September 13, 2013

Mr. Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
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Delivered Electronically: director@fasb.org

File Reference No. 2013-270, Exposure Draft: Leases (Topic 842)

Dear Mr. Golden and Mr. Hoogervorst:

We welcome the opportunity to comment on the lease accounting exposure draft (ED). CIT Group Inc. ("CIT") is a bank holding company and provides financing and leasing capital principally for small businesses and middle market companies in a wide variety of industries and offers vendor, equipment, commercial and structured financing products, as well as factoring and management advisory services.

As a lessor, at June 30, 2013 CIT had operating leases of $12.3 billion and direct financing leases of $5.4 billion which combined represent approximately half of our financing and leasing earning assets. Our remaining earning assets primarily consist of loans. Given the significance of this activity to our business and financial statements we have focused many of our comments in this letter on lessor equipment accounting. However, as many of our customers are lessees, we are also supportive of the comments made by the American Bankers Association in its comment letter #44 dated August 28, 2013, regarding complexity, cost and operating challenges of ED implementation by lessees, and potential need for lessees to renegotiate or restructure loan covenants in borrowing arrangements which could impact lessee access to capital.

CIT's operating leases are principally in our Transportation Finance segment which had $12.0 billion of operating leases at June 30, 2013. This segment is a leading provider of aircraft and railcar leasing and financing solutions to operators and suppliers and is a top 4 worldwide aircraft lessor and a top 3 North American railcar lessor. Transportation Finance owns long-lived equipment, with economic lives of approximately 20-25 years for commercial aircraft and approximately 40-50 years for railcars. We lease the equipment several times over the equipment's life with lease terms that generally range from 3 to 10 years. The business has extensive experience in managing equipment over its full life cycle, including purchasing new equipment, remarketing by re-leasing, and selling equipment.

Our direct financing leases are principally in our Vendor Finance segment. This business provides financing and leasing solutions to manufacturers and distributors of equipment such as information technology, telecom and office equipment. Equipment lives in this segment are much shorter than in Transportation Finance and the lease term is typically for most of the equipment life. Therefore the equipment is typically not re-leased to different lessees at the end of lease term.

Our comments are presented below and principally relate to areas of most concern with respect to lessor accounting. We also participated in the preparation of ED comment letters prepared by the Coalition of Railcar Lessors and the Aviation Working Group, and we support the positions of these groups.

Comments on Lessor Accounting

We do not support issuance of the ED as a final standard for lessor accounting because the proposal isn't an improvement over the current guidance and the costs will exceed the potential benefits for both preparers and users of financial statements. We believe that the current lessor model appropriately reflects the substance and overall economics of lease transactions and provides comparable data that is well understood by financial statement users.

Following are our main concerns, each of which is expanded upon below:

- The ED does not align with the business model in which a lessor owns long-lived assets and leases them several times over their useful life.
- Financial results under the ED proposal will not reflect underlying lease economics.
- The ED approach would cause less transparency, less consistent information, and will not provide for improved quality and comparability for users of lessor financial statements resulting in part from the increased judgment and estimates required.
- The complexity of the proposed model and operability of its requirements will greatly increase costs that will outweigh the standard's benefits.
- The impact on lenders and borrowers arising from the changes to financial statements and the effect on lending arrangements.

Alignment with business model

We believe the lessor business model should be a key driver of financial statement classification for the lessor of long-lived assets. As a railcar and aircraft lessor we manage large fleets of long lived assets, lease them multiple times over their useful life, and retain risks of ownership. Some key attributes of the long-lived asset operating lease model are listed below:

- Long lived assets such as railcars and aircraft share many characteristics of investment property as they are frequently purchased without leases in place and are leased multiple times over long useful lives. The length of the lease is significantly shorter than the economic life of the asset and provides the lessee with temporary use of the leased asset.
- Rental rates are driven by market supply and demand and economic climate at the time leases are signed, and rental rates are not directly correlated to interest rates.
- The entity has personnel in place (or utilizes third party service providers) with extensive experience in managing equipment over its full life cycle, including purchasing new equipment, overseeing asset maintenance and remarketing used equipment.
- Residual value is significant relative to original cost, and the lessee has no residual risk.

The current operating lease accounting approach more appropriately aligns with the business model outlined above whereby long lived equipment is accounted for under an operating lease model when acquired until the asset is disposed, which provides for consistency in financial reporting. The ED provides for different lessor accounting approaches for property and assets other than property apparently based on the premise that generally only property is subject to multiple sequential leases, however long-lived equipment (such as aircraft and railcars) can also be subject to multiple leases over equipment life.

In contrast, a lessor who finances property acquisitions by lessees under leases which transfer substantially all of the risks and rewards of ownership to the lessee is more suitably accounted for under a finance lease accounting model approach. We don't agree with the premise in the ED that lease classification determined by consumption (depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset) will provide more useful financial data to investors; see further discussion regarding useful comparable financial data in sections of our comment letter below.

