2013-270
Comment Letter No. 158

INDEPENDENT COMMUNITY BANKERS of AMERICA®

September 12, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Leases (Topic 842), a revision of the 2010 proposed FASB Accounting Standards Update, *Leases (Topic 840)*, File Reference No. 2013-270

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the proposed accounting standards update (revised) titled *Leases (Topic 842), a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)* (proposed ASU). This joint proposal with the International Accounting Standards Board is a re-exposure of an initial proposal on lease accounting driven by continued requests by financial statement users to formally reflect the impact of leases in the financial statements. The objective of the proposed ASU is to improve upon the current model for lease accounting to better present the assets and liabilities that arise from leasing transactions and to more clearly present their impact on earnings through the income statement. The accounting for a lease transaction brings attention to the specific asset being leased and relationship of the lease term to the overall economic life of the underlying asset. Amortization of lease assets and liabilities and the associated income statement impact will depend upon whether the leased asset is land and/or a building or an asset with an economic life that is consumed by the term of the lease.

ICBA believes the proposed ASU is complex, burdensome, and adds little or no value to the financial statements for entities like community banks that generally do not depend on leasing activities to generate operating revenues or to leverage the generation of lease income or expense in any material manner. Community banks, like many other smaller entities, do not view leasing transactions as financing activities in an economic sense. Leases on premises and equipment are used primarily to reduce barriers to entry to

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[1] The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With nearly 5,000 members, representing more than 24,000 locations nationwide and employing more than 300,000 Americans, ICBA members hold more than $1.2 trillion in assets, $1 trillion in deposits, and $750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

support a specific activity inherent in the business model of the enterprise. Because community banks generally are not in the business of owning depreciable assets, any lessor activities on those assets are ancillary in nature and not a core, recurring activity of the entity. One cannot help but wonder if a thorough cost-benefit analysis of the proposed ASU on nonpublic entities and entities with minimal leasing activity would demonstrate the unnecessary costs required to implement such a complex lease recognition model with questionable value to stakeholders.

Background

Under the proposed ASU, all leases other than those that are defined as short-term leases would be recorded on the balance sheet for both lessors and lessees. Short-term leases are defined as those that have a maximum noncancellable lease term of 12 months or less including options to renew when there is a significant economic incentive to exercise the option.

Lessees would record a right-of-use asset on the balance sheet offset by a lease liability to reflect the obligation to make future lease payments. Both the lease asset and the lease liability would be initially measured at the net present value of the future lease payments. For leases of real estate like property and buildings, lease expense and the amortization of the lease liability would be generally recognized on a straight-line basis. For leases of other assets like equipment, where the lease term consumes most of the economic life of the asset to be leased, the lease liability would be amortized over the term of the lease using the effective interest method. Amortization of the lease asset would generally be on a straight-line basis.

Lessor accounting would be driven by the type of property being leased. Leased assets like equipment where the lease term constitutes the majority of the remaining economic life of that asset, the leased asset would generally be derecognized by the lessor. In its place a lease receivable and a residual asset would be recorded. The lease receivable would be measured as the net present value of future lease payments while the residual asset would be measured as the present value of the expected residual value of the leased asset at the end of the lease term. Leased assets like real estate where the lease term does not constitute the majority of the remaining economic life of the leased asset would not result in the derecognition of the leased asset.

For leasing transactions where the leased asset is derecognized by the lessor, the lessor's subsequent amortization of the lease receivable would be the effective interest method with interest income recognized at the yield implicit in the lease agreement. The residual asset would be accreted over time to the expected residual value of the leased asset. Both the lease receivable and the residual asset would require testing for impairment during the lease term. For leases that do not result in the recognition of a lease receivable, lease income would be recognized on a straight-line basis in a similar manner as today.

Impact on Community Banks

ICBA has many concerns with the proposed changes to lease accounting for all entities with particular concern for nonpublic entities and small financial institutions like community banks. ICBA recognizes the need to have thorough and meaningful discussions about stakeholder treatment of off-balance sheet arrangements across many industries and entity types. But the exposure draft's approach to dealing with these concerns fails to properly assess the impact on those entities affected with specific disregard for smaller entities that have minimal leasing activities and that are not equipped to build the necessary infrastructure to model lease cash flows in a manner that generates financial instrument like yields for otherwise nonfinancial transactions. Once the calculations have been made and the proper recognition is reflected in the financial statements, ICBA does not believe that stakeholders of community banks will be better served or more informed about the financial condition of the enterprise or its results from operations. In fact, stakeholders will simply ignore these assets and liabilities as intangibles that should be reversed or discounted.

Community banks do not engage in leasing transactions as an instrumental part of their underlying business. Lease agreements produce a necessary overhead cost of serving the local community mostly through the use of real estate to deploy qualified personnel or equipment to service the needs of customers or to support a bank's operations. Lease transactions generally happen on an infrequent basis and are not a material component of the balance sheet, income statement, or cash flows. Leases are not viewed by community bank stakeholders as financing vehicles where the institution relies on a specific yield to gauge proper performance. Therefore, ICBA urges the FASB to narrow the scope of the proposed ASU to those entities who demonstrate leasing transactions either as lessor or lessee to represent a substantial portion of their operating income. Said differently, the FASB should limit the proposed ASU to the business of leasing. Other entities like community banks should be permitted to continue the current operating lease model as it is simple, straight forward, and best matches the benefits received under a lease agreement with the associated costs and obligations.

For community banks as users of financial statements, the proposed ASU presents many additional challenges. For example, ICBA notes that for lessees the recognition of income and expense for the lease transaction is asymmetrical when the majority of the economic life of the leased asset is consumed by the lease. The asymmetrical recognition methodology results in the front loading of lease expenses during the lease term. This attempt to apply financing recognition to an otherwise non-financial transaction misrepresents the impact of the leased asset on the financial statements. At minimum, the FASB should correct the income statement timing discrepancy caused by the different amortization methods by requiring straight-line amortization for both the lease liability and the lease asset regardless of the type of asset being leased.

ICBA is deeply concerned that the FASB has not published an analysis of the intended impact of the proposed ASU on smaller, nonpublic entities and entities that engage in minimal leasing activities. A thorough, investigative cost-benefit analysis would show that many small community banks would need to conduct an exhaustive effort to comply with the proposed ASU or outsource the activity to an outside firm at great cost. This analysis would also show that community bank stakeholders do not value the presentation of operating lease receivables and obligations as off-balance sheet financial instruments that warrant effective interest recognition in the financial statements. Additionally, ICBA believes that one of the central objectives of the FASB's Private Company Council (PCC) is to scrutinize proposed ASUs to ensure that their adoption will not impact nonpublic entities in a negative manner without some greater good for shareholders and other users of the financial statements. Even a cursory review of the proposed ASU by the PCC would raise enough questions and concerns to identify sufficient need for further review.

ICBA appreciates the opportunity to comment on this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy