



December 15, 2010

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

International Accounting Standards Board  
1<sup>st</sup> floor, 30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Dear Sir/Madam:

**Re: File Reference 1850-100 Exposure Draft of Proposed Accounting Standards Update Leases (Topic 840)**

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,

Donald J. Schaffer  
Controller  
312-984-3715  
Don.Schaffer@ttx.com

**TTX Company**  
**Comments on Proposed Accounting Standard on Leases (ASC 840)**  
**December 15, 2010**

**Question 1: Lessees**

**(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We concur with the lessee recording a right-of-use asset and related liability as long as the specific asset is identified and a lease agreement exists. The assets are resources used and useful in the operation of an entity's business, and the lease payments represent a contractual liability as certain (except in bankruptcy proceedings) as any other debt obligation. However, we believe their measurement should reflect only lease payments to be made during the base lease term. Payments related to any options to extend the lease should not be included until a liability is established. Further, using only the base lease term for this measurement avoids the proposed more-likely-than-not standard which would be difficult to implement due to its subjectivity.

**(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We concur with the proposed amortization of the right-to-use asset and the interest on the liability as they are comparable to the purchase of property and equipment and related financing arrangements, respectively. However, we caution that the apparent front-loading of expenses for lessees under the proposed standard may cause users of the financial statements to make their own adjustments. Depending on the "age" or remaining lease term of the leases at time of adoption, comparability among preparers' financial statements also may be affected.

We view the resources acquired/available and the obligation incurred to be the key attributes of the transaction and find the separation of assets by form of ownership/acquisition less compelling – perhaps a distinction for disclosure in the footnotes. We encourage the presentation of the classification of fixed asset resources by land, buildings, machinery and equipment and the like in total, regardless of the form of ownership to be the most informative.

**Question 2: Lessors**

**(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?**

We disagree with the proposed lessor accounting because it is conceptually inconsistent with the proposed lessee accounting. The Exposure Draft requires the lessee to record a right-of-use asset when the lessor makes the asset available to the lessee. It seems inconsistent for the lessor to record a performance obligation after the lessor has performed under the lease and made the asset available to the lessee upon lease

commencement. The performance obligation approach, in our opinion, double counts the asset. Under the proposed guidances, the lessor would record a lease receivable in addition to the underlying asset. The lease receivable represents part of the future cash flows to be generated by the asset. Recognizing these cash flows while not derecognizing the asset appears to double count the cash flows. While the corresponding performance obligation would largely offset the lease receivable asset, such presentation is confusing.

**(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?**

As noted above, we disagree with the performance obligation approach. While we generally concur with the derecognition approach, we believe lessor accounting should be consistent with the proposed revenue recognition standard being discussed.

**(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?**

Notwithstanding our comment above in 2a, if lessor accounting is adopted as proposed we concur that leveraged leases should not have a separate approach.

### **Question 3: Short-term Leases**

**This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:**

**(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).**

**(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).**

**(See also paragraphs BC41–BC46.)**

**Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?**

We disagree with the proposed provisions for accounting for short-term leases as defined. We suggest that such leases be considered rental agreements and continued to be accounted for as rent expense and accrued as required. By their nature, these types of agreements often serve much more of an operating, rather than financial, need. In addition, continuing to account for them as rent expense would avoid undue complications and costs of implementation. As such, we believe lessees should be able to treat short-term leases according to the same rules as provided for lessors.

#### **Question 4: Definition of a Lease**

**(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?**

We concur with the conceptual definition of a lease as a contract in which the right to use a specified asset or assets is conveyed for a period of time, in exchange for consideration. Further, we believe the guidance in B3 is appropriate. However, we believe the definition of a lease should be based on terms and conditions of express contracts or agreements as well as applicable statutory laws. The provisions of Appendix B regarding implicit identification will be difficult to implement in practice, in our opinion.

