December 14, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference No. 1850-100: Proposed Accounting Standards Update – Leases (Topic 840)

Dear Technical Director:

SunTrust Banks, Inc. (“SunTrust” or the “Company”) appreciates the opportunity to comment on the Proposed Accounting Standards Update – Leases (the “Exposure Draft” or “ED”) issued by the Financial Accounting Standards Board (“FASB”).

SunTrust, headquartered in Atlanta, Georgia, is one of the nation’s largest banking organizations with assets of approximately $175 billion as of September 30, 2010. SunTrust offers a full line of financial services for consumers and businesses through an extensive distribution network, located primarily in the Southeast and Mid-Atlantic states and also serves customers in selected markets nationally.

Through SunTrust’s various lines of business we serve as a lessor and lessee in both the equipment and real estate arenas. Additionally, through our various financial services, lending and credit underwriting activities, SunTrust is an avid user of financial statements. Therefore, as an institution we will be impacted by all facets of the proposed guidance.

SunTrust supports the FASB’s efforts to improve lease accounting in order to better meet the needs of financial statement users. The stated objective of the guidance is “to report relevant and representationally faithful information to users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases”; however, there are certain aspects of the proposal that do not meet the stated objective.

We appreciate the attempt to apply a principles based approach to lease accounting; however, the ED introduces a significant amount of estimates and judgments which will result in inconsistent application of the standard. Similar entities with identical transactions could report those transactions very differently, based solely on subjective judgments and estimates.
As discussed below, there are aspects of the ED that should be reconsidered by the Board in order to meet the stated goal of increasing transparency and comparability.

**Lessee Accounting**

SunTrust understands the basis of the ED’s proposal that lessees record leases in the statement of financial position in the form of a right of use asset ("ROU") and payment obligation. However, as described below, we have concerns regarding the proposed accounting for the initial and subsequent measurement of the asset and liability.

**Initial Measurement:** The Company believes that the ED’s proposal to estimate the lease term based on the longest possible term that is more likely than not to occur is not operationally feasible, specifically for companies like SunTrust with more than 1,000 leases. Estimating the lease term on this basis includes a high level of subjectivity that will lead to diversity in practice. FASB Concepts Statement No. 6 - Elements of Financial Statements ("CON 6") defines liabilities as future economic sacrifices of benefits based on an entity’s present obligations derived from past transactions and events. Estimated payments from non-bargain renewal options are, by definition, not liabilities, since a lessee has the ability to opt out of the lease contract before renewal has occurred. By including optional lease periods, the ROU asset and related liability will potentially be overstated, resulting in the overstatement of lease related amortization and interest expense in the income statement. We believe the accounting proposed will be misleading to users of financial statements, distorts the economic reality of lease agreements, and decreases the comparability of financial statements. SunTrust supports the existing definition of the lease term in ASC 840, which would typically reflect the base lease term and any lease renewal options that are probable of being exercised due to economic compulsion. The lease term, as currently defined by ASC 840, provides a basis for a more objective measurement and consistent application than the ED.

**Subsequent Measurement:** The Company disagrees with the ED’s proposal of amortizing the lessee’s payment obligation using the effective interest method, as it will not reflect the pattern of cash flows and expenses that actually occur in a lease transaction. In most cases, the cash flow pattern of a lease is a gradual increase in expense over the course of the lease term, whereas the effective interest method reflects an expense pattern that begins at a steep level and declines dramatically over the course of the lease term. While the Company understands the classification of the payment obligation amortization as interest expense, the Company proposes that FASB consider an alternative approach to recognition of the ROU asset amortization and payment obligation interest expense that would better reflect the economic substance of a lease transaction.

**Lessor Accounting**

Conceptually, we support a symmetrical accounting model for both lessees and lessors. As proposed, the existence of two accounting models for lessors will not provide clarity or comparability of financial statements for preparers, investors, or creditors. Additionally, there is greater opportunity for the lessee and lessee accounting to be asymmetrical. The benefits of having two models are not readily apparent, and we believe the issues described below should be sufficiently vetted by the Board before finalizing the changes to lessor accounting.
Under the ED, the determination of whether the lessor would use the Performance Obligation ("PO") or Derecognition Approach ("DR") depends upon the extent to which the lessor is exposed to the risks and benefits of asset ownership. This determination involves a significant amount of judgment such that similar enterprises with similar fact patterns may arrive at differing classifications, making it more difficult for financial statement users to perform comparative analyses. In addition, preparers will need to evaluate each lease transaction, individually, based on transaction specific deal points, none of which have definitive qualitative measures.

