



5 March 2014

Mr. Hans Hoogervorst
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Aviation Working Group – Comments on Leases Project

Dear Mr. Hoogervorst and Mr. Golden:

The Aviation Working Group (*AWG*) is an industry group whose members consist of the leading manufacturers, lessors and financiers of aircraft and aircraft engines. AWG has been closely following and reviewing with interest the leasing project activities of the FASB and IASB (the *Boards*). We have previously submitted comment letters on the exposure drafts and have commented on issues related to the project as they have arisen.

At the 22 January 2014 Joint Education Session, Staff Paper IASB Agenda Ref 3D/FASB Agenda Ref 265 was presented by the Staff and discussed by the Boards. The paper contained the following statement regarding the results of user outreach on lessee accounting:

19. Many users, including most industry-specific users, support the income statement proposals in 2013 ED for the following reasons:

- (a) Most users that provided feedback agree that there are economic differences between property leases and leases of assets other than property.*
- (b) Almost all airline and transport analysts agree with the proposal to recognize and present amortization separately from interest for most leases of assets other than property because, in their view, there should be consistency in the treatment of owned and leased assets [emphasis added].*

This was not consistent with the experience of our members. As providers of aircraft, engines, leases and loans to airlines, our members analyze customer financial information and also are aware of how other investors in the airline sector use financial information to analyze reported results and prepare financial projects. Based upon our collective experience we would not expect that “almost all” airline analysts would agree with the proposals. At a minimum, we expected the views of analysts to be more diverse than what was reported.

To test that expectation, and to do so in a data-based, empirical manner, the AWG prepared a short, one page survey with seven questions and distributed it to analysts at major financial services firms. The analysts were predominately based in the U.S. and focused on equities, but the group that responded did include three debt analysts and two analysts from outside the U.S.

The survey included the following question:

When analyzing an airline’s financial statements would you prefer for lease obligations to be accounted for using:

- a. The existing lease accounting model*
- b. The model proposed in the exposure draft (aircraft using Type A, facilities using Type B)*
- c. A model that would account for all leases (aircraft and facilities) using the Type A model*
- d. A model that would account for all leases (aircraft and facilities) using the Type B model*
- e. Another approach [please describe] _____*

Of the ten analysts who responded to our survey, nine favored the existing lease model over the approaches proposed in either of the exposure drafts and one favored accounting for all leases using the Type B model. The analysts selected these responses even though they viewed lease obligations as being the same as or similar to debt obligations. This is not in line with what was reported in the Staff paper.

The full survey – which asked a range of related questions – and a tabulation of responses are attached to this letter.

The results of this survey raise a number of questions, including as regards transparency during the outreach process and methodology. As the specific questions asked during outreach and the responses received to the questions have not been included in a Staff paper, it is not possible to make specific comments. Yet, given the significant divergence between the reported results of user outreach and our observations in this one area, there is a *prima facie* concern about the formulation of the questions and inferences drawn from the responses thereto.

As the Boards move forward with the lease accounting project, a clear understanding of what information serves the needs of investors, reflects the economics of lease contracts and is cost effective to prepare is necessary in order to construct a high quality accounting model for leases. We

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would ask the Boards to provide more transparency during their outreach activities, including on the exact questions posed, responses thereto, and inferences therefrom.

We respectfully request that this letter and the survey results be distributed to all of the Board members. We would be pleased to discuss these comments further with the Boards and their Staff.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Wool". The signature is written in a cursive, somewhat stylized font.

Jeffrey Wool
Secretary and General Counsel
Aviation Working Group

Attachments

Aviation Working Group
Lease Accounting Project
Survey of Airline Industry Analysts: Lessee Accounting

In their revised exposure draft on Leasing, the FASB and IASB proposed two models for lessee accounting. The first, Type A accounting, would have lessees record a lease asset and lease obligation and separately amortize the asset and liability as if leases were equivalent to the separate acquisition of an asset and the incurrence of debt. The separate amortization of the asset and liability would lead to the lessee reporting expense related to the lease (displayed in the earnings and cash flow statements as depreciation/amortization and interest expense) that would be greater than rent early in the life of a lease and less than rent in later periods. The second model, Type B accounting, would also have a lessee record a lease asset and lease obligation, but the earnings and cash flow statement statements would reflect a single rent expense/payment. Under the proposals in the exposure draft, leases of aircraft would be accounted for using the Type A model and leases of real estate, including terminal facilities, would generally be accounted for using the Type B model.

