

Foreword from William G Sutton, CAE, President, ELFA



The Equipment Leasing and Finance Association (ELFA) is the trade association representing over 500 financial services companies and manufacturers in the \$521 billion U.S. equipment finance sector. 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. Overall, business investment in equipment and software accounts for 8.0 percent of the GDP; the commercial equipment finance sector contributes about 4.5 percent to the GDP.

Equipment leases finance all types of equipment to all types of companies but most importantly to small and medium-sized enterprises (SME). The SME sector is cited as the largest potential source of job growth needed to reinvigorate the economy worldwide. Access to capital and efficient use of equipment are the primary drivers for lease financing and not financially engineering off balance sheet transactions. The proposed Leases standard was intended to capitalize lessee operating lease obligations to improve transparency but the Exposure Draft goes much further than the stated objective. The proposal capitalizes payments that are estimates (not true liabilities), accelerates costs for lessees, creates a huge compliance burden for lessees and lessors, and changes lessor accounting in ways that will increase lease rates to maintain shareholder return targets. These factors result from choices made by the IASB and FASB beyond what is required to meet the stated objective.

Most comment letter respondents thus far do not agree with the proposed decisions made by the Boards. These far-reaching changes create a permanent charge to earnings and capital and will alter behavior of lessees and lenders/investors to such an extent that they may well have an extraordinary negative impact on the economy.

Accounting is not an exact science and we hope the Boards seriously examine the views and alternatives suggested by the comment letters. Many alternatives are based on sound reasoning and do not conflict with the objective of capitalizing true liabilities created by operating leases.

Your readers are stakeholders in this new accounting standard as lessors, lessees and/or users of financial statements – many ELFA members fall into all three categories. The negative aspects of the proposed rules can be changed as the FASB/IASB are requesting comment letters as part of their normal due diligence process. This process is not over--but time is running short! The views of stakeholders matter. We urge you to exercise your influence by writing a comment letter on the issues contained in the Exposure Draft.

For more information or to learn more about this project, contact Ralph Petta rpetta@elfaonline.org, who is coordinating the ELFA's activities in this matter. Also visit the Lease Accounting Project page on the ELFA website at www.elfaonline.org/ind/topics/Acctg/.

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