Robert L. Morris Executive Vice President & Chief Accounting Officer



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Re: File Reference No. 1850-100

Dear Director:

We are writing in response to your invitation to comment on the Proposed Accounting Standards Update entitled "Leases (Topic 840)".

KeyCorp (Key), headquartered in Cleveland, Ohio, is a bank-based financial services company that, at September 30, 2010, had assets of approximately \$94 billion. Key Equipment Finance (KEF), headquartered in Colorado is an affiliate of Key and manages approximately \$11 billion in assets with annual originations of approximately \$3 billion. As the nation's 4th largest bank-affiliated equipment leasing company in net assets and annual originations, this proposed accounting standard will have an extensive impact on its business and operations. Key also has a significant number of bank branches and other facilities and equipment that are leased primarily through operating leases. Our rental expense under all operating leases for 2009 totaled \$119 million.

We appreciate the work of the FASB and the International Accounting Standards Board (IASB) on this topic and the opportunity to comment on this proposed accounting guidance. Our responses from the perspective of being both a lessee of bank branches, data processing equipment and administrative headquarter facilities as well as a lessor of large and small assets such as aircraft and office equipment are provided below.

General Comments

Before providing our comments from the perspective of a lessee and a lessor, two general comments follow.

First, since KEF is a **bank**-affiliated leasing company, adequacy of capital is paramount, particularly given the current economic and market conditions and the resulting banking environment. Although the leasing business is a contributor to Key's overall products and services, our primary core focus is on lending and maintaining lending capacity. The requirement of this proposed accounting guidance to record existing and future lease arrangements on balance sheet combined with a financial intermediary's duty to maintain

an adequate and sustained lending capacity, will very likely result in a reduction in leasing business if this proposed guidance is finalized as drafted. Although an unintended consequence of this proposed guidance, the prospect of business activity reduction is not what this current economy needs now or in the near future. In addition, due to the on balance sheet requirement of leases, several key leverage and capital ratios may be negatively impacted even though cash flow and business composition will be unchanged.

Second, Key believes this proposed guidance falls short of the FASB's and IASB's longstanding goal of improving and simplifying lease accounting. Admittedly, the current lease accounting rules are overly complex, however the leasing model set forth in this proposed accounting guidance will simply move this complexity to other areas within the leasing transaction. The proposed ongoing assessment of key measurement assumptions that would be required by this proposed guidance, such as estimates of the expected lease term and future contingent rentals each reporting date subsequent to the initial recording of the lease, will add significant complexity to lease accounting. Key does not favor any accounting guidance that involves increasing the number and frequency of estimates and we have to question whether the benefits of this proposed lease accounting guidance will exceed the costs of developing the systems and controls necessary to capture and manage all the critical data to account for lease transactions under this proposed guidance. As such, the proposed accounting requirements will lead to complicated recognition and presentation issues. Key would encourage the FASB and IASB in their re-deliberations of this proposed guidance to consider alternative accounting treatments for leases that would result, in simpler and less burdensome requirements where the benefits will exceed the costs associated with the changes.

Lessee Comments and Suggestions

- If this proposed accounting guidance is not significantly modified, Key suggests that existing lease arrangements at the date of adoption be grandfathered (prospective adoption). The minimal, if any, benefit of a look back at all existing leases would be greatly overshadowed by the tremendous work effort and costs that would be incurred to develop systems to capture and manage all the critical data needed, particularly when many of these existing lease arrangements were negotiated years ago.
- Key believes the right of use model has merit from a theoretical perspective. However, as stated previously in this comment letter, the increased capital that will be required by adding assets and liabilities to the balance sheet combined with the reduction in lending capacity of lessors makes Key question whether this approach is appropriate at this time.
- Entering into an agreement to use and rent assets such as data processing equipment and building facilities that a company has no intention of ever owning is an operating, not capital, decision. Therefore, the costs associated with the asset use should be considered operating in nature and categorized as rent expense. If

