December 4, 2020

Technical Director
File Reference No. 2020-700
Financial Accounting Standards Board
401 Merritt 7 PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2020-700, Proposed Accounting Standards Update (ASU), Leases (Topic 842) – Targeted Improvements.

Dear Technical Director:

We appreciate the opportunity to comments on the proposed ASU, Leases (Topic 842) – Targeted Improvements. 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 agree with FASB's Targeted Improvements to the Leasing guidance.

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 continue to provide feedback to the Board to support implementation objectives on the new lease accounting guidelines.

Issue 1: Sales-Type Leases with Variable Lease Payments - Lessor Only

1. Are the amendments in this proposed Update operable?

   Yes, the amendment would simplify lease classification for lessor sales-type leases for which lease payments are predominantly variable and existing operating lease system functionality could be used to account for these leases.

2. Should a lessor be required to classify and account for a sales-type lease with predominantly variable lease payments that do not depend on a reference index or a rate as an operating lease?

   Yes, we believe so. This amendment will better align the financial statements with the economics of an overall profitable lease. Recognizing a day one loss as the current guidance requires is misleading and does not provide meaningful information to users of financial statements. Making this amendment a requirement instead of an option would provide for consistent application of the guidance and comparability of information.

3. Should predominant be the threshold for determining when a lessor should classify a lease with variable payments that do not depend on a reference index or a rate as an operating lease? Alternatively, would another threshold be more appropriate and operable (for example, substantially all)?

   Yes, we believe that "predominant" should be the threshold when determining lessor lease classification of a lease with variable payments that do not depend on a reference index or a rate. The proposed guidance will better reflect the economics of the leases. For example, a profitable lease that is comprised of an estimated 40% fixed-rate payments and 60% variable lease payments would be classified as an operating lease given that 60% of the lease payments are predominantly variable; while using a "substantially all" threshold would likely not allow lessors to classify this lease as operating if the 90% bright line is used.

4. Would the proposed amendments provide improved decision-useful information for users of financial statements?

   Yes, we believe so. The amendment would allow for better matching of revenue and expense as variable payments are recognized as earned, partially offset by the asset's underlying depreciation expense. This proposed amendment would also result in greater convergence with IFRS 16. Most leases with predominantly variable payments are generally classified as operating leases by lessors under IFRS 16.

Issue 2: Option to Remeasure Lease Liability - Lessee Only

5. Are the proposed amendments operable?

   Yes, we believe the amendments are operable. Companies that are required to report under US GAAP and IFRS Standards are already familiar with the concept of remeasuring lease liability for a change in a reference index or rate. This option would reduce complexity and costs for companies with dual reporting requirements.

6. Should a lessee be provided with an option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based?

   Yes, we believe so. Allowing companies to make an election rather than requiring remeasurement would provide flexibility. While this option potentially would most benefit companies that are required to report under both US GAAP and IFRS Standards, other companies may find themselves in the opposite position where costs far outweigh the benefits of making this election.

7. Should a lessee be required to make an entity-wide accounting policy election to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based? Why or why not? If not, at what level should that accounting policy election be required to be applied?

   Yes, we believe so. An optional entity-wide accounting policy election would provide for consistent treatment of the entity's leases.

We also believe that allowing an accounting policy election by class of underlying asset should be considered. For example, potentially a company could conclude it is appropriate to elect this policy for building leases if these are significant, but also conclude that it would be overly costly and much less of a benefit to apply this to less significant equipment leases.

8. Would the proposed amendments provide improved decision-useful information for users of financial statements?

   We believe the proposed amendments, and related disclosures, would provide for decision-useful information for users of financial statements.

9. Would the comparability of information be significantly affected by the option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based?

   No, we do not believe so. Instead, this would allow dual reporters to have consistency in their financial statements and greater convergence with IFRS 16.

Issue 3: Modifications Reducing the Scope of a Lease Contract

10. Are the proposed amendments operable?

    We support the proposed amendment to exempt lessees and lessors from applying Topic 842 lease modification guidance to multiple component lease contracts that are partially terminated and the economics of the remaining components are not substantially changed. This exemption will reduce cost and complexity of accounting for these lease contracts.

    However, we believe that none of the termination payments directly associated with the terminated lease component should be allocated to the total payments of the remaining assets. We are also concerned about the operability of the proposed amendment to ASC 842-10-25-8B (c) as allocating a portion of the termination penalty to remaining lease components would add to operational complexity and may create manual work.

11. Would the proposed amendments provide improved decision-useful information for users of financial statements?

    Yes. We believe current modification accounting does not align with the economics of these types of lease contracts and does not provide clarity or improve transparency to the reader of the financial statements, and the proposed amendment would provide improved information..

12. Are there other aspects of the modification accounting model in Topic 842 that could be improved without compromising the decision usefulness of the information provided?

    We commend the board for introducing operative guidance to provide clarity and consistency. At this time, we do not have further suggested improvements to the modification accounting model.

Thank you again for seeking stakeholder perspectives for the Targeted Improvements. We are available to discuss our comments with the Board or any of its staff.

Sincerely,

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