Below are a series of questions regarding the presentation and modeling of leases.

1. When analyzing operating lease obligations do you consider them to be:
 - a. The same as a debt obligation
 - b. Similar to a debt obligation
 - c. Another class of obligation

2. Do you adjust airline financial statements to capitalize operating lease assets and obligations today:
 - a. Yes
 - b. No

3. If you adjust airline financial statements today do you separate adjustments made for aircraft leases from those made for terminal and other facility leases:
 - a. Yes
 - b. No
 - c. N/A

4. If you capitalize lease assets and obligations for aircraft as part of your analysis today, how is the impact modelled in the earnings statement:
 - a. No impact, rent expense continues to be modeled in the earnings statement
 - b. Separate rent into interest and depreciation components
 - c. Separately amortize the asset and liability consistent with Type A accounting
 - d. Other method

5. If you capitalize lease assets and obligations for terminal facilities and other real estate leases as part of your analysis today, how is the impact modeled in the earnings statement:
 - a. No impact, rent expense continues to be modeled in the earnings statement
 - b. Separate rent into interest and depreciation components
 - c. Separately amortize the asset and liability consistent with Type A accounting
 - d. Other method

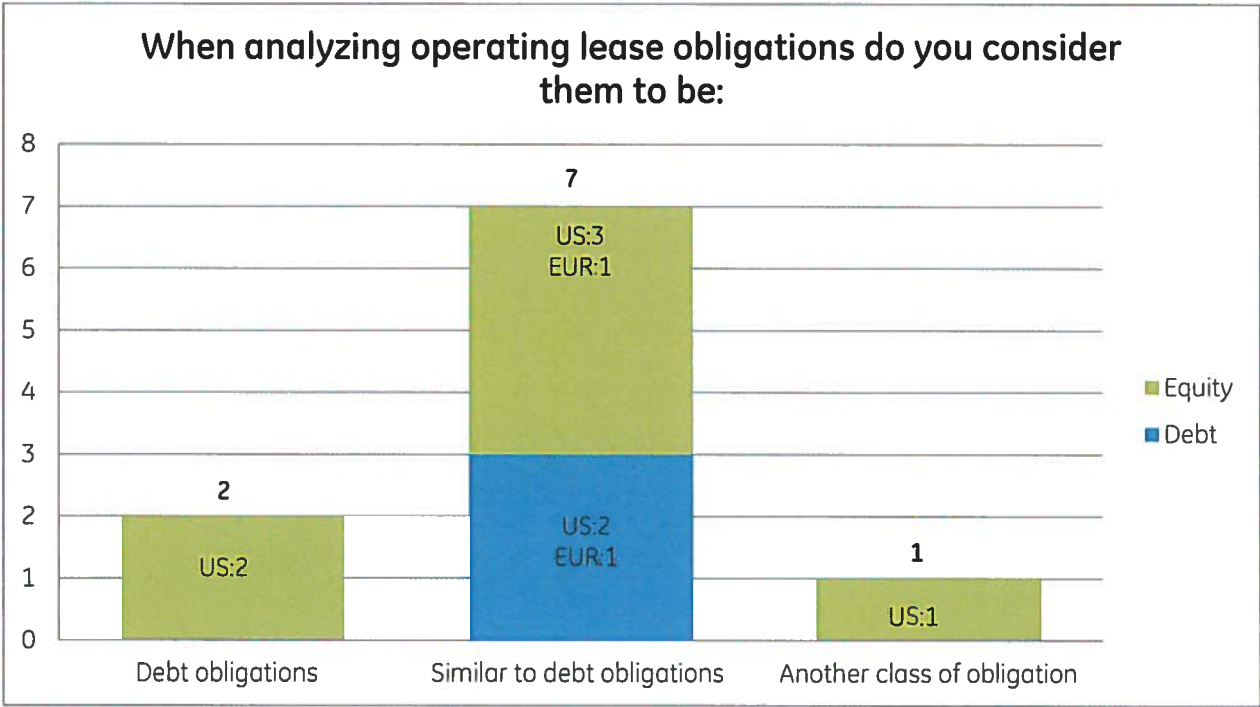
6. When analyzing an airline's financial statements would you prefer for lease obligations to be accounted for using:
 - a. The existing lease accounting model
 - b. The model proposed in the exposure draft (aircraft using Type A, facilities using Type B)
 - c. A model that would account for all leases (aircraft and facilities) using the Type A model
 - d. A model that would account for all leases (aircraft and facilities) using the Type B model
 - e. Another approach [please describe]_____

