February 2, 2018

Technical Director
File Reference No. 2018-200
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Proposed Accounting Standards Update, Targeted Improvements to Leases (“Topic 842”)  
File Reference No. 2018-200

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, Targeted Improvements to Topic 842 (the “Update”). We continue to support the Boards’ efforts to improve the accounting for leases to provide greater transparency in financial reporting and address the needs of users of financial statements, and we do support the Update.

Company Background

CIT Group Inc., and its principal bank subsidiary CIT Bank, N.A. (together “CIT”), provides financing, leasing, and advisory services principally to middle-market companies and small businesses across a wide variety of industries. It also offers products and services to consumers through its Internet bank franchise and a network of retail branches in Southern California, operating as OneWest Bank, a division of CIT Bank, N.A. (Member FDIC, Equal Housing Lender).

Transition—Comparative Reporting at Adoption

We support the Board’s proposed transition option to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. We believe this is a reasonable cost-benefit accommodation.

Separating Components of a Contract

We support the Board’s proposed optional practical expedient which would allow lessors to elect, by class of underlying asset, to not separate lease and related nonlease components if both of the following criteria are met:

- The timing and pattern of revenue recognition are the same for the nonlease component(s) and the related lease component.
- The combined single lease component would be classified as an operating lease.
We believe that the expedient will provide practical relief to lessors in instances where the timing and pattern of revenue recognition for the lease and nonlease components would be the same regardless of whether the nonlease components are separated from the lease component.

Therefore, we support such an expedient; however, we would like to request the Board consider extending the optional expedient to arrangements qualifying for finance leases, where the lease and nonlease components follow the same timing and pattern of income recognition, and combining components does not result in a different lease classification.

**Measurement and Recognition**

In our industry, lessors may enter into finance arrangements wherein a lessee will request the financing of their purchase of add-on services or goods from third parties relating to the underlying asset in the lease. In these situations, the lessor is under no obligation to provide the add-on services or goods, and instead only finances the transaction by making upfront payments to the third party vendor for the provision of such services or goods to the lessee in the arrangement. Thereafter, the lessor/lender collects payments from the lessee/borrower, of which a portion relates to the payment for the use of the underlying leased asset and a portion related to the aforesaid non-lease components.

The pattern of recognition of income in the aforesaid arrangements will be similar under Topic 842 and under Topic 310, i.e., the income shall be recognized on an effective yield basis for the finance lease as well as for the loan.

We are aware that the Board intended the proposed practical expedient for lessors to be similar to that provided to lessees under ASC 842 in situations when the timing and pattern of revenue recognition are the same for the lease and nonlease components associated with the lease component. We believe that our aforesaid suggestion is in line with the Board’s intent to provide practical expedients to lessors in situations in which the timing and pattern of income recognition are the same for the lease and nonlease components, albeit for finance leases. We acknowledge that if a similar practical expedient is provided for finance leases, it will be limited to nonlease components which if separated would be accounted for under ASC 310 and the related interest income would be recognized on the effective interest method\(^1\).

**Benefits and Costs**

We understand the Board’s objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. As noted above, for finance leases with lending nonlease components embedded in the transaction, the timing and pattern of income recognition will be the same for the lease and lending nonlease components. We understand that some in the industry currently aggregate leases and loans on the face of the balance sheet; hence, in such situations the impact of separation is restricted to disclosures only. We believe that by offering the same proposed expedient for finance leases, lessors may anticipate efficiencies related to system configuration, training of staff, and ongoing maintenance of the separation process. We believe the informational benefit in the disclosures does not justify the cost of separation of the lending nonlease components for finance leases.

We believe that the Board proposed the Update and relief for operating leases, keeping in view the stakeholders feedback on benefits and costs. We suggest that similar principals should be applied to finance leases as well, provided the condition in the proposed 842-10-15-42A(a) is met.

\(^1\) Other than in those instances where there is a ‘day 1’ selling profit or loss arising from the lease.
Alignment with concepts of the Revenue Recognition and Leases Literature

The Board recognized the concept in Revenue From Contracts With Customers ("Topic 606") that if a distinct good or service in a contract is part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer, then the series of distinct goods or services are accounted for as a single performance obligation. The Board noted that from a practical perspective, it may not be necessary to apply the separation and allocation requirements of Topic 606 if each distinct good or service is concurrently delivered and has the same pattern of transfer to the customer. This is because an entity may be able to account for such goods and services as if they represent a single performance obligation if the outcome is the same as accounting for the goods and services as individual performance obligations. Similarly a lessee or lessor may apply the guidance in Topic 842 to a portfolio of leases with similar characteristics (size and composition) if the entity reasonably expects that the application of the leasing model to the portfolio will not differ materially from the application to the individual leases in that portfolio.

