EQUIPMENT LEASING AND FINANCING ASSOCIATION: NEWS

ELFA PRESS RELEASE

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ELFA STATEMENT ON THE STATUS OF THE FASB/IASB LEASE ACCOUNTING PROJECT

May 2, 2012--In the latest developments on the Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB) Leases Project, the Boards have conducted outreach meetings with the main objective of changing the lessee cost pattern. At the meetings the Board considered several approaches, including an approach they had not previously considered in the six years of the ongoing effort. The Boards added a fourth approach that the Equipment Leasing and Finance Association (ELFA) has been recommending from the start of the Leases Project and considers to be a breakthrough in coming to a resolution in accounting for the lessee cost pattern, the Whole Contract Method (Approach D):

> The whole contract (WC) method is the new proposed method that accrues the average rent as the reported lease cost (much the same as current GAAP) and adjusts the right of use (ROU) asset and lease liability on each balance sheet date to be the present value of the remaining lease payments. The outreach information provided by the FASB/IASB staff presents this new approach as follows: "The whole contract approach considers the ROU asset and the lease liability that arise from a lease contract to be one unit of account when initially and subsequently measuring those balances. This approach views the ROU asset as being different from other non-financial assets and different from the underlying asset itself. This is because the ROU asset is inextricably linked to the lease liability, not only at lease commencement, but also throughout the lease term. This approach also does not view a lease contract as a financing transaction."

Changing the lessee cost pattern is the most significant unresolved issue that is holding up the issuance of a new exposure draft for the Leases Project. The Boards could not agree on any of the three lessee accounting approaches presented by the staff at their meetings on February 28 and 29, creating a potential impasse. The reason for the continued work on the lessee cost pattern is that most comment letters to the initial Leases Project Exposure Draft (ED) supported a straight line cost pattern for what are classified as operating leases under current GAAP to better reflect a lease's economic effects in lessee financial statements.

To solve the problem, the Boards directed the staff to conduct outreach to get preparer and user feedback on the proposed approaches. ELFA considers the consideration of Approach D to be a breakthrough in coming to a resolution in accounting for the lessee cost pattern.

It should be noted that the Institute of Management Accountants (IMA) sent an unsolicited comment letter dated April 12, 2012 to the Boards recommending consideration of Approach D and praising it as the approach that is most responsive to the important issues that have been raised regarding lessee accounting. The ELFA has supported Approach D from the outset of the Leases Project in 2006. In an unsolicited comment letter to the Boards dated May 8, 2008, the ELFA recommended it for their consideration, providing a detailed example.

The ELFA believes it reflects the appropriate values of the ROU asset and lease liability (being equal except for impairment) on the balance sheet that arise from the lease contract. It also reflects the cost as a level rent expense which is what lessees perceive to be their lease cost benefit from the use of the leased asset for each month. The lease payment would be reported as an operating cash outflow reflecting the true nature of the payment.

It is obvious that there is no one method that will receive unanimous support, but Approach D does accomplish the objective of capitalizing operating lease obligations but does retain current GAAP treatment in the P&L and cash flow statements that were never cited as needing changes. This new method was presented at the outreach meetings and we hope it will be viewed favorably by the Board when they meet next to decide this matter.

About the 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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