

EQUIPMENT LEASING AND FINANCING ASSOCIATION- NEWS

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ELFA ISSUES STATEMENT ON NEW LEASE ACCOUNTING DEVELOPMENTS AS SEPT. 13 COMMENT DEADLINE NEARS

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Calls for Boards to Reevaluate the Leases Project

Washington, D.C. – William G. Sutton, CAE, President and CEO of the Equipment Leasing and Finance Association, released the following statement highlighting recent developments that add to mounting evidence that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) should reevaluate their proposal to overhaul lease accounting. Sutton also encouraged lessees and their financing partners and other stakeholders to submit comment letters on the lease accounting Exposure Draft by the Sept. 13 deadline:

“As the Sept. 13 comment letter deadline for the revised Leases Project Exposure Draft draws near, evidence continues to build that the lease accounting model as proposed by the FASB/IASB contains serious shortcomings.

“Two recent events support the growing calls for the Boards to reconsider the project.

“First, the American Accounting Association (AAA) released an independent academic study that indicates what many have been saying all along: that increased disclosure, or more information in the footnotes of financial statements, not a drastic overhaul of the lease accounting standard, is what is needed to address the concerns outlined by the Securities and Exchange Commission in 2005, which prompted the Leases Project in the first place.

“The AAA study, ‘Evidence That Market Participants Assess Recognized and Disclosed Items Similarly When Reliability Is Not an Issue,’ published in the July 2013 issue of *The Accounting Review*, presents empirical evidence that the lessee operating lease footnote disclosures under current Generally Accepted Accounting Principles (GAAP) are processed effectively by users.

“The AAA study found that the notion that operating lease obligations are hidden and obfuscate true financial performance is ungrounded. The study authors state, ‘We interpret our results as indicating that the FASB or any other accounting standard-setter should not be primarily concerned that investors and creditors will underweight or ignore altogether disclosed information that meets sufficiently high reliability, accessibility and interpretability thresholds.’

“While the ELFA is on record in support of capitalization of operating lease obligations, the association and other stakeholders have expressed misgivings over the manner in which the Boards are attempting to accomplish this. The AAA study raises a key question: Why capitalize operating leases and dramatically change lease accounting when solid evidence shows that current lease accounting is operating effectively?

“Second, on Aug. 27, the FASB’s own Investor Advisory Committee (IAC), for the second time, concluded that the Exposure Draft is not an improvement over current GAAP and is too complex, recommending improved disclosures as opposed to completely scuttling the current lease accounting standard.

“This raises another key question: Is the cost-benefit analysis in the Exposure Draft sound if key users and other stakeholders maintain that current GAAP gives them better information than the proposed Exposure Draft and that the proposed rules are too complex?

“It is essential that the Boards carefully consider comprehensive public input and comment before

finalizing their proposal to ensure a workable lease accounting standard. We urge all lessees and their financing partners and other stakeholders to submit comment letters on the Exposure Draft by the Sept. 13 deadline.”

About ELFA

The Equipment Leasing and Finance Association is the trade association that represents companies in the \$725 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 more than 575 members include independent and captive leasing and finance companies, banks, financial services corporations, broker/packageers 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 and follow ELFA on Twitter @elfaonline.

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Contact Name: Amy Vogt

E-mail: avogt@elfaonline.org

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[Contact Us](#)

Equipment Leasing and Finance Association 1825 K Street NW, Suite 900 Washington, DC 20006 | Phone: 202.238.3400 | Fax: 202.238.3401