December 15, 2010

Technical Director
Financial Accounting Standards Board
File Reference Number 1850-100
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference Number 1850-100, Leases (Topic 840)

Associated Banc-Corp appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Exposure Draft of Proposed Accounting Standards Update, Leases (Topic 840) (the "Exposure Draft"). We are a $23 billion diversified bank holding company offering a full range of traditional banking services and a variety of other financial products and services.

We support the Board's goal of creating consistent accounting standards for leases and enhancing comparability for financial statement users. We acknowledge that the current leasing model has been criticized for not providing faithful representations of lease transactions. While we recognize that the proposed changes aim to create a more consistent method of accounting for leases, we are concerned that the significant use of estimates and assumptions in the proposed model will not result in more comparable and consistent financials. We are also concerned that the cost of implementation for preparers will be significant, and surpass the benefits to the user.

The remainder of this letter provides greater detail about our concerns. Please note we have only responded to questions from the Exposure Draft related to proposed guidance where we have specific comments or concerns.

We thank the Board for its consideration of our recommendations and would be pleased to discuss these issues in more detail with the Board or staff at your convenience.

Sincerely,

[Signature]
Joseph B. Selner
Chief Financial Officer
Question 1: Lessees
(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?
(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We agree that the lessee should recognize a right-of-use asset and a liability to make lease payments. We acknowledge the theoretical deficiencies in how similar leases are being accounted for under the current methodology and believe recognizing these leases on the balance sheet could provide for more sound accounting. However, we have concerns with the methodology stated in the Exposure Draft for measuring the right of use asset and liability to make lease payments (see further discussion in question 8).

Yes, we agree that if the “right of use” model is adopted, the lessee should amortize the asset as is consistent with other accounting practices. Since the proposal assumes the right of use asset is acquired with borrowed funds, it also makes sense to record interest on the liability to make lease payments.

However, the complexity of the proposed accounting for leases will require a considerable amount of effort, both initial and ongoing, for preparers. To reduce some of this burden, we believe the board should consider only applying the standard to leases that are significant to the operations of a company and have a material impact on the financial statements. If the goal of the proposed standard is to provide users with relevant and useful information about leasing activities, excluding these leases (which could require significant efforts to track and monitor) would not negate the purpose of the Exposure Draft.

Question 2: Lessors
(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
(b) Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?
(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

We do not agree with the proposed dual accounting methods for lessors. Since the purpose of the Exposure Draft is to make the accounting more transparent and comparative, we believe there should be a single accounting method for lessors.
(consistent with the single accounting method for lessees). We are not in favor of the performance obligation approach since the recording of both a residual asset and a lease receivable unnecessarily grosses up the balance sheet. Therefore, we recommend the Board revisit this issue and determine whether the derecognition model can be modified and applied to all lessor transactions.

Yes, we agree there should be no separate approach for lessors with leveraged leases, since this is the current accounting under US GAAP.

**Question 3: Short-term leases**

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65). (See also paragraphs BC41–BC46.)

**Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?**

We agree that there should be simplified accounting for short-term leases, however, we do not agree with the proposed simplified requirements in the Exposure Draft. Merely excluding the present value calculation for short-term leases, while still requiring balance sheet presentation, does not provide much relief for lessors. Leases with a maximum possible lease term of 12 months or less should be excluded from the Exposure Draft for both lessees and lessors and lease payments should continue to be recognized in the income statement for these leases (similar to the current operating lease model). The significant effort needed to account for these leases under the new proposal lies with the tracking and monitoring of these short term leases, not the initial present value calculation.

We believe the costs of complying with this requirement far outweigh any benefit provided to the users of the financials by grossing up the balance sheet for these short-term leases. We do not believe the exclusion of these short-term leases counteracts the purpose of the Exposure Draft which is to provide the most useful and relevant information to financial statement users. Further, by maintaining an operating lease model for these short-term leases, the accounting on the lessee side will remain comparable to the lessor side and allow for more transparency.
Question 7: Purchase options

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree with the Exposure Draft and believe that purchase options should only be considered when exercised. However, we believe purchase options should be accounted for in the same manner as renewal options. There should be no distinction between the accounting for purchase options and renewal options as they both serve to provide the lessee with additional rights related to the leased asset. See additional discussion regarding the accounting for renewal options in question 8.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We disagree that a lessee or lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into consideration options to extend or terminate the lease. We believe that optional renewals do not meet the definition of a liability until they are contractually renewed or extended. A liability recorded on the balance sheet should reflect the contractual obligation of the lessee, not the potential for a future obligation. For example, a 1 year lease obligation with 19 annual renewal options does not present the same liability as a 20 year lease. While a lessee may intend to remain in the lease for 20 years, the lessee could terminate the lease at any time without penalty or consequence. The proposed Exposure Draft would make these leases appear to be the same based on intent or other judgments that might happen, when the characteristics of them may be very different.

