



Equipment Leasing and Finance Association Offers Perspective on FASB/IASB Preliminary Views on Revision of Lease Accounting Standard

Washington, DC, March 19, 2009—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 revisions are contained in a newly released 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 Project was formally added to the Boards' agendas in 2006; 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.

As part of the global effort to establish uniform corporate financial accounting standards, the **Boards** 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 has since been scaled back to address only lessee accounting. The Boards will take up the issue of lessor accounting at a later date.

All leases will likely be affected as soon as the standard is effective but the Boards have not yet discussed the method of transition or the effective date. The Boards are seeking comment on the Discussion Paper until July 17, 2009.

Specific Changes Proposed to FAS 13 and Balance Sheet Impact

Under the existing standard, a company must classify and account for leases in either of two ways, as operating or capital leases, depending on whether the lease transfers *all or substantially all of the risks and rewards* incident to ownership. As proposed, the capitalization model described in the Discussion Paper would require companies to initially account for every lease contract's rights as assets and obligations as measured by

the present value of the expected lease payments. It would also require that the subsequent accounting for all leases, regardless of their substance, be accounted and presented in the balance sheet, income statement and cash flow statement.

ELFA Perspective

“ELFA appreciates the Boards openness and responsiveness in seeking input in developing the new lease accounting model and we believe transparency and decision-usefulness in financial reporting is vitally important to companies that participate in our capital markets,” said **ELFA President Kenneth E. Bentsen, Jr.** “However, we are concerned that the concepts embodied in the Discussion Paper may add more complexity, subjectivity and uncertainty, particularly as it relates to small and medium sized enterprises that are generally not publicly held. If the proposed changes do not reflect an appropriate balancing of costs and benefits, they could result in an unwarranted increase in cost of capital to U.S. companies that utilize leasing as a means of capital formation through the acquisition and investment in capital plant and equipment or real estate,” said Bentsen. “Further, we are disappointed that the Boards decided to split the project and not take up lessor accounting commensurate with lessee accounting,” he said. “The ELFA remains committed to working with the Boards throughout the process in order to achieve the most efficient standard for all parties.

About the ELFA

The Equipment Leasing and Finance Association (ELFA) is the 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 700 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.

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