Paragraph BC19 from the Update notes:

The Board discussed that under the new revenue guidance, an entity is not precluded from accounting for distinct goods or services as if they were a single performance obligation if the accounting outcome is the same as accounting for the goods and services as individual performance obligations. Similarly, under the new lease standard, an entity is not precluded from accounting for multiple lease components as a single lease component if the outcome from doing so would be the same as accounting for the lease components separately. Therefore, the Board questioned why a lessor would be precluded from combining a lease component and a nonlease component solely because one component is within the scope of the new lease guidance and the other component is within the scope of the new revenue guidance. The discussion highlighted that leasing is a revenue-generating activity and, therefore, lessors should not be precluded from combining lease and nonlease components when the timing and pattern of revenue recognition are the same. If the only difference between accounting for a lease and the associated nonlease component separately is presentation and disclosure, then the timing and pattern of revenue recognition are considered the same.

We believe that similar principals should apply in the case of a finance lease, where the nonlease components, if separated, will be accounted for as a loan. Similar income recognition pattern will be followed for each of the aforesaid components and hence lessors should not be precluded from combining lease and nonlease components when the timing and pattern of income recognition are the same.

Disclosure

We believe that the existing disclosure requirements, combined with the new disclosure requirements introduced by the Update in paragraph 842-30-50-3A, will appropriately communicate the information that is most important to users of each entity’s financial statements. For operating leases, the reporting entity shall describe its accounting policy election and the class or classes of underlying assets for which it has elected to apply the practical expedient, and the nature of the nonlease components included within the single lease component, and such information is considered reasonable for the financial statement users.

BC26. The Board also felt that the disclosure requirements in the new lease standard would result in sufficient information for users to analyze the combined components.

Similar information can also be provided for reporting entities that would apply a similar practical expedient for finance leases with financing nonlease components that are not separated from the lease component.
To achieve the objectives noted above, we believe that the Board may consider removing the second criterion in the proposed paragraph 842-10-15-42A regarding lease classification. This criterion as currently designed, adds an incremental layer of complexity to the application of the expedient that we believe is not within the spirit of the Update. If such edit is acceptable and is introduced, it would allow entities with finance leasing arrangements to apply the proposed expedient that would currently be precluded from doing so, but for whom the fundamental principal with respect to the concurrent timing and same pattern of transfer to the customer for the lease and nonlease components holds true.

**Conclusion**

We believe that we and other members of our industry, and others in similar situations in other industries, would benefit from a similar practical expedient for finance leases such as that proposed by the Board for operating leases.

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Our responses to the Questions for Respondents are included in the Appendix to this letter.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Edward K. Sperling, Executive Vice President & Corporate Controller at 973-740-5329 (Edward.Sperling@cit.com), or Steve Geiger, Senior Vice President, External Reporting and Accounting Policies at 973-422-3862 (Steve.Geiger@cit.com).

Sincerely,

Edward K. Sperling
Executive Vice President & Corporate Controller
CIT Group Inc.
Appendix – Responses to Selected Questions for Respondents

Transition—Comparative Reporting at Adoption

Question 1: Would the proposed optional transition method to apply the new lease requirements through a cumulative-effect adjustment in the period of adoption reduce the costs and complexity associated with implementing Topic 842? If not, please explain why.

Yes. We believe that permitting entities to apply the new lease requirements through a cumulative-effect adjustment in the period of adoption will reduce the costs and complexity associated with implementing Topic 842.

Question 2: Is the proposed transition method, as written in this proposed Update, operable? If not, please explain why.

Yes. We believe that the guidance in the proposed Update, as written, will be operable in practice.

Separating Components of a Contract

Question 3: Would the practical expedient in this proposed Update for lessors to not separate nonlease components from the related lease components and, instead, to account for those components as a single lease component reduce the costs and complexity associated with applying Topic 842 by lessors? If not, please explain why.

Yes. We agree that the proposed amendments would help entities reduce the costs and complexity associated with applying Topic 842 by lessors. However, we believe expansion of the scope of the proposed amendment to finance leases, as suggested in the body of this letter, would help improve the proposed guidance.

Question 4: Is the proposed practical expedient, as written in this proposed Update, operable? If not, please explain why.

Yes. We believe that the guidance in the proposed Update, as written, will be operable in practice.

Question 5: Would the information in the financial statements, including disclosures, provided by lessors electing the practical expedient in this proposed Update be decision useful? If not, please explain why.

Yes. We agree the new disclosure requirements provide decision useful information to financial statement users.