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July 17, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
301 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: No. 1680-100 *Leases: Preliminary Views*

Dear Mr. Golden:

The American Bankers Association (ABA) appreciates the opportunity to comment on the discussion paper, *Leases: Preliminary Views* (DP). ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $12.7 trillion in assets and employ over 2 million men and women. ABA represents not only preparers of the financial statements for both lessees and lessors, but also users of financial statements that analyze and depend on such statements of customers.

In summary, ABA generally agrees that "right of use" assets and obligations may be reflected on lessee balance sheets for those leases now reported as "operating leases". However, due process relating to considering both the lessee and lessor sides of leasing transactions, the specific treatment of operating leases, and contingent rentals present significant concerns for us at this point. As a result, we recommend that the project be suspended until more detailed preliminary views on lessor and sub-lessor accounting be presented for comment.

With this in mind, below are our detailed concerns.

The Project Should be Suspended until Lessor and Sub-Lessor Preliminary Views are Exposed.

Noting that the detailed preliminary views reflect accounting only for lessees, we strongly urge the Financial Accounting Standards Board and the International Accounting Standards Board to suspend any further efforts within this joint project until preliminary views regarding accounting for lessors are provided. Because understanding such accounting for the critical sub-leasing part of the market is necessary in order to evaluate the leasing model as a whole, neglecting the lessor at this point only sets this project up for failure. Indeed, if the objective is to provide meaningful and useful information that reflects the economic substance of leasing transactions for the lessee, the Boards' preliminary views may change, or be presented differently, based on their views of these transactions from the perspective of the lessor and sub-lessor. In fact, our views, and those of other preparers and users, may also change after considering such perspectives. Other factors that should be considered from both the lessor/sub-lessor and lessee perspectives would include statutory and tax implications on the many state and the local levels regarding capitalized leases. Therefore, we recommend the Boards suspend the project until preliminary views on lessor accounting is presented for comment. A new DP should be issued that comprehensively addresses these issues.

Operating Lease Rent Expenses are Different from Those on Capital Leases and Should be Recognized on a Straight-Line Basis.

We disagree with the view that all leases now classified as operating leases are, in substance, entered into as financing transactions, with interest expense imputed into the rent. While that may be a consideration for many lessors, financing is not even on "the radar screen" for the vast majority of lessees. These lessees typically rent for purposes related to business location (in the case of office or store space) or technology (in the case of office equipment), not on a buy vs. lease decision. Further, in the case of a lease of land or building space, the option to buy the property is generally not the norm. Imputing interest expense as though there was some foregone opportunity to acquire the property is often irrelevant to the lessee. With this in mind, imputing an interest expense component to operating leases creates two immediate problems:

1. It introduces a concept that is often foreign to the management and business model of the lessee. Accounting should reflect how business is conducted. The current dual lease classification model successfully takes this into consideration by differentiating the substance of the lessee's intent. Disregarding this difference diminishes the user's understanding of how the entity manages its leasing arrangements. Further, adding the financing component creates a fictitious intent of management, especially for those entities that have little or no debt on their books and, thus, have no practical incremental borrowing rate.
2. It creates confusion in the statement of cash flows by reporting a portion of rent, an expense that management considers "operating", as a "financing" cash flow. This confusion will also spread to the other financial statements, if the views expressed in the DP addressing Financial Statement Presentation are implemented.

With this in mind, we believe that the current straight-line approach to recognition of operating lease rental expense, while not perfect, should be maintained for operating leases. These lease payments should remain as an operating cash flow.

Contingent Rentals Based on Future Revenues Should be Excluded from Right of Use Calculation.

The measurement and reassessment of contingent rentals, with changes going through profit and loss, also presents concerns. Within the retail industry, for example, recognizing a portion of the contingent rental expense in periods before the related sales occur would not normally reflect how the business is managed. Since contingent rentals are often based on actual sales, it creates a mismatch between the revenues and corresponding expenses.

Reassessing contingent rentals based on sales will also become an operational burden that we expect will result in arbitrary estimates. We can foresee unnecessary internal control requirements to link such estimates to revenue forecasts or pro forma statements used in lease negotiations. These processes will ultimately provide minimal benefit to users, whether such costs are estimated using a "most likely" or a "probability-weighted" estimate of expense. Therefore, we recommend that contingent rentals that are based on future revenues be excluded from calculation of the right of use assets and obligations.

Thank you for your attention to these matters and for considering our views. Please feel free to contact Mike Gullette, ABA's VP of Accounting and Financial Management (mgullette@aba.com; 202-663-4986) or me if you would like to discuss our views.

Sincerely,

Donna J. Fisher

Donna Fisher