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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via e-mail: director@fasb.org

Re: No. 1850-100, Exposure Draft: Leases

To the Director:

In response to the release of the Exposure Draft: Leases, the New York Bankers Association is submitting these comments on lessor and lessee accounting for lease interests. Our Association is not convinced that the current system of lease accounting is so insufficient as to justify the enormous cost, complexity and confusion that will be generated by the changes proposed in the Exposure Draft (ED). We urge, first, that the Board conduct an extensive cost-benefit analysis to determine the value of implementing the proposal; second, if it is decided to proceed, we urge that the proposal be simplified; and, third, we urge that an extensive transition period of at least two-to-three years be provided for implementation of any new standard. The New York Bankers Association is comprised of the community, regional and money center banks doing business in New York State. Our members hold aggregate assets in excess of \$9 trillion and have more than 200,000 New York employees.

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly published for public comment a proposal designed to improve the financial reporting of lease contracts. The proposal, if adopted, will greatly expand the financial reporting information available to investors about the financial effects of lease contracts. Under existing requirements, accounting for a lease depends on the classification of a lease. Classification as an operating lease results in the lessee not recording

any assets or liabilities in the statement of financial position (balance sheet). This results in many investors having to adjust the financial statements (using disclosures and other available information) to estimate the effects of lessees' operating leases for the purpose of investment analysis. The proposals would result in a consistent approach to lease accounting for both lessees and lessors—a 'right-of-use' approach. Among other changes, this approach would result in the liability for payments arising under the lease contract and the right to use the underlying asset being included in the lessee's statement of financial position.

The commercial bank and thrift institution members of the New York Bankers Association are vitally interested in lease accounting not only because they serve as both lessors and lessees, but also because they must analyze financial statements of their customers as both lenders and investors. It is important to our members that the standards for lease accounting fairly reflect the financial impact of leases on their borrowers' operations. Many commercial lenders are satisfied that the current accounting standards governing leases adequately reflects their customers' operations and fairly presents the effects that operating leases have on the leverage ratio of their customers. While some commercial lenders believe that the accounting standards for leases could be improved, they believe that further analysis of the ED on leases is warranted by its complexity and difficult-to-measure analyses. It is also apparent that it will be very costly for businesses of all sizes to implement this proposal, and it is not at all clear that the cost of implementation and ongoing compliance will justify any additional benefits that the proposal may engender. For these reasons, we strongly urge that FASB engage in an extensive cost-benefit analysis to demonstrate that the benefits to investors of the new lease accounting standards fully justify the cost to companies that must implement them

In addition, our members believe that some of the required adjustments in the ED will be difficult to measure and of limited usefulness. The proposal would require that leases be measured as "right of use" assets, but would also require that the measurement of the value of such assets include not only contracted-for costs, but also contingent amounts based on future use and potential, but uncontracted for future revenue streams. The uncertainty both in the liability amount and timing of payment makes such data of limited usefulness for loan officers. Similarly, right of use assets should be measured on the basis of minimum payments due and amounts under renewal options that are probable of payment, not the very ambiguous and uncertain standard of "more likely than not" proposed in the ED. A mere 51-49 chance of liability (even if it could be measured so precisely) hardly justifies the new calculations that will be required by this proposal, and does not provide measurably useful information for investors.

The ED also proposes a complicated new process requiring financial reporters to estimate the impact of renewal options and contingencies. The new process is


complex and costly and of little benefit. Our Association would recommend in its place that companies be given the option to use practical alternatives that capture risk and leverage from lease assets and liabilities that are currently not captured without going through the intense and speculative analysis required under the ED. Several commenters such as the American Bankers Association have suggested a number of possible practical alternatives and we urge that they be explored.

If FASB ultimately determines to adopt some version of the ED, we strongly urge that implementation be deferred to provide ample time for financial reporters to adopt the new standard. We would suggest that a minimum two-to-three year period be provided before the ED is fully implemented. The cost and complexity of the proposal, even if modified as we have suggested, would justify such a transition period in any economic environment, but the current period of national economic turbulence makes such a transition imperative.

In summary, the New York Bankers Association urges a full cost-benefit analysis before the ED on leases is adopted, recommends substantial simplification of a number of provisions, and urges an extended transition period for all financial reporters.

We appreciate the opportunity FASB has provided to comment on this important proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael P. Smith". The signature is written in a cursive style with a large initial "M".

Michael P. Smith