We believe the proposed lease term of “more likely than not” is subjective in nature and will result in inconsistencies in how the standard is applied. Determining the probability that a 10 year renewal option will be exercised 15 years from the current reporting period is speculation for most and we do not believe these estimates provide the most reliable and accurate information to users of the financial statements. Revisiting these assumptions on a periodic basis will be very time consuming and onerous.

We agree with paragraph BC 120 (b) in the Exposure Draft which states that the entity would record an asset or liability for the minimum contractual term, and disclose the existence of any options to extend the term. This approach would result in consistent application across companies and allow for full disclosure of
any contingent renewal options. In addition to making the financials more comparable, this approach would remove some of the burden of periodic reassessment of the lease term, since probability calculations will not need to be performed.

Question 9: Lease payments
Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

We believe that contingent rentals could have an impact on future payments (if significant) and therefore should be taken into consideration when measuring the lease assets and liabilities. However, we do not agree with a probability-weighted approach to estimating these future contingent rentals. This method of accounting would provide for continuous reassessment of highly subjective estimates of future events. This will expose the financials to excessive volatility in periods where assumptions are changing, and serve to confuse readers.

We recommend contingent rentals be determined by management’s estimate of the most likely scenario. This simplified approach (in comparison to a probability-weighted calculation) would require fewer revisions, lessen the burden on financial statement preparers, and reduce volatility in the financials.

Question 10: Reassessment
Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We agree that there would need to be periodic reassessments of the assumptions used in the proposed lease calculations due to the amount of judgment and estimates involved. However, we believe the requirement for reassessment each reporting period (quarterly for many) would result in significant operational and practical difficulties. Again, this is why we recommend excluding contingent renewal options and purchase options in the expected lease term (see more detail under question #8), which would lessen the need for constant reassessment.
However, if the Board proceeds with the proposed measurement approach in the Exposure Draft, we believe there should be more guidelines to determine what constitutes a “significant” change. We support that leases would only need to be reviewed when there are significant happenings that would indicate there may be a change in the lease asset or liability. However, we would recommend that the Board revise the threshold for reassessment to include guidelines of specific instances that would prompt the need for review.

Question 12: Statement of financial position
(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

We believe the liabilities to make lease payments and the right of use assets should be separately presented on the statement of financial position when considered material. We believe the ultimate decision of whether to separately present the information, as opposed to disclosing in the notes, should be based on materiality and left to the discretion of the preparers.

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

Similar to our response above, we believe the rights to receive lease payments and residual assets should only be separately presented on the statement of financial position when material. This determination should be left to the discretion of the preparers.

Question 13: Income statement
Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We believe the decision to present the components of lease income and expense separately in the income statement or notes to the financials should be based on materiality. When the components of lease income and expense are not considered material, disclosure in the notes to the financials is considered sufficient.

Question 14: Statement of cash flows
Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Similar to question #13, we believe separate presentation in the statement of cash flows should be based on materiality.

Question 15
Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) identifies and explains the amounts recognized in the financial statements arising from leases; and
(b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows?
(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We agree with the Exposure Draft that there should be disclosure that identifies and explains the amounts recognized in the financial statements arising from leases and describes how leases may affect the amount, timing, and uncertainty of the entity’s future cash flows. However, we believe the increased volume of the proposed disclosure requirements is significant in nature and in excess of necessary information that would be useful to the reader.

We believe the unnecessary complexity of the proposed leasing standard is driving the extensive amount of disclosure in the Exposure Draft. The Board should again consider the cost to prepare these disclosures compared to the benefit provided to users.

Question 16
(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?
(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

While we agree that the costs of full retrospective application far outweigh any benefits to the users of the financials, we disagree that the simplified retrospective approach provides much relief from this burden. We believe that any retrospective implementation of the proposed accounting requirements will have significant costs. The simplified retrospective approach, which would require us to implement the proposed requirements beginning with the first comparative period (the date of initial application), will result in the remeasurement of lease contracts that may not even exist at the current reporting date. While we understand the importance of
comparability, we believe the considerable costs of applying this proposed standard to prior periods outweighs any potential benefits to the user.

We therefore recommend that the proposed accounting standards should be applied on a prospective basis to all outstanding leases at the date of adoption. This would allow for consistent accounting for all leases in the current and future periods, while removing the burden on preparers of restating prior periods.

Finally, due to the changes that will need to be made to leasing systems as well as internal controls that will need to be put in place, we recommend the Board review its initial timeline for application. Implementation will be complex and costly, and we would urge the Board to take this into consideration when determining the effective date for the final standard.

**Question 17**

Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We believe that users of the financial statements will derive a benefit from material leases being recorded on the statement of financial position. However, we are concerned that the Exposure Draft as written places significant burdens on preparers specifically related to the monitoring and tracking of leases and the constant reassessment of assumptions used when determining lease assets and liabilities. The Board should also revisit the expected costs and benefits of retrospective application, as we believe the costs will be significant to preparers and far exceed any benefits.

Additionally, we are concerned that the proposed lease model will affect the way leases are negotiated and begin to drive business decisions. The purpose of the new leasing standards should be to appropriately reflect leasing activity, not drive it.