We suggest the Boards provide additional guidance regarding what is and isn't a lease. In the rail industry, so-called "car hire" arrangements provide one or more railcars to a railroad to move commodities for their customers. These arrangements do not specify a term and a per diem rate is charged to the operating railroad for the number of days it operates the car(s). As a result, the railroad pays a fixed rate or market price per unit of output or other utility of the asset, that is, a day's use of the car. Commonly, cars move from one railroad to another. The number of operating days for each railroad fluctuates and cannot be reliably estimated. Therefore, we believe such arrangements should be considered a service contract and continue to be accounted for as rent expense by the operator of the car(s). While we believe this interpretation is correct, additional clarification and examples are requested.

**(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?**

We believe transactions that explicitly transfer the underlying the asset to the lessee at the end of the lease would represent a sale. However, we suggest the proposed revenue accounting standard should govern the definition of a sale.

**(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?**

As noted above, we believe car hire arrangements are not leases and should be considered service contracts. However, because this assumption could be open to different interpretation, we suggest that additional guidance be provide in B4.

### **Question 5: Scope Exclusions**

**This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).**

**Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?**

We concur the guidance should apply to all leases. However, as noted in our response to Question 4, we suggestion further clarification be added.

### **Question 6: Contracts that Contain Service Components and Lease Components**

**This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, Revenue Recognition (Topic 605): Revenue from Contracts with Customers, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:**

**(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.**

**(b) The IASB proposes that:**

**(i) A lessee should apply the lease accounting requirements to the combined contract.**

**(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.**

**(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.**

**Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?**

We believe distinct service components should be accounted for in accordance with the proposed revenue accounting standard. However, current guidance on distinct services could lead to the capitalization of executory costs, and we believe such practice is inappropriate since such costs are not capitalized if the asset is purchased. Some parties may prefer an expanded discussion of “net” real estate leases in this context. Most real property leases of size have separate provisions (service component provisions) for costs to be “passed through” – typically taxes, insurance, and common area maintenance.

### **Question 7: Purchase Options**

**This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).**

**Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?**

We concur that purchase options should be accounted for only when they are exercised since the lessee does not have an obligation to purchase until then and upon acceptance by the lessor if such acceptance is required by the contract.

### **Question 8: Lease Term**

**Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?**

We disagree with using the longest possible lease term that is more-likely-than-not to occur. We believe a fixed and determinable standard should be used. In addition, we encourage the Boards to separate contingent rentals based on sales volume or other lessee economic performance indicators, as discussed in question 9 below. We believe asset value changes will be less frequent with such a change, and that expensing as incurred better reflects the economics of such contingent rentals.

In our view, options to extend are not an obligation of the lessee until it is certain that they will be exercised. Furthermore, the standard of more-likely-than-not is inherently subjective. While conceptually interesting, the expected outcome approach would be impractical to implement, particularly for long-term equipment leases. Basing probabilities on past practice and intentions is too subjective. Hence, we propose that only the remaining base lease term should be used for lease term. If a renewal option has been extended, then the remaining extended lease term should be used.

### **Question 9: Lease Payments**

**Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?**

**Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?**

We concur with the inclusion in estimated payments of term option penalties and certain contingent rentals if they can be reasonably estimated. We believe that contingent rentals in the nature of escalation amounts, with an uncertain amount (“index based”) should be included in payments used to establish the liability and the asset(s). We believe contingent rentals based on sales volumes or other lessee economic performance measures should be reported as period expenses in the period imposed, if and when such amounts are payable.

We also suggest “term option penalties” be clarified/defined.

#### **Question 10: Reassessment**

**Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?**

We concur leases should be re-assessed but only if a triggering event, similar to impairment accounting, occurs. As indicated above, expensing contingent rentals based on sales volumes or other economic performance attributes of the lessee should reduce the need for reassessment as well.

#### **Question 11: Sale and Leaseback**

**Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?**

We concur with the provisions of the proposed standard regarding sale and leaseback transactions.

#### **Question 12: Statement of Financial Position**

**(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We concur the lessee’s obligation should be shown separately in the statement of financial position reflecting the practice of reporting different levels of rights held by debt capital providers. We believe the right-to-use asset should be included in the property, plant, and equipment section of the statement of financial position but not separately since it reflects a resource for the lessee to use similar to other resources classified in that section. Footnote disclosure should be sufficient. We note our comment addresses financial statement presentation, and that most entities will want to separate their “fixed asset” accounting for “owned” and “leased” assets to facilitate internal analysis and income and property tax return preparation activities.

