



TRUCK RENTING AND LEASING ASSOCIATION

July 17, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1680-100

Dear Mr. Golden:

The Truck Renting and Leasing Association (“TRALA”) appreciates the opportunity to provide comments to the Financial Accounting Standards Board (“FASB” or “Board”) on the proposal contained in the FASB Discussion Paper, *Leases: Preliminary Views* (“the Discussion Paper” or “DP”).

TRALA is a voluntary, non-profit national trade association for the truck renting and leasing industry. TRALA's mission is to foster a positive legislative and regulatory climate within which companies engaged in leasing and renting vehicles and trailers, as well as related businesses, can compete without discrimination in the North American marketplace. TRALA's regular membership includes more than 400 companies representing the vast majority of truck renting and leasing operations in the United States. Together, the industry purchases almost 40 percent of all new commercial trucks in classes 3-8 manufactured in the United States and placed into commercial service. TRALA's associate membership includes companies that supply materials, products and services such as truck and trailer manufacturers, component suppliers, tire makers, engine manufacturers, communications/technology suppliers, finance and insurance companies, graphics suppliers, environmental and legal consultants, and numerous others providing services to the industry.

TRALA supports the goals of the Securities and Exchange Commission and the FASB in improving the transparency and accuracy of financial reporting. TRALA members appreciate the need to capitalize material lessee operating lease obligations much the same as rating agencies currently capitalize lease obligations in their credit analyses. In conjunction with the Lease Accounting Project, TRALA has worked in cooperation with the FASB to facilitate the development of fair and effective accounting standards. These efforts have included inviting FASB staff to brief TRALA's Board of Directors on the Lease Accounting Project in November 2006 and submitting a letter to the FASB in

February 2008 outlining the scope of the truck leasing industry and the types of leases used in the industry.

On behalf of its members, TRALA has several specific areas of concern in the DP as follows:

Materiality and Complexity

Although TRALA supports capitalizing material right-to-use (former operating leases), the vast majority of truck lessees are small- to medium-sized companies that are unlikely to have the accounting resources to adapt to the significant complex changes and reporting requirements proposed in the DP. These companies will incur added costs and administrative burdens in order to analyze terms, rates and estimates and determine how to account for them. The estimation of the lease term and rents and the reassessment and adjustment at each financial reporting date adds further costs and burdens to the lessee without adding clarity or accuracy to the truck lessee's financial reporting. The relatively short-terms and low dollar amounts involved in truck leasing further minimize the cost effectiveness of these reporting reassessment requirements and will not result in meaningful adjustment amounts.

TRALA therefore recommends that right-to-use equipment leases with expected lease terms of 60 months or less and less than \$250,000 in equipment costs should continue to be accounted for as operating leases. We think that readers of financial statements understand operating lease accounting and would benefit from increased disclosures for leases that continue to be accounted for as operating leases. These disclosures could include providing the present value (PV) of the rents, the weighted average incremental borrowing rate and the estimated rents to replace expiring operating leases.

Form over Substance

As pointed out in TRALA's 2008 letter to the FASB, there are many types of leases utilized in the truck leasing industry and an even wider range of leases in the broader equipment leasing industry. TRALA is concerned that the FASB's approach of treating all leases as the same will result in an accounting model that does not represent the economic reality of a right-to-use lease. There are significant differences between a right-to-use lease and a right-to-own/finance lease. The Discussion Paper's failure to recognize differences in the accounting of assets under these different lease scenarios would reduce the clarity and accuracy of financial reporting. Therefore TRALA believes there should be a classification of leases that differentiates between capital/finance leases and right-to-use leases and that there should be different accounting methods and presentations for each type of lease.

P&L and Balance Sheet Presentation

The majority of leases utilized in the truck leasing industry are right-to-use leases where the lessee has the temporary right to use the asset for a determined amount of time and is obligated to return the asset at the end of the lease term. Under the model provided for in

the DP, in a capitalized right-to-use lease, the asset would be considered Property Plant and Equipment (PP&E) and would be depreciated straight line over the lease term. The DP treats the capitalized lease obligation as a loan with imputed interest. TRALA's position is that under a capitalized right-to-use lease, the profit and loss (P&L) pattern should be straight line, reflecting the operating expense nature of the lease. The value of the asset and the liability absent impairment are the same over time, equal to the present value of future payments. The asset and liability under such a lease should be amortized to rent expense, rent expense should be accrued and as rent is paid, it should be charged to accrued rent payable. This also avoids the need for deferred tax accounting.