The Company supports a single model for lessors, and we believe the DR approach is the option that is most consistent with a ROU model, in that the lease transfers some portion of the economic benefits associated with the asset.

The Performance Obligation Approach: When viewed in the context of the proposed lessee ROU model, the requirement for the lessor to recognize a performance liability is confusing. The proposed lessee model contemplates the lessee having an unconditional obligation to pay rent, thus the implication is that the lessor’s performance obligation has been “met” at commencement. As a result, the recording of a liability by the lessor as a performance obligation is not symmetrical.

A consequence of the PO approach is that the lessors’ balance sheet is “grossed up” when the assets under lease are recorded twice: (1) initially when the lessor recognizes the receivable for the expected lease payments and (2) when the lessor records the entire underlying asset. Upon lease commencement, the lessor’s assets recorded on the balance sheet exceed the expected cash flows.

The PO approach results in recognition of the underlying assets in the statement of financial position. However, for lessors whose business model is that of a financing institution (banks and finance companies), the primary risk element in the transaction is the repayment (credit risk) associated with the lease receivable and not the risk associated with holding the underlying assets.

Additionally, the ED requires classifying the underlying lease asset as property, plant, and equipment ("PP&E") and depreciating that asset over its useful life. However, for a financial institution lessor, it is typically the intent to convert the underlying asset to cash through a sale to the lessee or third party at the end of the lease term, which is substantially less than the life of the asset. The artificially long depreciation period imposed by the ED is not consistent with the value curve of the underlying asset or the intention of the lessor at commencement.

The Derecognition Approach: One of the key attributes in calculating the amount of the asset to derecognize is determining the appropriate discount rate. Under existing GAAP, the rate is clearly defined and includes both the minimum lease payments (including guaranteed residual) plus the expected residual realization at lease maturity. Paragraph B13 of the ED suggests that the discount rate consist of both fixed and variable components in order to reflect the specific terms of the lease, such as lease payments, expected contingent rentals, expected payments under term option penalties, etc. The absence of a concise definition for the discount rate will lead to a divergence in practice and a lack of transparency and comparability desired by users and preparers of financial statements.
The proposed accounting for the residual asset under the derecognition approach does not consider the financial/economic characteristics of the residual asset. The residual asset is not PP&E, since it is not an asset the lessor uses or intends to use in its business. Rather, it represents the expected cash flow from the sale of the asset at maturity of the lease obligation and is more appropriately classified as a financial asset. We propose that the residual asset be recorded at the present value of the future expected cash flows and accreted over the term of the lease. However, as proposed, the recorded value of the residual asset is merely the difference between the fair value at commencement and the present value of the lease payments instead of the present value of expected cash flows.

**Reassessment**

Paragraph 17 of the ED indicates that the lessee shall reassess the carrying amount of the liability to make lease payments arising from each lease if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period. Paragraph 56 of the ED has the same reassessment requirement for lessors associated with the right to receive lease payments. Each reporting period, lessees and lessors would have to evaluate their entire lease portfolio to determine whether there has been a change in facts and circumstances that would result in a significant change in the liability and right to receive payments, respectively. As leases are further into their lease term, it will become more difficult to appropriately evaluate whether there has or has not been a change in facts and circumstances since inception that would significantly change the carrying value, without performing a quantitative analysis of the changes in estimated lease payments. The assessment of changes in facts and circumstances would be difficult to support and likely not be auditable, without a quarterly quantitative analysis. The quantitative analysis would involve a reassessment of both the estimated lease term and the amount of contingent rents. In addition, if the Company determines that there has been a significant change in the liability and/or right to receive payments, then the Company would need to recalculate the revised carrying values as of the reporting date. The proposed process is too complicated and not realistic for preparers to perform each reporting period. Further clarification of the Board’s intent related to the processes that would be necessary to reassess the leases would be helpful. The Company’s recommendation to change the definition of lease term to the base lease term plus a “probable” threshold for lease renewal options would make the determination of whether there has been a significant change more apparent.

