



Letter of Comment No: 10
File Reference: FSPFAS13-A
Date Received:

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

RE: Proposed FASB Staff Position – Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction

Dear Director:

Fifth Third Bancorp appreciates the opportunity to comment on the Proposed FASB Staff Position (FSP) No. FAS 13-a, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" and offers the following comments.

Because of the complexity of this topic, we believe it would be useful if the FASB staff would provide relevant examples so that preparers have a better understanding of the requirements. As the Proposed FSP is currently written, there are many questions that are unclear. Our other comments concerning the Proposed FSP include (i.) the proposed treatment for interest and penalties, and (ii.) the frequency with which preparers would have to re-calculate cash flows. Each of our comments on these issues as well as the issues identified in the Proposed FSP is addressed below.

Issue 1: " The scope of this Proposed FSP would apply to all transactions classified as leveraged leases in accordance with Statement 13. Do you agree that the scope of this proposed FSP should be limited to only leveraged lease transactions or should the scope be expanded to include all leases under Statement 13? Why or why not?"

If the Proposed FSP becomes effective, we agree that its scope should be limited to leveraged lease transactions. The Proposed FSP addresses accounting by a lessor when there is a change in the timing of the realization of tax benefits occurring due to settlements or proposed settlements between the IRS and a lessor relating to a leveraged lease transaction. Given the combination of non-recourse financing and a cash flow pattern in a leveraged lease that enables a lessor to recover an investment in the early years of a lease

and thereafter utilize the funds to derive additional income, a leveraged lease is unique from a typical lease in that it is more heavily reliant on the cash flows of the transaction.

Issue 2: “ This Proposed FSP concludes that the timing of cash flows relating to income taxes generated by a leveraged lease is an important assumption that should be accounted for in accordance with the guidance in paragraph 46 of Statement 13. Additionally, this Proposed FSP would require a leveraged lease to be reclassified if, at any time, a revision of an important assumption requires a recalculation of a leveraged lease and changes the characteristics of the lease in a manner that would have resulted in the lease not qualifying as a leveraged lease had the revised assumption been included in the original or most recent leveraged lease computation. Do you agree? Why or why not?

We feel that this Proposed FSP is a significant change in the accounting for leveraged leases. The cash flow analysis that would be required by the proposed FSP would be overly burdensome to implement in accordance with paragraph 46 of Statement 13. We feel that the FASB staff should clarify several important points in the document concerning how often cash flows would be expected to be recalculated. Without further clarification, preparers might be expected to calculate cash flows more frequently than necessary resulting in significant effort without a corresponding benefit. We believe the requirement to recalculate cash flows should be linked to actual events (including actual settlement). In the event the FASB staff retains the “anticipated change” accounting requirement, then the Proposed FSP should include a significance qualification in order to trigger the recalculation. In accordance with the currently Proposed FSP, preparers will be required to incorporate actual tax rate changes into the recalculation. However, the Proposed FSP is not clear as to the recalculation requirements for changing IRS assessed interest rates. Similarly, the Proposed FSP is not clear as to the recalculation requirements for anticipated tax rate changes.

Issue 3: This Proposed FSP would require that the recalculation be based on actual cash flows that occurred up to and including the point of the actual settlement or expected settlement and the estimated cash flows thereafter. Additionally, this proposed FSP would require that the recalculation include any interest and penalties assessed or expected to be assessed by the taxing authority. Do you agree? Why or why not?

We disagree with the “expected settlement” required in paragraph 9 of the FSP. We feel that the Proposed FSP should be based on actual settlements. We also disagree with the inclusion of interest and penalties because they are not part of the lease income recognition. Specifically, they are not part of the cash flow of the lease transaction, and they should be accounted for separately as they do not relate to the cash flows from the lease customer. Interest and penalties are not included for other types of transactions, so we do not believe they should be included for these transactions.

We also feel that this Proposed FSP is so closely linked with the FASB’s proposed interpretation, Accounting for Uncertain Tax Positions – an interpretation of FASB Statement No. 109 (Proposed Interpretation) that the two should be completed in tandem and should have the same effective dates. We believe that decisions in the Proposed Interpretation should be finalized prior to the effective date of this Proposed FSP.

Thank you for your consideration of our views. We appreciate the opportunity to share our thoughts on this important FASB proposal. If you would like to discuss our views, please feel free to contact me.

Sincerely,

David J. DeBrunner
Chief Accounting Officer and Bancorp Controller
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