EQUIPMENT LEASING AND FINANCE ASSOCIATION

Mr. Richard R. Jones
Chair
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

December 3, 2020

Re: Proposed Accounting Standards Update
File Reference 2020-700

Submitted via electronic mail to director@fasb.org

Dear Chair Jones:

The Equipment Leasing and Finance Association (ELFA) is the trade association that represents companies in the nearly $1 trillion 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 575 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. For more information, please visit www.elfaonline.org.

We at the ELFA continue to follow developments in lease accounting and to monitor the implementation questions raised by our members since the issuance of *Leases (Topic 842)*. We wish to commend the Board for addressing the implementation issues that have arisen since the adoption of the standard by public business entities. We believe the *Proposed Accounting Standards Update, Leases (Topic 842), Targeted Improvements* (the Exposure Draft or ED) will address the three reporting issues covered by the ED without degrading the quality of financial information produced when Topic 842 is applied to individual transactions.

Our specific comments on the three issues in the Exposure Draft are as follows:

- *Issue 1: Sales-Type Leases with Variable Lease Payments—Lessor Only*

  We believe the proposal to classify and account for a sales-type lease with payments that are predominantly variable payments that do not depend on a reference index or rate as an operating lease is reasonable and consistent with a model that worked well under Topic 840. The continued recognition of a loss for this group of lease transactions within Topic 842 is difficult to sustain when the lessor's investment in the leased asset will be recovered through payments by the lessee in the future. While the operating lease model is a fixed asset approach to valuation, it is closer to the economics of these leases than a model that leads to a write off of the lease investment at lease commencement.

The question of what threshold to apply when determining the leases that should be subject to this accounting has multiple answers. We do believe, however, that the "predominant" threshold is both reasonable and operable.

- *Issue 2: Option to Remeasure Lease Liability—Lessee Only*

  Allowing lessees to remeasure a lease liability is a reasonable simplification for lessees who also prepare financial information using IFRS. We suggest, however, that the wording in the final standard more closely mirror the language in *IFRS 16, Leases*, to eliminate the possibility of differing interpretations of the requirements in the two standards.

- *Issue 3: Modifications Reducing the Scope of a Lease Contract*

  We support the proposed changes, as they will simplify the accounting for changes that occur due to casualty losses and the exercise of lessee purchase options. The proposal will ease the burden on preparers and should not reduce the usefulness of financial information.

  We do believe, however, there is a possibility that the proposed language in 842-10-25-8B(c) may be overly restrictive when a lessor agrees to the lessee's return of an asset when multiple assets are leased. If a lessee agrees to pay a fee to return one of the units, the economic impact of the penalty is better reflected in the accounting for the returned unit, rather than potentially impacting the accounting for the remaining leased assets.

We appreciate your taking our views into consideration and, as always, stand ready to assist you and the Board on matters of mutual interest.

Sincerely,

Ralph Petta

Ralph Petta

President and CEO
Equipment Leasing and Finance Association