EQUIPMENT LEASING AND FINANCING ASSOCIATION: NEWS

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EQUIPMENT LEASING AND FINANCE ASSOCIATION EXPRESSES SERIOUS CONCERNS OVER LEASE ACCOUNTING PROJECT

Washington, D.C. — The Equipment Leasing and Finance Association (ELFA) has announced it may withdraw its support for the proposal to develop a new lease accounting standard, calling the current proposal "fraught with difficulties." In a letter to the Financial Accounting Standards Board and the International Accounting Standards Board , ELFA President and CEO William G. Sutton, CAE, noted that the association has been actively engaged in and consistently supported the lease accounting project since 1996, but is unable to support the tentative conclusions reached by the Boards in recent deliberations. The letter outlines ELFA's chief concerns with the proposal and suggests a framework for accounting for leases that the association would support.

The letter reads, in part:

> *ELFA has consistently supported the [lease accounting] project's principal objective of providing users of financial statements with an accounting model for leases, which includes the recognition on a lessee's balance sheet of the assets and liabilities arising from lease contracts. Unfortunately, since we do not believe the Boards have appropriately resolved the question of lessee cost allocation, we are seriously considering withdrawing our support for the issuance of a final standard based upon the tentative conclusions reached in the recent redeliberations. The tentative decision that all equipment leases are purchases is fraught with difficulties. We believe a continuation of the existing accounting standards is preferable to the model that has been proposed.*
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> *Our active engagement in the question of lease accounting extends back to 1996, and we have consistently supported the project and the goal of recording leases on a lessee's balance sheet. This long-standing support for the leases project has been principally based on the following considerations:*
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> *• The lease standard should produce a result that is representationally faithful to the economics of lease transactions;*
> *• It should provide information to users of financial statements, both external users and management, and meaningful insights into a company's leasing activities during and at the end of a period;*
> *• The model should be operational at the individual transaction level and not unduly complex; and*
> *• The benefits of the new reporting model should not exceed the costs of implementation and ongoing compliance.*
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> *Unfortunately, the approach to leasing now envisioned in the project does not meet these requirements, and we believe issuance of a revised exposure draft would be ill-advised. We do not believe that reporting under the proposed model will satisfy the diverse needs of investors and will involve significant costs to implement and inappropriately raise the cost of capital.*

The letter details the association's concerns with the current lease accounting proposal, including the key issue of lessee cost allocation, and advocates for specific revisions in order to achieve the project's goals. In addition, the letter offers alternative approaches for differentiating between leases that are purchases of an asset and leases that only represent a temporary transfer of the right of use.

The full text of the letter is available on the ELFA website at: http://www.elfaonline.org/Issues/Accounting/pdfs/ELFALetterAug2012.pdf

About ELFA
The Equipment Leasing and Finance Association (ELFA) is the trade association that represents companies in the $628 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 550 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. ELFA has been equipping business for success for more than 50 years. For more information, please visit www.elfaonline.org .

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