Note: If you prefer lease obligations to include renewal assumptions, indicate that in Question 7 and not in Question 6

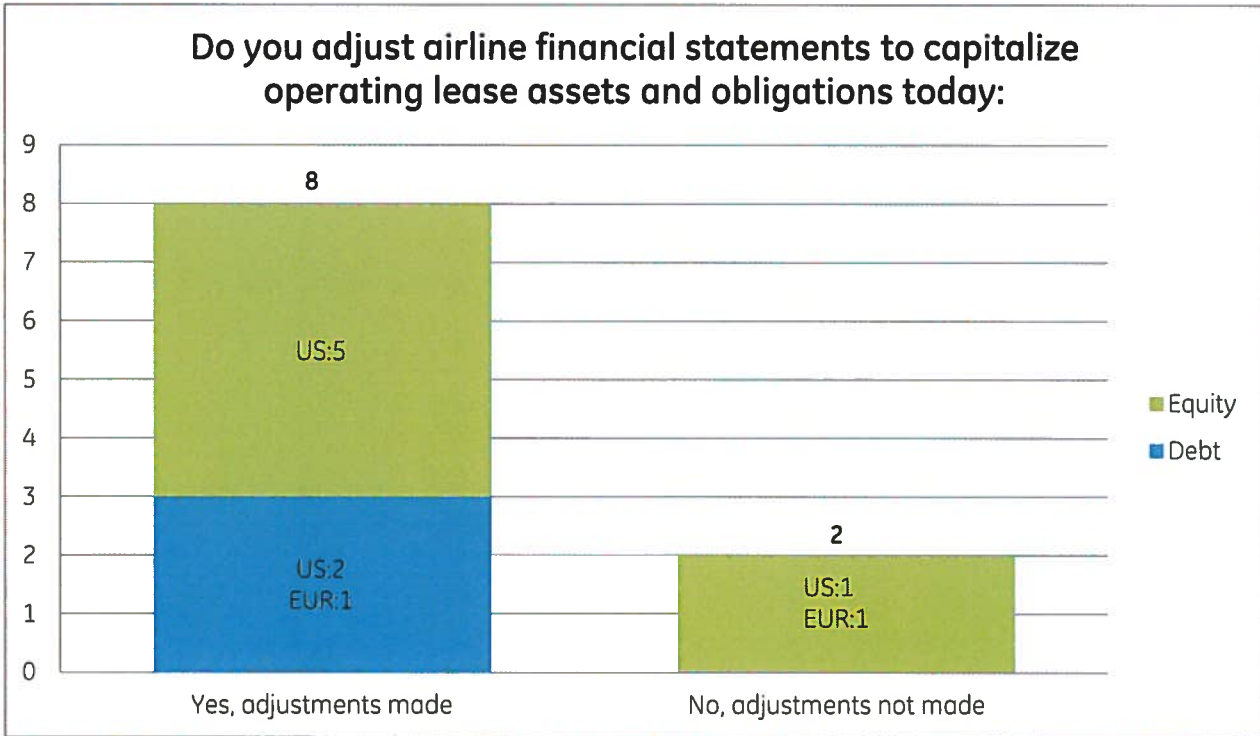
7. With regard to lease obligations would you prefer:
 - a. Lease obligations to be based upon committed amounts
 - b. Lease obligations to include renewal assumptions