- the right of use model is maintained in any final leasing guidance, the right of use asset and liability are linked and therefore the costs should also be linked and accounted for as rent expense on the income statement.
- Key believes the lease term under any new accounting guidance in this area should be the primary lease term consistent with current lease accounting guidance. A "longest possible" lease term should only be used when the renewal option rents are at such bargain levels that the option is certain to be renewed. Predicting lease-end residual assumptions, contingent rents and whether a renewal option will or will not be exercised with any degree of accuracy is an unreasonable expectation of even the most seasoned lessor or lessee.

Lessor Comments and Suggestions

- The current leveraged lease model should be maintained since the current accounting guidance for leveraged leases properly reflects the net investment as an asset that the lessor has at risk. If this current model is not retained, existing leveraged leases should be grandfathered. The time and effort that would be involved in reviewing these existing arrangements and properly accounting for them under any new leasing guidance will be substantial and will require companies to incur tremendous cost. In addition, grossing up the balance sheet may create the need to reallocate capital and/or possibly require a company to raise additional capital.
- As stated in our general comments, the ongoing assessment of key measurement assumptions, such as estimates of the expected lease term and future contingent rentals at each reporting date subsequent to the initial recording of the lease will add significant complexity to lease accounting. Key does not favor any accounting guidance that involves the increased use and frequency of estimates. The FASB and IASB should aim for simplification and financial disclosure symmetry. Based on our understanding of the proposed accounting guidance, this symmetrical accounting expectation would not be achieved since the lessor would be required to make estimates and apply judgment at adoption and at each reporting date that may not be the same as the lessee's judgment and estimates. Lease accounting should be consistent between lessor and lessee.
- The flaws and complexity of this proposed leasing guidance leads us to recommend that current lessor accounting remain unchanged. The current accounting treatment is well established in practice and although complex is understood by lessors, lessees and other interested parties. In terms of the proposed leasing guidance, the performance obligation approach is inconsistent with the right of use model. The lessor still has the leased asset on its books despite the fact that the right of use has been transferred to the lessee. The derecognition approach is also flawed as it does not account for the residual appropriately. The residual value is an expected cash flow from the investment in

the lease and it should be accreted to its fair value as set forth in current accounting guidance.

Key's expectation of the proposed leasing guidance was that it would simplify lease accounting both for the lessee and the lessor. It is Key's belief that this proposed accounting guidance will make lease accounting more onerous and complex. The potential growth in our balance sheet due to this guidance will provide no benefit to our shareholders or the credit and capital markets and will not result in financial statement comparability. The FASB's and IASB's objective in developing this proposed leasing guidance was not to influence the way the lease business is conducted but to provide the appropriate accounting for this business. However, this proposed guidance as currently written will have a profound impact on the way lease arrangements are negotiated and structured in the future and to some extent it has already influenced leasing business behavior in anticipation of this guidance. For example, relative to past years, our leveraged lease activity has declined and we anticipate that operating leases with shorter lease terms and no renewal options will dominate the leasing landscape going forward if this proposed guidance is finalized.

Key believes the proposed lease accounting guidance, if adopted in its present form is equally or possibly even more complex than the existing lease accounting guidance with too much emphasis on assumptions and estimates that are very difficult if not impossible to predict which require frequent recurring review and adjustment. It is Key's recommendation that the FASB and IASB consider grandfathering existing leases, make the accounting guidance prospective, keep the current leveraged lease accounting intact and avoid the adverse unintended consequences relating to the balance of capital and conducting core banking business.

We hope these comments are useful and positively influence the final guidance. We welcome the opportunity to discuss this issue in more detail. Please feel free to contact Chuck Maimbourg, Director of SEC Reporting & Accounting Policy, at 216-689-4082 or me at 216-689-7841.

Sincerely,

Robert L. Morris

Executive Vice President & Chief Accounting Officer

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