

Robert L. Morris
Executive Vice President &
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September 6, 2013

Technical Director
Financial Accounting Standards Board
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RE: File Reference No. 2013-270

Dear Director:

We are writing in response to your invitation to comment on the Revision of the 2010 Proposed Accounting Standards Update entitled "Leases (Topic 840)" ("Exposure Draft").

KeyCorp ("Key"), headquartered in Cleveland, Ohio, is a bank-based financial services company with assets as of June 30, 2013 of approximately \$90.6 billion. Key's leasing affiliate, which is headquartered in Colorado, manages approximately \$8.5 billion in assets with annual originations of approximately \$4.0 billion. As one of the largest bank-affiliated equipment leasing providers in the U.S., this proposed accounting standard will impact its business and operations. Key also has a large number of bank branches and other facilities and equipment that are leased primarily through operating leases.

We appreciate the work of the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") on this topic and the opportunity to once again comment on the proposed accounting guidance for leases. As noted above, Key participates in leases as both a lessee and lessor; therefore our comments result from our dual role since this Exposure Draft presents significant changes for both parties in a leasing arrangement. Our comments and recommendations on this Exposure Draft follow.

Leveraged Leases

Key's leveraged lease portfolio continues to decline since the last leveraged lease we entered into was in 2008. The dramatic decline in leveraged lease activity seems to be a consistent theme throughout the industry. Therefore, we believe that existing leveraged leases should be grandfathered. The time and effort involved in reviewing these existing arrangements and properly accounting for them under the proposed leasing guidance will be monumental and will require companies to incur tremendous non-value added cost. Furthermore, grossing up the balance sheet may create the need to reallocate capital and/or possibly require an entity to raise additional capital.

Adequacy of Capital

Key primarily conducts its leasing activity as a lessee (i.e., bank branches and other facilities and equipment leases) through its bank. As a lessor (i.e., large and small equipment leases and leveraged leases) Key primarily conducts its leasing activity through its leasing affiliate. The requirement of this proposed accounting guidance to record existing and future lease arrangements (bank operating leases and leveraged lease debt) on the balance sheet combined with a financial intermediary's duty to maintain an adequate and sustained lending capacity, will very likely result in possible reduction in leasing business at the bank and at our affiliate if this accounting guidance for leases is finalized as currently proposed. The adequacy of capital to maintain lending capacity and loss coverage is paramount particularly given the scrutiny by regulators and analysts regarding the levels, use and sustainability of bank capital. While the current economic and market conditions have improved, these conditions are less stable than ever before. We would strongly encourage the FASB to seriously consider and work with the bank regulators to ensure that the capital level thresholds for financial institutions be recalibrated if this accounting guidance is finalized as currently proposed.

Costs of Change

Significant costs and work effort will be required to develop systems to both capture and manage all of the critical data elements necessary to comply with the proposed leasing guidance. Our current lease accounting system does not have the capacity to accommodate this new guidance. The requirement that lessees perform an ongoing reassessment and re-measurement of lease assets and liabilities to reflect expected revisions to the estimated lease term and variable lease payments that depend on rates or indices is onerous and adds additional complexity to complying with this proposed accounting guidance. Significant time will be required to identify a vendor who can provide a workable software solution. Then subsequent to the software development, the purchase and maintenance of the software will require a substantial long-term investment. Our corporate real estate team estimated that a two year development period (at a minimum) after issuance of this guidance will be necessary before a system capable of accounting for leases in accordance with the proposed guidance is available for use. The critical data elements required to operate the new software and to comply with the proposed guidance, in some cases, are contained in lease agreements negotiated years ago. Retrieving specific data from each lease to comply with the proposed lease accounting changes will be substantial. An increase in headcount may be necessary to maintain our current productivity levels while converting to the proposed guidance.

While the economy has shown signs of recovery, it has been a slow and tedious process. Businesses, and in particular smaller companies, continue to struggle to grow or even sustain themselves. This proposed guidance is complex, expensive to implement, and provides marginal benefit, if any, to companies or their stakeholders. It is Key's belief that retrospective application of the proposed accounting guidance will incur enormous costs far exceeding the potential benefits of such an accounting treatment and that a prospective application with appropriate disclosure may be more cost justified.

Operating Lease Economics

This Exposure Draft proposes differing expense patterns for the Type A and Type B classifications. While Type B leases are generally expensed in a straight-line method, Type A leases of equipment and other non-property generally have a front-loaded expense pattern. We do not believe that this accurately reflects the economics of the lease, as equipment is utilized throughout the lease term and generally equal (exclusive of rate or indices adjustments) lease payments are made throughout the lease term. Having different accounting treatments for the two lease classifications adds another layer of complication to the proposed accounting guidance, and does not serve to improve an investor's understanding of a company's leasing portfolio. We recommend that the criteria for the two models be revised and made more consistent.

Operating Lease Disclosures

The current operating lease disclosures are effective. An entity's stakeholders are currently presented with operating lease information in the income statement, the statement of cash flows, and the footnotes to the financial statements. In July 2013, the American Accounting Association released a study that presented empirical evidence that the current lessee operating lease footnote disclosures are processed effectively by users as evidenced by the market pricing of debt and equity securities of companies with operating lease obligations. The study found that financial statement users impute as-if capitalized values for operating lease obligations in their analysis of ratios and other metrics. We believe that our stakeholders are currently provided sufficient operating lease related information and disclosures to assess the financial impact of our operating lease obligations.

Taxation and Bankruptcy Concerns

The proposed lease guidance results in the commingling of capital leases and former operating leases which creates an issue both from the legal and tax perspective as well as a bankruptcy debt covenant perspective. Legal and tax rules are based on current lease classifications in that they differentiate between leases that are in-substance financings vs. true leases. A change from current classification means that companies will have to separately maintain records of each type of lease since, for accounting purposes, all leases are combined on the balance sheet. Additionally, companies that have debt covenants imposed on them may experience a debt limit breach if former operating leases are considered debt once capitalized under the proposed guidance. Currently, operating lease obligations are not debt, and should not be treated as such in the new rules. In both these scenarios, the commingling of capital and operating leases creates issues that are time consuming and costly to address and/or resolve, with little, or no, benefit.

In conclusion, while Key is very sensitive to and proactive in addressing the financial information requests of its stakeholders and understands the Boards' desire to increase transparency for financial statement users, we do not believe that these limited benefits to stakeholders justify the costs of adopting the proposed lease accounting as it is currently drafted. While Key appreciates the work the

Boards have put into this revised Exposure Draft, there are still several issues, as documented in our comments above, with the proposed accounting treatment for leases. The proposed rules are unnecessarily complex, and provide minimal benefit for a very high cost. We recommend that the Boards examine more closely the comments and recommendations we have set forth in this letter, and work to resolve these issues before a leasing standard is finalized.

We hope these comments are useful and positively influence the final guidance. We welcome the opportunity to discuss this issue in more detail. Please feel free to contact Chuck Maimbourg, Director of SEC Reporting & Accounting Policy, at 216-689-4082, or me, at 216-689-7841.

Sincerely,

A handwritten signature in blue ink that reads "Robert L. Morris". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

Robert L. Morris
Executive Vice President &
Chief Accounting Officer