The right-to-use asset should have a separate classification on financial statements so that users understand that the asset is only a temporary right to use the asset. However, it should be placed with the PP&E so that users understand the assets available to the company for revenue generation. Rather than inventing a whole new standard, TRALA proposes using the existing IAS 17 as the basis for new standards, modifying it to capitalize former operating leases but leaving P&L accounting and cash flow treatment as-is and leaving capital lease accounting as-is.

Discount Rates

The incremental borrowing rate is the right rate to value the right-to-use asset and liability in material leases. It is important that the implicit rate be used in capital leases or leases that transfer ownership rights. It may not seem important to use the implicit rate but it is the rate that the IRS and legal rules use. The difference between it and the incremental borrowing rate should never be material in our types of leases yet if it is used it will trigger the need for deferred tax accounting and create other needless complications.

Contingent Rents

Many truck leasing transactions provide for contingent rents based on usage of the asset. These charges are generally immaterial and intended to protect the lessor's residual asset from decline due to excessive use. They should not be counted as liabilities at the time of the lease inception because the event that triggers the liability has not occurred. TRALA supports the process under current GAAP, where usage-based contingent rents are not accounted for until incurred. Usage-based contingent rent liabilities can be avoided by the lessee through changes in usage practices.

Bundled Executory Contracts

Many truck leases are "full-service" leases that incorporate non-fixed costs including vehicle maintenance costs, tax and regulatory compliance costs, and other executory costs bundled into the lease rate. Unbundling these costs would present significant administrative costs and competitive concerns for truck lessors. However, capitalizing an estimated portion of these costs would misrepresent the real value of the leased asset and could detract from the accuracy and clarity in financial statements sought by the FASB. Lessees view the entire amount of full service lease costs as operating costs.

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Lessor Accounting

TRALA believes that lessor and lessee accounting should be dealt with together as many of the issues are the same or interrelated. For example, the failure to classify leases from a lessee perspective may appear (falsely) to streamline lessee accounting. However, it raises questions as to how lessors will account for right-to-own or sales type leases.

TRALA also believes that there should be symmetry between lessee and lessor accounting. If the lessee is acquiring the right to use an asset and recording that asset as well as a liability, the lessor should derecognize a portion of the asset and record a receivable. Some lessors in our industry use leveraged leases to finance their lease portfolios to reduce funding costs as tax benefits reduce the lease pricing. If leveraged lease accounting is eliminated the cost of funding will increase.

TRALA welcomes the opportunity to work with the Board on the development of new lessor accounting standards. Importantly, as outlined in TRALA's February 2008 letter to the FASB, there are multiple types of leases and lease terms utilized by different segments of the truck leasing industry. These include both short-term rentals and longer-term transactions. A single accounting approach cannot effectively encompass these various types of leases.

We also include the answers to the questions in the DP as an attachment to this letter. We appreciate the opportunity to comment and offer our services in the event you need any information on our segment of the industry. We are committed to helping you produce accounting standards that are simple, workable and reflect the substance of our transactions in the financial statements of our members and their customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom James", written in a cursive style.

Thomas M. James
Senior Vice President Government Relations

Attachment

Answers to questions for respondents

Introduction

Chapter 2: Scope of lease accounting standard

Question 1

The boards tentatively decided to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards. Do you agree with this proposed approach?

If you disagree with the proposed approach, please describe how you would define the scope of the proposed new standard.

Answer

The scope should include lessor accounting as the issues are related and complimentary. The scope must deal with the former capital leases and the former operating leases. They have distinctly different economic effects. We propose that the board either develop a classification model along with two distinct accounting methods or scope out the former capital leases and account for them as financed purchases of PP&E.