**(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)?**

**Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

As noted above, we believe the proposed lessor performance obligation approach effectively double counts the asset on its books and, in addition, the lessee records the asset as well. Consequently, this approach should be re-thought. If the proposed accounting is implemented, we suggest the details be included in the footnotes.

**(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We agree this information should be provided but disclosed in the footnotes.

**(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

We agree but suggest this information be disclosed in the footnotes.

**Question 13: Income Statement**

**Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?**

We do not believe lessees and lessors should present lease income and expense separately from other income and expense in the income statement. Footnote disclosure for lessees should be sufficient. We believe that depreciation and amortization of all property, plant, and equipment resources of a lessee should be combined, consistent with our views regarding the assets discussed in question 12 above. We concur that separation of the interest on lease obligations from other interest is useful if the entity categorizes interest costs. If the entity presents a single amount, the interest on the lease obligation should be included with all other interest. The separate disclosures for “debt” and “lease debt” provide adequate opportunity to divide the interest as desired or appropriate.

We believe that clarification needs to be provided as to where a lessor should report income, if not in revenue, for example, other income.

**Question 14: Statement of Cash Flows**

**Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?**

We believe a lessee should reflect lease activity as it does any other investment and borrowing, with the principal portion of lease payments separately stated in the financing section as repayments, and the assets acquired in the investing section of the statement of cash flows. However, certain arrangements are entered into for operational purposes and not as a financing. In this case, lease payments should be considered part of operating cash flow. For financing-related transactions, the Boards should make the presentation of the acquired assets and borrowing explicit. We realize the acquisition presentation proposed is a variation from a literal “cash” transaction presentation, but is one which better reflects the economic “cash equivalents” of the transaction. Such amounts obviously are a net of zero at initial recognition.

We believe the cash flow statement presentation employed by the lessor should be driven by the business model characteristics discussed in paragraph BC27, with a financing model showing lending and repayment. Lessors who have a “rental” business model should reflect lease payments in operating activities as provided in the Proposed Standard.

### **Question 15: Disclosure**

**Do you agree that lessees and lessors should disclose quantitative and qualitative information that:**

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and**
- (b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows?**

**(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?**

While we support the Boards’ objective of adequate disclosure of leases, we believe the disclosure requirements of the proposed rules are excessive, in particular providing reconciliations. We do support disclosing the amounts recognized in the financial statements to the extent not reflected in the primary financial statements. However, we disagree with describing how leases may affect the uncertainty of future cash flows is needed as we believe future payments should only reflect known obligations, that is, payments during the base lease term and any payments from any committed lease renewals.

### **Question 16: Transition**

- (a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?**

We agree that the simplified retrospective approach should be used for the primary financial statements. However, this approach may result in a lessee recognizing a disproportionately high amount of expense in the first year presented depending on the “age” of the lease portfolio. We also point out that this approach will result in a different basis of presentation in historical financial data summaries.

- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**

Full retrospective application may be appropriate if a lessee would otherwise recognize a disproportionately high level of expense in the early years after adoption depending on the “age” of its lease portfolio. However, we believe implementing this approach would be cumbersome and costly. The information needed for long-term equipment leases could be particularly problematic.

**(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

In addition to financial statement impacts, there are many issues to consider in the implementation of these new rules including changes to debt agreements, incentive plans, financial and operational systems, etc. Adequate time to determine specific requirements and implement those changes must be provided.

#### **Question 17: Benefits and Costs**

**Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?**

In general, we believe the benefits of the proposed guidelines outweigh the costs to implement except for short-term rental agreements, which as we indicate above, should not be treated as leases. Nevertheless, the myriad transition issues must be considered.

#### **Question 18: Other Comments**

**Do you have any other comments on the proposals?**

We suggest Initial Direct Costs be defined in the new rules. As noted above, “term option penalties” also need to be defined and suggest specific examples should be provided.

#### **Question 19: Non-public Entities**

**Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?**

We believe the proposed guidance should be applied to all companies.