VIA EMAIL

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Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 Post Office Box 5116 Norwalk, Connecticut 06856-5116

KeyCorp OH-01-27-1111 127 Public Square Cleveland, Ohio 44114

Tel: 216-689-4082 Fax: 216-689-4493

Re: File Reference No. 1125-001

Dear Director:

We are writing in response to your invitation to comment on the Principles-Based Approach to U.S. Standard Setting Proposal ("Proposal") dated October 21, 2002.

Key ("Key"), headquartered in Cleveland, Ohio, is a bank-based financial services company that, at September 30, 2002, had assets of approximately \$84 billion. Key is an active participant in the standard setting process through the issuance of comment letters on proposed accounting guidance and involvement with numerous industry and professional groups. Therefore, we appreciate the opportunity to provide our thoughts and opinions on this Proposal, and support the Board's commitment to improving the U.S. standard setting process.

Key has always strived to reflect the true economics of the transactions underlying its financial reporting by placing emphasis on the substance rather than the form of these transactions. Key takes pride in providing transparent and comprehensive financial information to the investment community, and supports a standard setting process that will result in accurate and useful information that may further improve investor understanding and allow for more informed decisions. Following are Key's thoughts and opinions on the questions set forth in the Proposal.

Question 1

Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?

Yes. Key is supportive of the Board's efforts to improve the U.S. standard setting process. The move to a principles-based standards system may result in improved financial accounting and reporting. However, this change will have to be accompanied by the implementation of appropriate safeguards and other mechanisms to ensure that the resulting financial accounting and reporting by various entities is consistent and comparable where necessary, and provides relevant and reliable financial information.

Question 2

Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair view override?

It will be critical for the Board to develop an overall reporting framework similar to that in IAS 1 to guide and assist those individuals charged with applying the principles-based standards to particular transactions underlying the financial statements. This reporting framework would provide the foundation upon which the principles-based standards and other related guidance would be based as well as providing the model for working through accounting decisions.

An override mechanism would seem to be appropriate to ensure that the substance of a particular transaction is presented versus simply its form if these two concepts are in conflict. However, this override mechanism should be constructed so that it is intentionally narrow and only applicable to extremely rare circumstances as stipulated in IAS 1 to discourage its use in inappropriate situations. A requirement similar to that set forth in IAS 1 would seem appropriate to ensure that investors, analysts, and other readers of the financial information fully understand that an override has occurred in the preparation of the financial statements. As prescribed in IAS 1 this requirement should include appropriate disclosure regarding the nature and impact of this departure on the financial statements.

Question 3

Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing that guidance?

The Board should be the primary standard setter whether a principles-based or rules-based system of standard setting is used. We applaud the Board's recent efforts to reign in and provide a focal point to the various standard-setting bodies that have been involved in this process over the years.

For a principles-based standard setting process to work properly, it will be imperative for the Board to provide for an implementation/interpretation group under the Board's auspices that would be responsible for providing appropriate interpretive and implementation guidance to preparers and auditors. This group would ensure that a part of the standard setting process is not removed from the public domain by interpretative and implementation guidance being provided by other entities or regulatory agencies. This group would also help ensure that the interpretive and implementation guidance provided would be consistent and in accord with the principles-based standards set forth by the Board. The involvement of this group could also help to prevent differences that confuse investors such as GAAP/RAP differences that have been prevalent in the banking industry in the past. The guidance to be provided by this group would not run to enumerating a myriad of rules but to addressing situations having global application to all constituents or application to a particular industry. This group would have the responsibility for receiving requests for interpretive and implementation guidance and then determining in consultation with the Board which of these situations should be considered and addressed.

Question 4

Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?

All of the above-referenced constituents should be able to adapt to this new principles-based standard setting process, however this will not come without its challenges.

Preparers will have to adapt to an accounting system where judgment is even more critical than it is now. For this principles-based standard setting process to work, it will be imperative that preparers make accounting decisions with integrity and forthrightness and exercise vigilance in keeping the best interests of their shareholders in mind when recording and reporting financial transactions. Preparers will also have to provide disclosure that will allow for transparency in the significant transactions underlying their financial information as well as the resulting financial statements. It may be necessary to incorporate in the financial statement certification process more specific wording or some other type of statement that judgments exercised in the preparation of the financial statements were considered reasonable and appropriate.

Similar to preparers, auditors will have to exercise a heightened degree of judgment in their audit work and gain an in-depth understanding of the business they audit including the business need for the transactions of the entities under audit to ensure that the judgments made by the preparers are reasonable and that such transactions are properly reflected in the entity's financial statements. The auditors' opinion may need to be modified to emphasize and more specifically address the fact that the auditors tested and challenged the judgments of management in attesting to the veracity of the financial statements at issue.