Question 2

Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

Answer

Immaterial leases should be excluded. We recommend retaining operating lease accounting for all equipment leases that are not financings and which have an asset cost of \$250,000 or less and have a lease term of 5 years or less. This will eliminate the complexity for small and medium sized companies which represent the majority of our customers. We recommend enhancing the operating lease disclosures to include the PV of the rents at the respective lease incremental borrowing rates, the weighted average implicit rate and the expected costs to replace the leased assets at the end of the leases.

Chapter 3: Approach to lessee accounting

Question 3

Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.

Answer

We agree with the analysis for material leases but feel that there are also many simple leases that are financings and there is no analysis of that major class of leases.

Question 4

The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognize:

(a) an asset representing its right to use the leased item for the lease term (the right-of-use-asset)

(b) a liability for its obligation to pay rentals.

Appendix C describes some possible accounting approaches that were rejected by the boards. Do you support the proposed approach?

If you support an alternative approach, please describe the approach and explain why you support it.

Answer

We think there should be no change to the current capital lease accounting rules. We agree with the proposed approach for material right of use leases.

Question 5

The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively decided to adopt an approach whereby the lessee recognizes:

(a) a single right-of-use asset that includes rights acquired under options

(b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees.

Do you support this proposed approach? If not, why?

Answer

We agree that the contract approach is a more practical approach. We agree that bargain options and likely payments under residual guarantees are minimum lease payments but assuming that the contract approach justifies capitalizing contingent rents is not correct. Contingent rents do not meet the definition of a liability until the event that triggers the payment has occurred. Given our opinion above it would seem that the approach is much like current US GAAP. A good deal of work can be avoided if we use FAS 13 or IAS 17 as a starting point and amend as necessary.

Chapter 4: Initial measurement

Question 6

Do you agree with the boards' tentative decision to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate?

If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.

Answer

Again, assuming we are discussing material right of use leases (the former operating leases) we agree that the incremental borrowing rate is the right discount rate. For leases that are capital leases/financings, the right rate is the implicit rate in the lease. This is an important difference.

Question 7

Do you agree with the boards' tentative decision to initially measure the lessee's right-of-use asset at cost? If you disagree, please explain why and describe how you would initially measure the lessee's right-of-use asset.

Answer

Cost in a lease that is a financing is the cost of the asset hence the need to continue to use the implicit rate in the lease. For a right to use lease the initial measurement equal to the PV of the minimum lease payments is correct. Whether we call it cost or value may be semantics, but if it is important then we would call it a value. We do not believe that straight line depreciation is the right subsequent accounting. Rather mortgage amortization is the best representation of the decline in value of the asset.

Chapter 5: Subsequent measurement

Question 8

The boards tentatively decided to adopt an amortized cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset. Do you agree with this proposed approach? If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favor and why.

Answer

We believe capital lease accounting should be retained for leases that are financings. We believe the expense in a right to use lease should be straight line. These methods best reflect the economic nature of the two types of leases

Question 9

Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.

Answer

We believe the best proxy for fair value in a right to use is the present value of the rents. We believe that if mortgage amortization was used that asset balance would reflect the fair value of the lease asset.

Question 10

Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons.

If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

Answer

No. This is an over-complication for leases in our industry. The changes would be immaterial.

Question 11

In developing their preliminary views the boards decided to specify the required accounting for the obligation to pay rentals. An alternative approach would have been for the boards to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities. Do you agree with the proposed approach taken by the boards? If you disagree, please explain why.

Answer

We agree that in material right to use leases the obligation to pay rent should be capitalized at the present value of right-to-use lease payments. If the lease is a financing the obligation should be treated as a loan with an interest rate of the implicit rate in the lease.

Question 12

Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortization or depreciation in the income statement. Would you support this approach? If so, for which leases? Please explain your reasons.

Answer

We agree. The leases that this should apply to are those where the rights are merely rights of use. The payment is a rental and the rent is an operating expense.

Chapter 6: Leases with options

Question 13

The boards tentatively decided that the lessee should recognize an obligation to pay rentals for a specified lease term, i.e. in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease

term. Do you support the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Answer

We agree with the approach for material leases only.