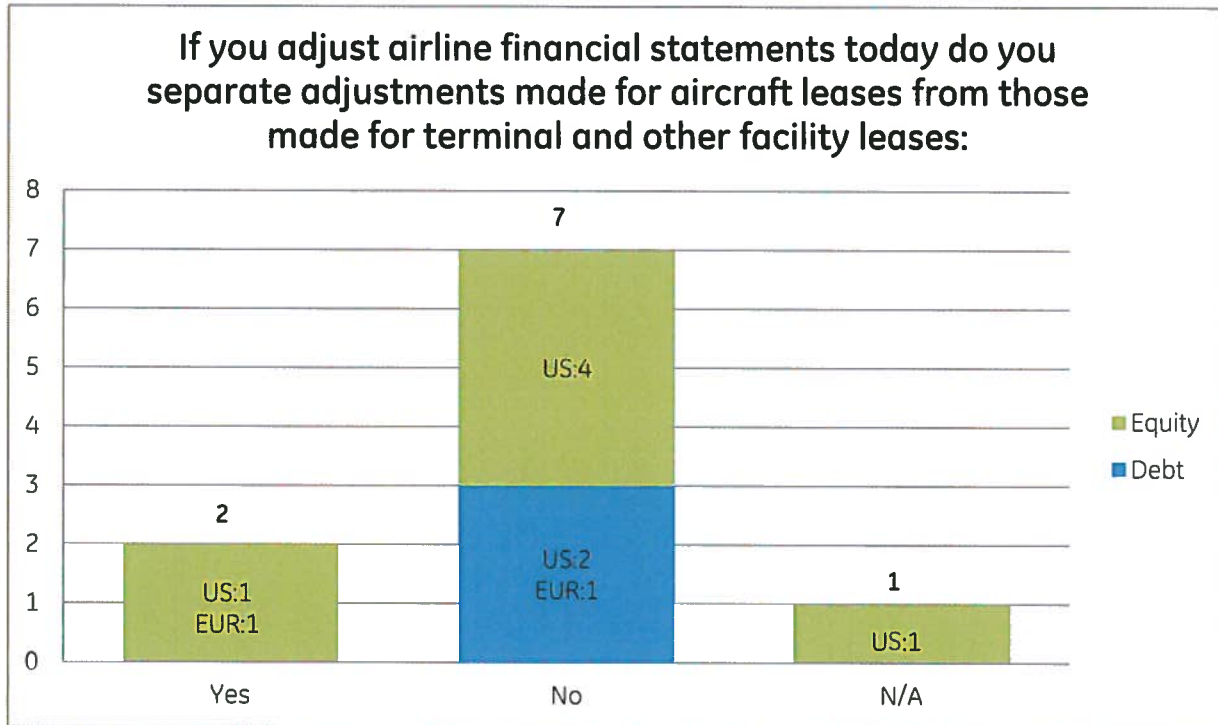
Aviation Working Group
Survey of Airline Industry Analysts