The regulatory agencies and also the courts will have to be willing to accept the judgment of the preparers in compiling the financial statements and the auditors in performing the attestation function since second guessing by these groups and others could cause this principles-based standard setting process to fail. One of the few circumstances where any group should be able to challenge the appropriateness of a particular judgment is if fraud or some other form of willful or intentional misconduct is evident.

Investors, creditors and others may benefit from this principles-based standard setting system since it may make the accounting guidance easier to understand although it may not result in the easing of disclosure overload since additional disclosures may be required to provide the necessary transparency in the financial statements. Additional disclosure may be necessary to adequately explain to investors, creditors and others the business strategy, the issues requiring management judgment, and the reasoning behind the ultimate accounting for certain significant transactions.

All of these various groups may have to accept the fact that judgment and the accounting for similar transactions may vary among financial statement preparers, however these differences do not necessarily indicate that any of these financial statements are not properly prepared. The FASB and any other related standard setting bodies will need to be judicious in providing guidance, particularly of the rules-based variety, and will have to resist the temptation to address

exceptions, or provide exemptions from the particular accounting guidance except in limited circumstances.

Question 5

What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?

Following are Key's perceptions of the benefits and costs of adopting a principles-based standard setting process.

Benefits

Less complex accounting rules—significant time and expense is incurred by companies today to comply with the many rules contained within the existing accounting standards.

Fewer exceptions—principles-based standards may reduce the number of accounting exceptions prevalent today as these same exceptions are the contributing factors to the volumes of accounting guidance we have under a rules-based approach.

Aligns more with International Accounting Standards—a move towards principlesbased standards may assist the Financial Accounting Standards Board in moving closer to the International Accounting Standard Board's standard setting philosophy. This change should facilitate convergence.

More understandable and useful financial information—a principles-based standards approach with its resulting decrease in the complexity of the accounting guidance and fewer exceptions should make the financial information provided by companies more understandable and useful for its financial statement readers.

Costs

Legal and other related costs if decisions are second-guessed—principles-based standards will not work if the judgments of companies are second-guessed by the regulatory agencies and courts that will cause these entities to incur significant costs defending their decisions.

Lack of consistency resulting from the exercise of judgment—Regulatory agencies and others may need to be prepared for the lack of consistency that may occur with the adoption of a principles-based system since judgments could differ as to the treatment of similar transactions. However, both of these judgments could be proper since they will be applied to transactions with unique facts and circumstances.

Training costs to adequately prepare for and implement this change—training courses may need to be developed or existing programs modified to focus more on the underlying principles of accounting guidance and less on the numerous rules set forth in the guidance as exists currently. Principles-based standards may require a higher level of analysis and judgment than is currently necessary for applying rules where the rule is either met or it isn't.

Transition of existing guidance—a significant commitment of time and resources may need to be made by the Board and others in transitioning our current rules-based system to one that is principles-based. This transition will require that all existing accounting

guidance be reconsidered and possibly reissued in a more principles-based form. This will be a very difficult and time-consuming process for the Board and all of its constituents.

Another issue that could be seen as either a cost or a benefit, depending on one's perspective, of this move to a principles-based standard setting system relates to earnings volatility. This likely increase in the volatility of a company's earnings as a result of this change may cause the quarterly earnings of companies to vary and be somewhat less predictable. Therefore, analysts and others will need to be more aware of this issue and perhaps take a longer-term view in their analysis of various companies and their results. In the future, analysts may place even more emphasis on the annual financial results of a particular company versus its quarterly results.

Question 6

What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?

Key has detailed above all of its significant issues and the factors that should be considered in determining whether to adopt a principles-based standard setting process.

Key appreciates the Board's desire to move to a principles-based standard setting process and is supportive of this initiative. However, we hope the Board moves cautiously to ensure that the entire standard setting process remains in the public domain and that the resulting standards continue the United States' tradition of having the world's best financial accounting and reporting systems. We appreciate the opportunity to comment on the Proposal and hope that the Board will seriously consider our issues and concerns.

We welcome the opportunity to discuss these issues with you in more detail and look forward to participating in the Roundtable scheduled for Monday, December 16, 2002 that will allow constituents to more fully discuss this Proposal. If you have any questions or would like to discuss any of our comments in advance of the Roundtable, please contact me at 216-689-4082.

Sincerely,

Charles L. Maimbourg
KeyCorp
SVP—Accounting Policy & Research
127 Public Square
MC: OH-01-27-1111
Cleveland, OH 44114
216-689-4082
chuck_maimbourg@keycorp.com