We do not support Type A de-recognition at lease commencement as it is based on fair value estimates and does not arise from transfer of control. In the case of shorter lived assets where the lease term is for most of the equipment life, and cost is equal to fair value, the Type A lessor model is similar to the direct finance lease model, and does not represent a meaningful change to existing accounting. In our view, Type A lessor accounting will not enhance financial statement presentation and will require significant implementation and on-going costs as described in the *Costs vs. Benefits* section below.

Financial results under the ED proposal will not reflect the underlying lease economics
When lessors manage equipment with the intention of re-leasing the equipment multiple times over its useful life, we believe that the operating lease method provides the most useful information to financial statement readers for this type of business activity. The key activities that should drive operating lease related income are rental payments and the gain or loss from sale to a third party, and these key activities do not include operating lease commencement date estimated gain or loss. We believe that these economics are best presented in the financial statements when:

- There is consistent annual rental income from the asset management activity, rather than the front-ended declining annual lease income from Type A leases. With consistent annual rental income, there are typically not major differences between rent cash receipts and recorded income.
- Gain or loss from owning the equipment is recorded upon sale of the equipment (and impairment is recorded when required), rather than the Type A lease commencement date profit or loss based on a fair value which can be a subjective estimate and is subject to change over time. In addition, if gain or loss is recorded at each re-lease of equipment, a lessor would have the opportunity to manage the timing and amount of income based on dates of lease commencement, potential embedded gains or losses based on book values vs. market values, and length of lease terms.

Less transparency and comparability for long lived asset lessors, and increased estimates
The ED requires much more judgment as compared to current lease accounting and this will lead to less comparable financial data among companies in similar businesses. The ED will reduce comparability of data in areas such as:

- Lease income will be presented as a mix of lease commencement date profit, interest on lease receivables, and accretion of residual asset and this data will be less comparable from entity to entity than current lease accounting due to judgment required under the ED. Under current operating lease accounting, rental income of lessors is comparable and is typically in line with rental cash flows.

- The Type A accounting approach will be impacted by the lease commencement date calculations which require subjective estimates of fair value and residual value which will reduce comparability. There can be a wide range of value estimates for some equipment. In addition, there may be limited observable inputs available to estimate values for long-lived assets such as aircraft and railcars. As one example, fair value estimates will be required upon lease of equipment purchased directly from manufacturers and committed to in advance. There can be significant lead time between order and delivery date. Our commercial aerospace orderbook purchases are scheduled through 2020 and railcar purchases are scheduled through 2015 and aircraft and railcar markets are cyclical with potential large movements in values from year to year. In these cases, purchase activity will drive a gain or loss at inception of an initial operating lease of new equipment, a fundamental change from today's accounting under which gain or loss is recorded upon equipment sale to a third party.
- For long life equipment that is re-leased several times, Type A calculations and carrying values can be impacted by temporary swings in fair value from year to year that impact equipment comparability though the lessor may intend to hold the equipment long-term to ultimate salvage. As a result, book values can be significantly impacted by whether a lease commencement occurs in stronger or weaker fair value prevailing markets. For a 10 year old asset re-leased in 2017 for 5 years and a same model like configuration 11 year old asset re-leased in 2018 for 4 years, there could be large variances in commencement date fair value and residual value resulting in large divergence in carrying value for like equipment which will result in inconsistent financial data. Under current operating lease accounting with depreciation recorded over the useful life, and subject to impairment testing, like asset values are more comparable.
- There will be inconsistency among long-lived asset lessors when applying judgment to determine whether individual leases are Type A or Type B when the lease terms are close to the dividing line of lease classification based on the ED insignificant tests. This would impact lessors who lease long-lived equipment for relatively short-term leases of a few years for equipment including vessels, containers, and railcars. In addition, in some cases upon re-lease, long-lived equipment can move between Types A and B leading to reduced data comparability. See also an example in the section below related to our railcar leasing activity.

Costs vs. Benefits
The model proposed in the ED will result in lessors and lessees incurring substantial transition and ongoing costs.

Some key drivers of lessor costs include:
- Major and wide spread changes to lessor operational processes and key controls will drive significant on-going costs, including not only booking and reporting of transactions but also the credit evaluation and approval processes.
- Increased lessor manual analysis of individual leases in order to complete judgments to comply with new guidance will result in increased on-going personnel costs. Given the judgments required, there will be increased future costs for both staff time and manager approvals.
- The guidance suggests that it may be necessary to reassess leases for potential changes in facts and circumstances quarterly and the effort to evaluate every lease contract is likely to exceed the benefit of reset of accounting for the lease. This lease reassessment would require data analysis and judgment resulting in increased costs over the life of the lease.

