EQUIPMENT LEASING AND FINANCING ASSOCIATION: NEWS

:: HOME | :: NEWS :: PRESS

ELFA PRESS RELEASE

Posted: 02/11/10

EQUIPMENT LEASING AND FINANCE ASSOCIATION COMMENTS ON FASB/IASB AGENDA PAPERS ON REVISION OF LEASE ACCOUNTING STANDARD

Statement by ELFA Interim President Ralph Petta February 11, 2010

Washington, DC, February 11, 2010— The Equipment Leasing and Finance Association (ELFA) today released the following statement regarding proposed revisions to lease accounting standards by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The statement reflects ELFA's position on recent FASB/IASB meeting outcomes, agenda papers and overall direction of the lease accounting project.

These recent activities by the FASB and IASB (the Boards) follow release of a Discussion Paper in July entitled Leases: Preliminary Views as part of the Boards lease accounting project. The Discussion Paper serves as a roadmap to an eventual standard that will replace Statement of Financial Accounting Standard No. 13, Accounting for Leases (SFAS 13), governing the accounting for commercial lease transactions in the United States.

"Lease financing is a critical means of capital formation for U.S. businesses through the acquisition and investment in capital plant and equipment and real estate," said Ralph Petta, Interim President, ELFA. "The ELFA's overriding concern is that any standard that replaces SFAS 13 will improve the clarity in financial reporting of these transactions without undue burden on businesses from an accounting or a financial standpoint."

"At this stage of the project, the Boards have sought the views of users, but unfortunately, few users have provided formal comments during the development of accounting standards," said Petta. "Given this situation and the limited user feedback received by the Boards during the comment letter process, ELFA undertook a review of user views, including banks, analysts and accounting firms, to gather a rounded perspective of the proposed changes."

"In submitting our review findings to the chairmen of the FASB and the IASB, we look forward to continuing to work with the Boards and staff to make the proposed new lease accounting standard the most useful and workable model possible."

Specific concerns are: • Complexity for Lessees - The initial recognition of estimates of contingent rents and options and the continuous review and adjustments are burdensome and costly. • Linked Accounting for Lessees – The Boards view the unit of account as the lease and recognize the linkage of the leased asset and lease obligation at the point of initial recognition. This should result in the linkage existing in subsequent accounting by the lessee. • Lessor Accounting - The lessor performance obligation model does not reflect the lessor's legal and economic position in a typical equipment lease, and it does not fit the business model of lessors who lease single assets to one lessee for terms of one year or more with no incremental services provided. • Contingent Rents and Options for Lessees - The current tentative decisions for estimating and capitalizing contingent rents and non-bargain options do not fit the current conceptual framework and related definitions.

A copy of the ELFA's comment letter is available upon request or can be found at http://www.elfaonline.org /ind/topics/Acctg/

Background

As part of the global effort to establish uniform corporate financial accounting standards, the FASB and IASB are working jointly to develop a new model for the recognition of assets and liabilities arising under lease contracts. The scope of the Project is the same as FAS 13 covering commercial leases (those related to plant, property and equipment). The proposed new standard is expected to impact the balance sheets of all companies subject to U.S. GAAP who use leasing to acquire assets or as part of their asset management strategy.

The Boards' intent is to bring all assets and liabilities on balance sheet and account for the lease contract's rights and obligations as assets and liabilities. Initially the Project was to address both lessee and lessor accounting and thus replace FAS 13 in its entirety; however, the Project was scaled back to address only lessee accounting. The Boards are considering whether to include lessor accounting in the current project.

All leases will likely be affected as soon as the standard is effective but the Boards have not yet decided the method of transition or the effective date.

About the ELFA

The Equipment Leasing and Finance Association (ELFA) is the trade association that represents companies in the $518 billion equipment finance sector, which includes financial services companies and manufacturers engaged in financing capital goods. ELFA members are the driving force behind the growth in the commercial equipment finance market and contribute to capital formation in the U.S. and abroad. Its over 600 members include independent and captive leasing and finance companies, banks, financial services corporations, broker/packagers and investment banks, as well as manufacturers and service providers. For more information, please visit www.elfaonline.org

###

Contact Name: Diane Johnson
E-mail: diane@fourleafpr.com