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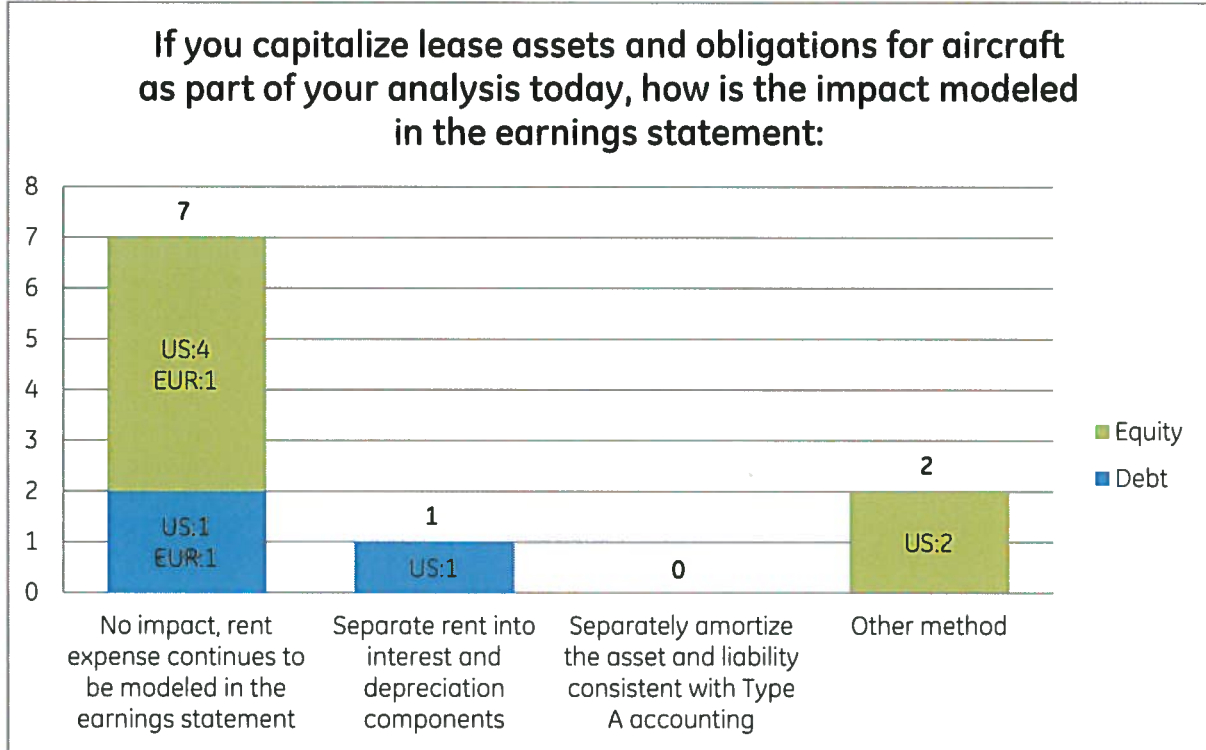


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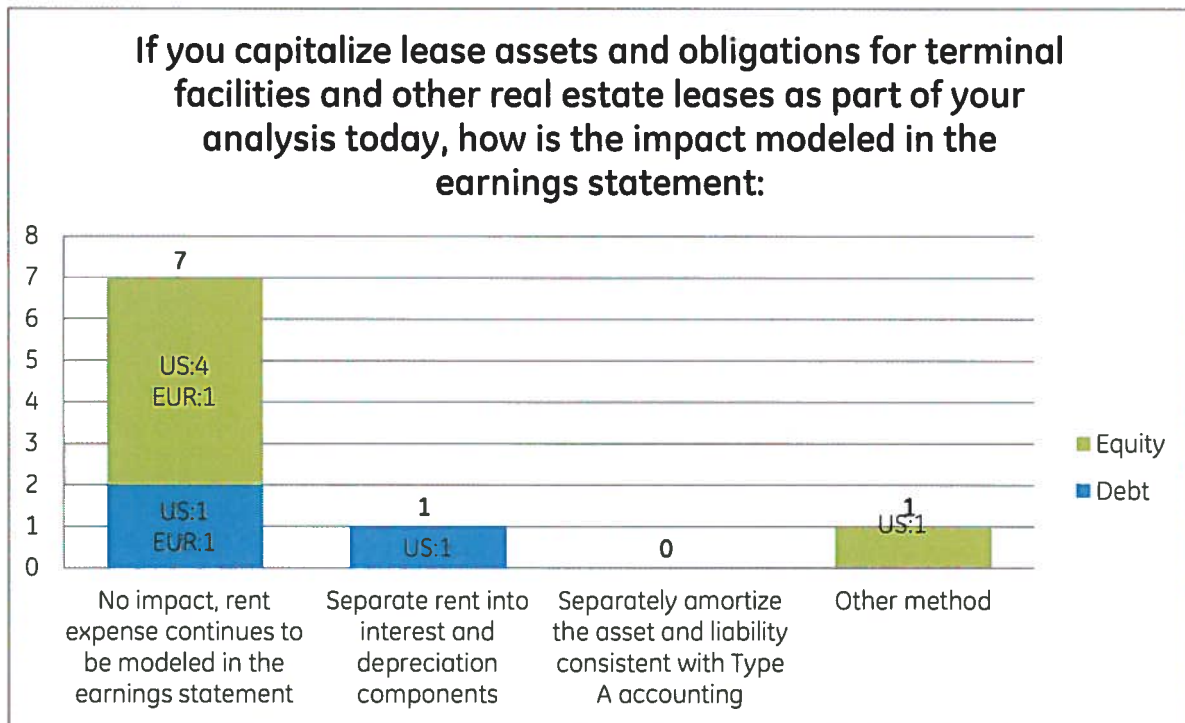




