standards. The perceived benefits to the investor community are more nebulous.