The Clearing House
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September 13, 2013

Mr. Russ Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

Re: File Reference No. 2013-270: Proposed Accounting Standards Update (Revised), *Leases* (the "Proposal")

Dear Mr. Golden:

The Clearing House Association L.L.C. ("The Clearing House"),[1] an association of major commercial banks, appreciates the opportunity to comment on the above-referenced Proposal.

The Clearing House supports the efforts of the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") (collectively, the "Boards") to improve comparability, transparency and consistency in financial statements with respect to the accounting for leasing. In particular, we commend the Boards for considering the feedback of their constituents on the original proposal[2] and taking that feedback into consideration in issuing this revised Proposal. We also appreciate the efforts of the Boards to develop an almost fully converged proposal, as we believe it is critical that the Boards continue to work together to produce a single set of high quality accounting standards.

However, we are concerned that the Proposal does not meet the Board's fundamental objective of providing more decision-useful information to investors. In particular, we note that several important constituencies have not supported the changes. Specifically, we note that members of the FASB's Investor Advisory Council, an important user advisory group, recently stated that the Proposal is overly

[1] Established in 1853, The Clearing House is the oldest banking association and payments company in the U.S. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. *See* The Clearing House's web page at www.theclearinghouse.org.

[2] File Reference No. 1850-100, Proposed Accounting Standards Update, *Leases* (Topic 840) (the "2010 Proposal").

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complex, does not give investors and analysts the information they need to determine a company's financial health, and is not an improvement over current accounting.[3] The European Financial Reporting Advisory Group ("EFRAG") has also preliminarily expressed concern that the new Proposal is not well understood by investors and warrants further debate prior to being finalized.[4]

In addition, we note that the FASB itself is divided on the merits of the Proposal, with three Board members officially dissenting from the Proposal. Although their specific reasons for doing so vary, all three Board members concluded that the Proposal does not represent an improvement over the existing lease accounting model.[5]

At the same time, we note that the Proposal likely will result in significant additional and ongoing costs to preparers of financial information. The Clearing House does not believe that the potential benefits of the Proposal outweigh the costs that stakeholders will incur to prepare the information. TCH recommends that:

- the Board not proceed with the Proposal, and instead engages in additional outreach with the investor community to develop a new, simplified approach that is more clearly acceptable to investors; and that

- the Board consider developing additional disclosures as an alternative to the Proposal to provide more decision-useful information to investors regarding leases.

As a result of the accounting complexities in the Proposal, there is a very real possibility that if the Proposal is finalized as is, investors will need to make significant adjustments to the information reported in the financial statements to arrive at the information that is meaningful to them. The Proposal also will pose operational challenges for reporting banks. The information required will exceed that required under current U.S. generally accepted accounting principles ("U.S. GAAP"). Additionally, we note that the loan covenant provisions of banks' lending arrangements (both as borrower and lender) will need to be reviewed, and potentially revised, since more assets and liabilities will be reflected on the balance sheet under the Proposal.

Aside from concerns that the Proposal does not improve financial reporting, specific aspects of the Proposal are particularly problematic. The requirement under the Proposal to reassess estimates when relevant factors change will entail significant incremental effort and judgment as compared to the current approach. Although we appreciate the changes made from the 2010 Proposal, reassessment would still be required when a lessee has, or no longer has, a "significant economic incentive" to

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[3] WG&L Accounting and Compliance Alert, " Main Investor Panel Rejects Leases Project," Volume 7, No. 167 (August 28, 2013), available at http://leasing-101.com/commentary/Main_Investor_Panel_Rejects_Leases_Project__August_28__2013__(2).pdf.

[4] EFRAG's draft comment letter, July 8, 2013 at http://www.efrag.org/files/ED%20Leases%202013/EFRAGs_Draft_Comment_Letter_on_Exposure_Draft_Leases_July_2013.pdf.

[5] Proposal, BC353 to BC 390.

exercise an option, a circumstance that is highly judgmental in nature.[6] Similarly, the requirement under the Proposal to reassess the lease if there is a change in indices or rates to determine lease payments[7] could result in both lessees and lessors having to remeasure lease assets and liabilities as often as each reporting period. In short, we are concerned that the current Proposal would require entities to remeasure lease assets and lease liabilities far too frequently, and on too subjective a basis, resulting in ongoing costs of administering the Proposal that are significantly in excess of the current approach.

Moreover, while we appreciate the Boards' efforts to provide relief in the form of a scope exemption for short-term leases,[8] we believe that the scope exemption, as proposed, will not provide meaningful relief for many preparers. For example, the exemption would not apply to many leases related to tangential activities of a bank such as leases for copier equipment and postage machines, which often have a term of up to three years. In our experience, investors have not expressed any need for additional information regarding these ancillary types of leasing activities, yet the cost of providing this information is likely to be substantial.

We also note that the Proposal is particularly challenging to apply to leveraged leases, requiring a series of detailed computations to convert the accounting from one fairly complex model to another, which will not result in a significant improvement to the existing model for these types of leases.[9] We recommend the current guidance be retained, as it is well-understood and non-controversial; however, if the current lease accounting model is revised, we recommend that arrangements qualifying for leveraged lease accounting be grandfathered, with enhanced disclosures required where related amounts are material, to ease the operational burden of implementation.

Since preparers will incur significant effort and cost in calculating and recording the lease assets and liabilities in their financial statements, without a corresponding improvement in financial reporting, we strongly recommend that the Boards revisit the proposed approach and engage in further outreach with investors to produce a revised approach that is more clearly supported by the user community.

As an alternative to the Proposal, we believe that the Boards should consider developing a set of improved disclosures that will provide additional information regarding leases that will be useful to investors. Relevant and meaningful disclosures would address the need for better information without incurring the significant costs and disruption of implementing significant changes in the accounting model that are not fully embraced by investors.

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[6] ASC 842-10-55-5.

[7] ASC 842-20-35-5.

[8] 842-10-25-14.

[9] Under the Proposal, the accounting by the lessor will not reflect the substance of the tri-party transaction (i.e., when the debt is non-recourse, the lessor's exposure is limited to the net investment). Instead, there will be double-counting of the third party lender's portion of the lease receivable because both the lender and the lessor will be required to record that portion of the receivable on their books. Similarly, there will be double-counting of the non-recourse debt because it will be recorded on both the lessee's and the lessor's books.

Given the diverse negative reactions by financial statement users we believe it is preferable to continue with the current model with improved disclosures.

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Thank you for considering the comments provided in this letter. If you have any questions or are in need of any further information, please contact me at (212) 613-9883 (email: david.wagner@theclearinghouse.org) or Ryan Pozin at (212) 612-0135 (email: ryan.pozin@theclearinghouse.org).

Sincerely yours,

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Executive Managing Director and
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cc: Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board

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Technical Director
Financial Accounting Standards Board

Mr. Paul Beswick
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