Question 14

The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognized as an adjustment to the carrying amount of the right-of-use asset. Do you support the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why. Would requiring reassessment of the lease term provide users of financial statements with more relevant information? Please explain why.

Answer

We do not think that our leases are material so we think that reassessment is an unnecessary burden. Any adjustments would be immaterial

Question 15

The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease. Do you agree with the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Answer

We agree that a bargain purchase option should be included in minimum lease payments to be capitalized. In that case the result is not a right to use lease but rather a financing.

Chapter 7: Contingent rentals and residual value guarantees

Contingent rentals

Question 16

The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Do you support the proposed approach? If you disagree with the proposed approach, what alternative approach would you recommend and why?

Answer

We do not agree as contingent rents are not liabilities until the event occurs that triggers the obligation.

Question 17

The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes. Which of these approaches to measuring the lessee's obligation to pay rentals do you support? Please explain your reasons.

Answer

Both approaches are too complicated for our sized assets.

Question 18

The FASB tentatively decided that if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Do you support the proposed approach? Please explain your reasons.

Answer

Yes as it is current GAAP and reflects the economics.

Question 19

The boards tentatively decided to require re-measurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments. Do you support the proposed approach? If not, please explain why.

Answer

As per above, we do not agree that contingent rents should be capitalized. Any adjustments in our sized leases would be immaterial.

Question 20

The boards discussed two possible approaches to recognizing all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:
(a) recognize any change in the liability in profit or loss
(b) recognize any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Which of these two approaches do you support? Please explain your reasons. If you support neither approach, please describe any alternative approach you would prefer and why.

Answer

We do not support capitalizing contingent rents. Contingent rents are immaterial in our leases so the cost benefit analysis would not show this as worthwhile.

Residual value guarantees

Question 21

The boards tentatively decided that the recognition and measurement requirements for contingent rentals and residual value guarantees should be the same. In particular, the boards tentatively decided not to require residual value guarantees to be separated from the lease contract and accounted for as derivatives. Do you agree with the proposed approach? If not, what alternative approach would you recommend and why?

Answer

We agree that residual guarantees are a liability if it is likely that a payment will be made.

Chapter 8: Presentation

Question 22

Should the lessee's obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons. What additional information would separate presentation provide?

Answer

We agree as we think the obligation is unique as it has a different risk profile. Rating agencies recognize that it may not be payable in bankruptcy.

Question 23

This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position. How should the right-of-use asset be presented in the statement of financial position? Please explain your reasons. What additional disclosures (if any) do you think are necessary under each of the approaches?

Answer

The right of use lease asset should be broken out from finance lease assets as the nature of the asset is different.

Chapter 9: Other lessee issues

Question 24

Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.

Answer

The DP should consider separating executory costs from equipment financing.

Chapter 10: Lessor accounting

Question 25

Do you think that a lessor's right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.

Answer

The DP does not provide much detail on the Board's direction on lessor accounting and we would like to defer detailed answers until such time as the Board has progressed further on this front. However, given the wide variety of leases and lease terms utilized by the truck leasing industry, it is clear that one single lessor accounting approach will not effectively work for all segments of the industry.

Question 26

This chapter describes two possible approaches to lessor accounting under a right-of-use model: (a) derecognition of the leased item by the lessor or (b) recognition of a performance obligation by the lessor.

Which of these two approaches do you support? Please explain your reasons.

Answer

Both approaches could work for different segments of the truck leasing industry. As stated above, one single accounting approach is not workable for all segments of the industry.

Question 27

Should the boards explore when it would be appropriate for a lessor to recognize income at the inception of the lease? Please explain your reasons.

Answer

Yes. Several of our members are manufacturers or dealers. We believe that a gross profit should be recognized up front if the lease is a financing. The financing revenue and service revenue, if any, should be recognized over time.

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Question 28

Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons.

Answer

N/A

Question 29

Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues.

Answer

Leveraged lease accounting should be included in the deliberations. The earnings rate for true leases should be the after tax yield.