- Complexity of lessor Type A lease commencement gains/losses and asset write-up/write-down calculations. For long-lived assets, these calculations will be required at each re-lease several times over equipment life resulting in increased future lease processing costs.
- Major leasing system upgrade or change.
- Transition complexity and need for comparable data for two previous years will result in a requirement to maintain "two sets of books" for the transition period. Depending on system capability, leases may need to be input and tracked in two leasing systems for the current and proposed approach during the transition period.

As an example, operational workload will be particularly significant for lessors with very large number of assets that are leased in groups. Our rail fleet has over 100,000 railcars which are re-leased many times over equipment life and which require detail asset level tracking as the assets move in different combinations of railcar sets from lease to lease. In addition, the railcars can move between Type A and Type B leases as our lease terms can be less than 5 years with economic lives of approximately 40-50 years so many lease terms will near the dividing line for Type A vs. B lease classification. Significant complexity will occur when a group of railcars of the same car type (for example 200 railcars), of varying ages and carrying values, are remarketed from prior leases (possibly some Type A and some Type B, and possibly some from off lease status) to a new lessee under a new Type A lease with the same fixed monthly rental rate per railcar. There may be many unique book carrying values per railcar leading to a need to calculate numerous separate lessor lease rates along with distinct present values and commencement date gain/loss calculations along with different unearned residual profit/loss per railcar. Complexity will compound as the railcars are re-leased multiple times over railcar life, and carrying values and residual value net of unearned profit of like railcars can diverge significantly.

Given the above concerns, we do not believe the proposal represents an improvement in financial reporting, and also question whether the proposal meets the cost versus benefit requirements for a new standard. We therefore suggest that, to the extent there are gaps in current lessor disclosures, enhanced disclosure be considered in place of the proposed model for lessors. As the ED has a focus on length of equipment lease term in relation to total economic life, a potential alternative to the proposal would be to require the lessor to provide increased disclosures related to lease term, economic life, and age of equipment by business segment or equipment type. Additional disclosures related to end of lease residual values could also be considered.

Impact to Lenders and Borrowers

Implementation of the ED will dramatically change financial statement data for many lessees and will in turn impact loan covenant status leading to borrowing arrangement renegotiations or restructuring. Borrowers and lenders will need to work together to interpret and discuss the new set of financial metrics, evaluate existing loan agreements, consider alternate loan covenants based on forecasted financial data, draft new documents and finalize new borrowing terms. This will be a time-consuming process for borrowers and require a huge effort by lenders, including CIT, who have a large number of lending arrangements.

Additional Considerations

Lessee accounting, essential use equipment

We believe that there will be significant transition and on-going costs incurred by lessees under the ED for smaller dollar essential use equipment required for operations, such as copiers and laptops. The costs of recordkeeping under the complex model for these equipment leases will outweigh the benefits to users of the financial statements. We would like to see an approach that would allow for accounting in line with current lessee operating lease accounting for these smaller dollar leases. The accounting approach for this equipment and the future payments related to these leases could continue to be disclosed if significant.

Leveraged Leases
We recommend that no change be made to leveraged lease accounting due the unique nature of the arrangements, most notably treatment of after-tax cash flows and non-recourse debt. If leveraged lease accounting is eliminated, we recommend that leveraged leases in existence at ED implementation be "grandfathered" with no changes. There would be significant costs and complexity to unwind leveraged leases, and further added complexity to recast leveraged leases which have been subject to business combination accounting.

<u>Alternate views for lessor accounting</u>

While we do not support the ED, to the extent changes are made to lessor accounting, we believe:

- Long-lived assets that are leased multiple times over their useful life should be accounted for similar to current operating lease guidance by lessors, and similar to the ED Type B approach, except when leases transfer substantially all of the risks and rewards of ownership to the lessee.
- Potentially the Boards may want to consider less extensive changes to lessor accounting such as enhanced lessor disclosure as discussed above, and elimination of the lessor ASC 840 "bright line" tests of lease term 75% of economic life and present value of minimum lease payments of 90% of fair value.
- As indicated previously, the Lessor's underlying business model should be a key driver of lessor classification and accounting. We believe that a focus on business model will enhance comparability among lessors for financial statement users and provide more decision useful and relevant information regarding lessors.
- Implementation would be extremely cumbersome, even under a modified retrospective approach. As mentioned above, public companies would be required to collect data to maintain "two sets of books" for a significant amount of time in order to produce comparative financials at the standard's effective date. We recommend the Boards consider alternate requirements to simplify transition, thereby reducing operational complexity.

We appreciate the opportunity to comment on the lease accounting ED and thank you for your consideration of our comments.

Sincerely,

E. Carol Hayles
Executive Vice President and Controller