**Contracts that contain service components and lease components**

We agree with the FASB’s view that lease and service contracts should be kept as a single unit of account for both lessees and lessors and not separated into distinct components. The IASB’s proposal will introduce unnecessary complexity and will not provide users of financial statements with enhanced information.
Transition

SunTrust recognizes that a simplified retrospective application for the new leasing standard may increase comparability and provide financial statement users the opportunity to review and analyze trends. However, in order to provide high quality financial statements to users, a substantial amount of time and effort will be necessary to review lease contracts, build out and test programs/systems, accumulate and input data, and develop robust processes and procedures to comply with the proposed requirements. FASB should further note that systems development cannot begin until a standard is finalized. If a simplified retrospective application is required, we strongly recommend the FASB allow for considerable lead time for implementation to ensure a smooth and accurate implementation. We believe that at least two to three years will be needed from the issuance date to begin a dual accounting model under the existing guidance and the new guidance, so that the date of initial application will be the beginning of the first comparative year presented in the first financial statements in which the entity applies the new guidance.

Other

Lease Incentives: Lease incentives are not addressed in the ED. It is unclear how to factor in cash and non-cash incentives into the asset and liability calculation. For example, a lessor may offer a lessee an incentive such as cash for improvements to the property (i.e. to build out the property to meet the specific usage needs of the tenant) or periods of free rent to encourage the lessee to lease their space. These incentives may provide significant benefit to the lessee and are inextricably linked to the ROU asset.

Sale/Leaseback Transition: The ED does not clearly address the accounting for deferred gains outstanding from previous sale/leaseback transactions. SunTrust agrees with the ED’s proposed transition adjustment to the ROU asset for lease payments that are uneven over the lease term. Similarly, we believe that deferred gains from sale/leaseback transactions, as of adoption date, should be applied as an adjustment to the ROU asset. Under existing GAAP, a long term benefit is associated with the deferred gain; therefore, it seems appropriate that these deferred gains should be used to reduce the related ROU asset at transition.

Lessee Discount Rate: Additional guidance should be provided to help lessees understand paragraphs 12 and B11 – B13. We believe the existing guidance provided in ASC 840 regarding the discount rate, including the use of the implicit rate, would be the appropriate rate to use under the new standard. The existing approach is well understood by lessees, lessors, and users of financial statements and provides for an objective determination of a discount rate. The choice of discount rate will significantly impact what is reflected on the balance sheet and the ED’s proposal that the discount rate consist of both fixed and variable components in order to reflect the specific terms of the lease, such as lease payments, expected contingent rentals, expected payments under term option penalties, etc., is confusing. Therefore, the calculation must be very clear and well understood by all stakeholders.

Construction: ASC 840 addresses the accounting for leases of assets under construction; however, construction related issues are not specifically addressed in the ED. ASC 840 states that “there is no
distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized by the lessee as rental expense”.

SunTrust would like the ED to specifically address when the ROU asset is to be recorded for leases associated with assets under construction. Paragraph 10 of the ED says that a ROU asset shall be recognized in the statement of financial position at the date of commencement. Since the ED defines the date of commencement of the lease as “the date on which the lessor makes the underlying asset available for use by the lessee”, one interpretation is that the ROU asset is not created until construction of the property is complete.

**Tax Considerations:** The ED, as proposed, will give rise to new temporary differences involving leasing transactions. It is noted in ASC 740 that an entity must recognize a deferred tax asset or liability for all temporary differences on a gross basis. If that logic is followed, there will be deferred tax assets and deferred tax liabilities relating to the lease obligation and ROU asset, respectively. These deferred items may net to zero, but may be material on a grossed up basis. By grossing up deferred taxes, there may be additional scrutiny on the recoverability of the deferred tax assets and the resulting valuation reserve analysis. We propose that the deferred taxes for a lessee be netted, if they relate to the same type of transaction.

Lease accounting is a broad and complex issue that touches almost every entity. Applying a new leasing standard will have a significant economic and accounting impact on lessees and lessors; therefore, we appreciate the opportunity to comment on the proposed ED. Thank you for considering our views.

Sincerely,

[Signature]

Tom Panther
Controller and Chief Accounting Officer