TRALA

TRUCK RENTING AND LEASING ASSOCIATION

October 3, 2012

Delivered Via Email

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856
lfseidman@fasb.org

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
hhoogervorst@ifrs.org

Dear Chairmen:

The Truck Renting and Leasing Association ("TRALA") appreciates the opportunity to provide comments to the Financial Accounting Standards Board ("FASB" or "Board") and International Accounting Standards Board ("IASB" or "Board") on the final decisions made in the Leases Project as you begin drafting the new Exposure Draft.

TRALA is a voluntary, non-profit national trade association for the United States 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 550 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.

675 N. WASHINGTON STREET, SUITE 410 • ALEXANDRIA, VA 22314
TEL (703) 299-9120 • (703) 299-9115 • www.trala.org

Founded in 1939, the National Private Truck Council is the only national trade association exclusively representing the interests of the private truck industry and corporate/business private truck fleet management. With an actively engaged leadership team of Board representatives, member volunteers and staff, NPTC in the past decade has grown significantly to serve a rising professional class of private fleet practitioners meeting the challenges of modern corporate transportation. NPTC is the leading learning resource center, government affairs advocate, and business networking culture for America's top private fleet and supplier member companies. With 575 corporate members, the Council produces benchmarking, best practices, and economic data reports on the private fleet market; administers the highly regarded Certified Transportation Professional (CTP) training program, and conducts some of the most successful events in the trucking industry including the Annual Conference and Trade Show, the Private Fleet Management Institute, and the National Safety Conference. For more information about the Council's activities and programs, visit our website at www.nptc.org.

According to truckinfo.net (http://www.truckinfo.net/trucking/stats.htm#Size Stats) the broader US trucking industry (trucking companies and warehouses) employs an estimated 8.9 million people employed in trucking-related jobs; nearly 3.5 million are truck drivers. An estimated 15.5 million trucks operate in the U.S. It is estimated there are 1.2 million trucking industry companies in the US (97% operate 20 or fewer while 90% operate 6 or fewer trucks). The United States economy depends on trucks to deliver nearly 70 percent of all freight transported annually in the US, accounting for $671 billion worth of manufactured and retail goods transported by truck in the US alone. Additionally there is $295 billion in truck trade with Canada and $195.6 billion in truck trade with Mexico. Total revenue estimates generated by the industry are $255.5 billion. For Hire or Common Carrier Trucking companies generated revenue estimated at $97.9 billion. Private Fleets generated revenue estimated at $121 billion. These revenues exceed revenues generated by air transportation by $18 billion.

As you can see the industry is large and an important factor in the US economy but is made up of mostly small and medium sized companies that do not have access to public capital markets. They depend on banks, finance companies and leasing companies to finance their businesses, to finance the acquisition of assets and to provide leases of assets. Small and medium sized companies often choose to lease trucks under short and medium term leases that include services because of their limited resources – it is more efficient to outsource services, leasing preserves their ability to borrow and the accounting and administration of operating leases is simple.

The concerns that our customers have are to preserve borrowing capacity, to preserve capital and to manage/minimize operational costs. The recent decision to recognize that there are two types of leases is welcomed, as:
- capital leases reduce borrowing capacity (they are debt in bankruptcy) while operating leases do not,
- operating leases being executory contracts should have straight line costs (rent is a periodic cash expense to pay for the periodic right to use the asset) thus preserving capital compared to front loading

lease costs as in a capital lease,
- operating leases with straight line rent expense are less complex operationally
- the capital lease/operating lease distinction exists in tax and legal systems consistent with current GAAP, lessening administration costs.

While the two lease decision is welcome, the new classification tests that are different for real estate leases versus equipment leases present serious problems. The real estate classification tests are in line with the tax and legal systems (on a traditional risks and rewards basis) but the equipment lease tests are materially different. The implications are severe for our customers as follows:

-Unless the classification tests follow a risks and rewards basis for both real estate and equipment assets and unless the capital lease and operating lease assets and liabilities are separately reported, our customers will have to keep duplicate records using existing GAAP classification tests. Potential lenders will ask for the information before granting a loan. Disclosing which leases are the equivalent of a financed purchase versus those that are not assets or debt in bankruptcy is basic information needed for lenders to our industry. This may hamper small trucking companies' ability to borrow. There will be a need to argue that debt covenants that traditionally ignore operating lease obligations, as they are not debt in bankruptcy, are not broken. If debt covenants must be renegotiated it will result in even more legal costs and bank fees. It may even mean loans are called if the lender is not cooperative. For personal property and income tax purposes the distinction between the two types of leases will be different, again necessitating keeping duplicate records under existing GAAP to do tax returns and provide support for tax auditors.

-Unless the former operating leases get straight line expense recognition, there will be a loss of capital caused by front loaded expense recognition. This may cause lenders to view our customers as undercapitalized and they may be reluctant to lend. Front loading of lease costs will mean complex deferred tax accounting as the tax rules only allow deducting cash rent paid in executory contracts. Front loading of costs means doing present value calculations, preparing mortgage type amortizations and imputing interest. These are all complex calculations. Many of our small and medium sized customers do not have the computer systems or the technical accountants to make the calculations required by the proposed rules.

We view the proposed rules as providing no financial reporting benefit to users of financial statements. In fact we believe they make it more difficult to understand the effects of various types of lease transactions on our customers' financial results and financial positions. We also find the rules unduly complex to implement.

As we stated in our comment letter to the first Leases Exposure Draft, we have supported the notion that accurately reporting effects of capitalizing operating leases is important to users of financial statements. It appears that the ITAC advised the FASB that they do not even need the leases to be put on balance sheet as long as the disclosures are robust. For the reasons stated above we do not support the direction taken by the recent decisions of the Boards. We recommend maintaining the current GAAP risks and rewards classification methodologies for all types of leased assets. We recommend separately (separate from capital lease assets and liabilities) reporting or disclosing the assets and liabilities associated with the former operating leases. We would like the Boards to state that operating lease liabilities are not debt so that the new rules do not create debt covenant breaches. We also ask the Boards to leave the expense recognition and cash flow presentation the same as current GAAP for operating leases.

We remain ready to provide any further information you may need on our industry and the issues created by the proposed rules. We also appreciate your open process that allows us to provide comments to you.

Sincerely,

Thomas James
President & CEO
Truck Renting and Leasing Association

Richard P. Schweitzer

Richard P. Schweitzer
General Counsel
National Private Truck Council