

LEASE ACCOUNTING UPDATE – March 2015

The lease-accounting project continues to be the association's No. 1 advocacy priority.

Changes in accounting rules that would bring all or most leases on balance sheet have been under consideration by the accounting standards setters—the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB)—since 2006. This initiative is the result of the U.S. Securities and Exchange Commission's (SEC) directive to eliminate off-balance-sheet financing and part of the overall effort to harmonize accounting standards worldwide.

Project Milestones

Two exposure documents have been released thus far by the IASB and FASB on this matter—one in 2010 and one in 2013. Both documents generated many hundreds of formal and informal comment letters and other feedback by stakeholders potentially affected by the proposed new rule. Much of the criticism focused on aspects of the proposal that stakeholders considered unworkable, inefficient and/or onerous to businesses seeking to utilize off-balance-sheet financing as an effective tool to acquire capital equipment. ELFA led the way in making these same arguments; specifically, the association opposed a proposed approach in which all leases would have been treated as financings with lease expense recognition occurring up front in the early years of the transaction. Ultimately, the Boards split on this matter and the FASB voted tentatively to maintain the current two-lease approach embodied in U.S. GAAP.

Status Update

In 2014, after assessing the feedback from their 2013 Exposure Draft, the FASB and IASB reexamined most of the significant aspects of the model. Despite disagreement between the two Boards, the process of re-writing lease-accounting rules continues to move forward. The stated goal is to issue a new standard sometime in 2015 with a transition date of 2018. ELFA continues its advocacy, communications and outreach activities as the IASB and FASB drive toward the goal of adopting a new lease-accounting standard.

Leveraging Relationships

ELFA's Financial Accounting Committee and accounting policy work group continue to provide input to the IASB, FASB, SEC and their staffs, outlining ELFA's views on various technical and conceptual matters being discussed by the Boards relating to both lessee and lessor accounting. ELFA senior staff and representatives of its accounting policy work group have visited personally with the FASB Chairman and other Board members and staff, attended IASB and FASB public meetings and educational outreach gatherings, and consulted with individual IASB members and staff to provide input and influence the direction of the project.

In addition, representatives from ELFA member companies have met with the SEC Chief Accountant and his staff to provide additional input and commentary as the project moved forward. The association continues to leverage its relationship with the U.S. Chamber of Commerce and other related stakeholder associations and organizations—including its established network of international leasing organizations—to exchange information, coordinate messaging and develop common themes designed to move the project in the right direction.