TEXTAINER GROUP HOLDINGS LIMITED
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December 4, 2020

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

Submitted via electronic mail to director@fasb.org

Subject: File Reference No. 2020-700

Ladies and Gentlemen,

We appreciate the opportunity to provide our comments on the Proposed Accounting Standards Update - Leases (Topic 842) Target Improvements October 20, 2020.

Textainer Group Holdings Limited (NSE:TGH) ("Textainer", "Company", "we", "our"), has operated since 1979 and is one of the world's largest lessors of intermodal containers with approximately 2.3 million containers in our owned and managed fleet. We lease containers to approximately 250 customers, including all of the world's leading international shipping lines, and other lessees. We are involved in the purchase, leasing and resale of a fleet of marine cargo containers and also manage and provide administrative support to the third-party container investors' fleets. As of September 30, 2020, we managed containers on behalf of 13 third-party container investors (also referred herein as the managed fleet), providing acquisition, management and container sales services, in which the third-party container investors fleet accounted for approximately 13% of our total fleet.

We appreciate the Board's efforts to respond to stakeholder needs by addressing issues that have been identified associated with the adoption of Topic 842. We would like to provide our comments related to *Issue 1* in the Proposal regarding leases with variable lease payments. We believe the proposed amendments for *Issues 2* and *3* in the Proposal are operable and we do not have further comments. We are supportive of the Proposal and believe the amendments will reduce costs for preparers without impacting the usefulness and value to the users of the financial statements.

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

Issue 1 under the Proposal discusses the recognition of day-one losses for variable lease payments from a lessor perspective and we believe the amendments are operable and accounting for sales-type lease with variable lease payments as operating leases as opposed to sales-type leases provides the true economics of the transaction. However, from a head lessee (sub-lessor) perspective, we have concerns over the recognition of day-one gains upon commencement of certain sales-type subleases. Our head leases with the third-party container investors are based on variable payments that do not depend on a reference index or a rate and result in there being no right-of-use (ROU) asset. Accordingly, when we have a sublease that qualifies as a sales-type lease, we are recognizing a day-one gain equal to the amount of net investment in the sub-lease sales-type lease. We have further discussed below the

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background of our accounting for our head leases and sub-leases and the challenges and complexity we have encountered upon adoption of Topic 842.

Background of Textainer's management agreements

The Company enters into container management agreements with third party container investors. The fees earned by the Company for managing container portfolios on behalf of container investors are commensurate with the level of effort required to provide those management services and the Company does not have the obligation to absorb losses or the right to receive benefits that may be significant to the container investors. The management agreements with the container investors convey to the Company the right to control the use of the managed containers, therefore meeting the definition of a lease. The management agreements have accordingly been deemed to be leases under the guidance of FASB Accounting Standards Topic 840 and 842. The Company is deemed a sub-lease lessor for the managed containers leased to shipping lines or customers and a head-lease lessee for leasing containers from the third-party container investors.

Recognition by sub-lessor of day-one gain equivalent to the amount of net investment in the sales-type subleases of managed fleet when the head lease is based on variable payments

Our management agreements with container investors are classified as finance leases under Topic 842 as the 'head lease' lease term is for the majority of the economic useful life of the containers. From head lessor perspective (container investors), the management agreement is classified as a sales-type lease and from head lessee perspective (Textainer), it is also classified as a finance lease. Our management agreements are based on variable lease payments that do not depend on a reference index or a rate since the distribution amounts (net of our earned management fees) that we pay to the container investors are contingent when managed containers are on-lease to shipping lines and amounts are based on net operating income of the managed fleet. Therefore, from head lessee perspective, we do not recognize an ROU asset and lease liability under the head lease finance lease since it did not meet the minimum lease payments criteria due to variable lease payments.

Under Topic 842, when a sublessor is not relieved of its primary obligation under the head lease and the sublease is a sales-type lease (perspective of sub-lessor), the sublessor will recognize the net investment in the sublease. However, since we do not have the ROU asset and lease liability to derecognize from the head lease, we are required to record a day-one gain upon commencement of the sales-type subleases equivalent to the amount of the net investment in the sublease. We believe this day-one gain does not represent the underlying economics at lease commencement or over the lease term as Textainer, as head lessee, only earns a small management fee on these finance leases with minimal administration or burden until the sub-lessee initiates the bargain purchase option at the end of the lease term.

The administrative burden places on Textainer is disproportionate to any perceived benefit as it requires additional costs and complexities due to the variable nature of the management agreements. Therefore, we ask the Board to kindly re-visit and consider the impact to sub-lease accounting from a head lessee (or sub-lessor) perspective when there are uncertainties concerning the payment steams or when

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variable payments are involved under the head lease from a lessee perspective. One alternative is to account for a sublease that qualifies as a sales-type lease, when there is no ROU asset recognized in the head lease arrangement as an operating lease.

Thank you for your consideration. If you have any questions or require additional information, please feel free to contact either one of us at mkc@textainer.com or cll@textainer.com.

Sincerely,

Michael Chan
Executive Vice President and Chief Financial Officer

Cannia Lo
Senior Director of External Reporting and Consolidation