EQUIPMENT LEASING AND FINANCING ASSOCIATION: NEWS

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ELFA COMMENTS ON FASB/IASB PRELIMINARY VIEWS ON REVISION OF LEASE ACCOUNTING STANDARD

Statement by ELFA President Kenneth E. Bentsen, Jr. July 20, 2009

Washington, DC—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).

These revisions are contained in the discussion paper, Leases: Preliminary Views (the Discussion Paper) as part of the FASB's and IASB's (the Boards) lease accounting project (the Project). The Discussion Paper serves as a roadmap to an eventual standard that will replace Statement of Financial Accounting Standards No. 13, Accounting for Leases (FAS 13), governing the accounting for commercial lease transactions in the United States.

"We support the Boards as they seek to establish a sound, workable accounting standard that applies to the assets and liabilities arising from lease transactions," said ELFA President Kenneth E. Bentsen, Jr. "We find, however, that the lease accounting model as proposed is unduly complex and will impose a compliance burden on lessees that will not result in a significant improvement in the quality or reliability of financial information. The model seems to be overly concerned with preventing potential abuse, rather than accurately reporting the economic aspects of leasing transactions," said Bentsen.

"Further, we are of the view that the proposed model is now so close to current GAAP that it would be more efficient to merely amend IAS 17/FAS 13 to capitalize operating leases and leave capital lease accounting and the profit and loss statement (P&L) accounting for operating leases unchanged," Bentsen said.

"We also believe the proposed modifications of the accounting for capital leases and the proposed income statement treatment for operating leases distort the financial statement presentation of these transactions and do not faithfully represent the economic effects of lease transactions presented in the financial statements of lessees, and we urge the board not to de-link the project but to include lessor accounting in the scope of the project. We are committed to helping create sound and workable rules that reflect the economic substance of lease transactions to improve the clarity in financial reporting," Bentsen said.

Specific Concerns

• The proposed rules do not reflect the economic differences between right to use leases (rental contracts) and right of ownership leases (a purchase financed by a loan) so that representational faithfulness in financial reporting will not be achieved

• The proposed rules are overly complex

• Contingent rents should not be estimated and capitalized unless they are "disguised" minimum lease payments

• A de minimus exception is needed

• Lessor accounting must be addressed

A copy of the ELFA's comment letter, File Reference No. 1680-100 is available upon request or can be found on July 17 at www.elfaonline.org or at www.fasb.org

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 principal trade association that represents companies in the $650 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

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