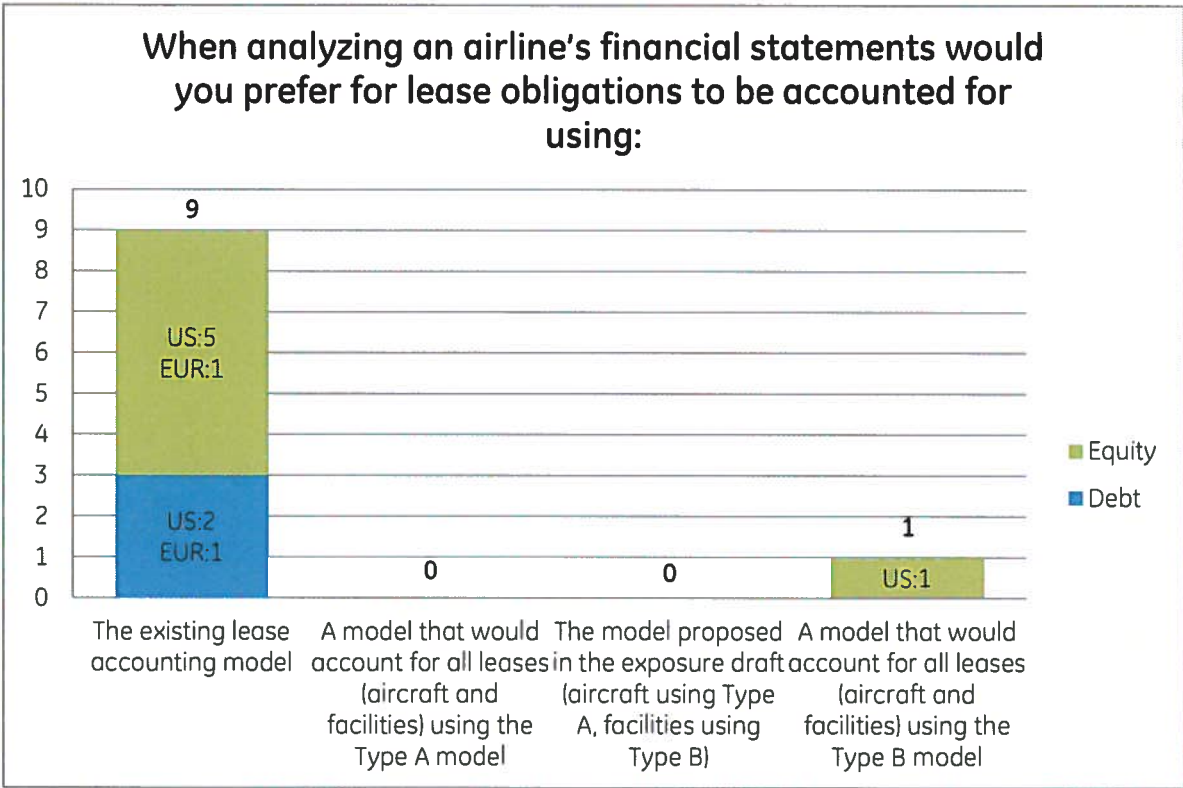
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