September 13th, 2013

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Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116
Via email: director@fasb.org File

Reference: FASB No. 2013-270 Leases (topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)

Dear Chairman Golden:

Commerce Bank, a publicly held primarily Midwestern based FDIC insured bank appreciates the opportunity to comment on the exposure drafts (ED), *Leases* (the IASB proposal) and *Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)* (the FASB proposal) by the September 13th, 2013 deadline. Commerce Bank uses the financial information provided by prospective lessees and debtors to evaluate their credit and Commerce Bank also has a wholly owned subsidiary, CBI Equipment Finance, Inc., that provides equipment finance solutions for its customers through loans and leases products.

We support the opinion of William Sutton, President of the Equipment Lease and Finance Association in that a total overhaul of FASB 13 (Topic 840) is not needed and improvements in footnote disclosures can better address user needs than complex accounting calculations. The current proposed modifications would be overly burdensome on our typical customer and exceed the benefit we derive as an analyst of financial statements for credit decisions.

Practical Problems to Proposed FASB Provisions:

a) A Typical Middle Market Customer

A typical customer has 20-30 employees and only one to possibly two people in the accounting department. The current proposal to place the asset and liability on the balance sheet, separately amortize the capitalized amounts even though the subject of the same contract, and then revisit and potentially reassess the then balances at least annually would place an excessive burden on our middle market customers while obscuring periodic lease cost and the legal and economic relationship between the obligation to pay rent and the subject asset. Although we do usually not finance copiers and smaller ticket items, the cost to account for items such as these or even more expensive capital goods like motor vehicles would be high and not provide a commensurate benefit even to our own credit department. Accordingly, at least with respect to this customer set (e.g.,,

non-public companies), we support enhanced disclosures over the proposed capitalization provisions.

However, if the Boards decide to require lessee capitalization by all entities, it should provide a simplified, more representational method of capitalization. We support lease classification based on risks and rewards (i.e., converging FAS 13 and IAS 17) and keeping unchanged the pattern of lease expense (generally straight-line) for leases which do not qualify as leases which transfer ownership to the lessee by the end of the term (e.g., finance leases). For leases which extend a temporary right-of-use with the lessor retaining a meaningful interest in the residual value of the leased asset, we believe the capitalized lease obligation should not exceed the present value of the minimum lease payments (as defined today under FAS 13 with the exception of including only the "expected" amount to be paid under any residual value guarantee) and that, absent impairment, the right-of-use asset should equal that present value amount throughout the term. If the objective is to account for the lease contract, we believe these two capitalized amounts must be linked in measurement. Notwithstanding the above, our clear preference is to enhance disclosure in the notes vs. modifications currently proposed by FASB.

b) Our Financial Covenants

Some of our leases and many of our loans have 5-7 year terms or use a master lease or loan agreement with an indefinite period of existence (which use schedules for individual financing) and contain common financial covenants such as:

EBITDA	Leverage Ratio	Fixed Charge Coverage Ratio

Each of these ratios would be affected by the proposed changes. For example, a debtor's EBITDA would actually increase under the proposed accounting rules. If we required minimum EBITDA of $25 million dollars, the customer's financial performance could actually deteriorate yet it could meet the covenant. Similarly, the leverage ratio would increase and the customer would violate the covenant requiring a waiver and re-documentation even though the customer's financial performance has remained the same. Note that even a 2-3 year period to implement the new rules would not be long enough for many of the 5-7 year notes and leases already in existence with covenants. We question whether the cost for the waiver of the covenant violation and the re-documentation fee would provide any benefit to the users of the affected customers' financial statements.

c) Our current processes

Our credit officers analyzes the credit of perspective borrowers by reviewing the notes to the financial statements to determine the amount of off balance sheet leases and the ability of the customer's current cash flow to pay for these and other items. We feel the notes are acceptable albeit some improvement would be beneficial with little to no cost to the customer.

Currently, we generally find a disclosure providing cumulative future rent payments per year for the next 4 years and a total for any amount thereafter. We would appreciate a disclosure of leases similar to that of long term debt. For the long term debt, each significant transaction is disclosed separately with monthly payment, total amount owed, when the last payment is due and collateral for the loan. A similar disclosure for significant leases would be beneficial (but without a disclosure of implicit or other rate as is provided for loans).

As a person who reviews, comments and approves extending credit to customers among other functions and who works with and knows our typical middle market customer, I would not support the proposed FASB revisions as the cost to implement is too high compared to the perceived benefit to be received.

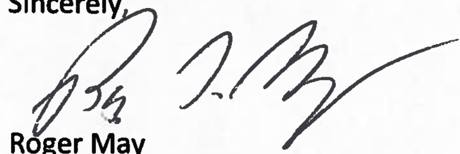
d) Lessor Accounting

We support making limited changes to lessor accounting. We believe current US GAAP generally provides decision useful information in assessing the financial condition and performance of lessors. We favor basing lessor accounting on the business model. For third party lessors such as our enterprise who stand ready to dispose of the equipment at the end of the lease term, instead of engaging in short term leasing with ongoing asset management, we generally favor continued application of Direct Finance lease accounting. We do not see a meaningful benefit to be derived by incurring the cost of moving to a receivable and residual method when the outcome is essentially the same. We support eliminating the requirement to obtain residual value guarantees (RVGs) or to purchase residual value insurance (RVI) to qualify a transaction for direct finance lease accounting; however, we do not support "off-balance sheet" reporting for the coverage obtained from RVGs or RVI at lease commencement. We believe RVGs or RVI monetize a lessor's residual value position and should be reported on balance sheet as such so that the lessor's true exposure to the used equipment market is clearly presented.

CONCLUSION

I thank you for your time and consideration in this matter. Note that the lack of comment on some matters such as leveraged leases, etc, does not mean I support proposed changes. Rather, I merely wanted to provide practical concerns my customers and I will encounter with the proposed changes and how the changes would affect my credit department as a user of customer financial statements.

Sincerely,



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