To The Leasing News:

I am a member of the FASB/FASB Leases Working Group and the ELFA Accounting Committee. I have worked in the leasing industry since 1974 and am currently a consultant to the industry.

I do not agree that the majority lessors in the leasing industry are in favor of the proposed new lease accounting rules. I do note that you say the majority of your readers is the sample you are citing. I am not sure we are talking about the same sample (I for one am not a reader). I think the majority of equipment lessors around the world, US and international public accountants, real estate lessors, lessees, trade associations and other key stakeholders think the proposed rules need lots of work. Just read the comment letters received to date by the FASB/IASB. Most comment letter writers agree that the hell or high water contractual lease obligations are a liability as credit analysts have always concluded. The problem is that the proposed rules do far more that merely capitalize what the analysts have been capitalizing since the advent of FAS 13. The rules are far from "perfect". To cite an example as to how far from "perfect" they are, PWC says the proposal does not meet its objective of presenting relevant and representationally faithful information about the cash flows and economic effects of leases. I sampled the comment letters from PWC, E&Y, the Japan Leasing association, the joint letter from 35 US trade associations (includes the major US lessor associations), Siemens and IDS. There are several major areas that they all object to that are also in line with the conclusions of one of the IASB board members, Stephen Cooper, who dissented to the Exposure Draft. Specifically they all agree that the proposal capitalizes estimated renewals and contingent rents that do not meet the FASB/IASB definition of a liability, and that the lessor performance obligation method is not consistent with the overall "right of use" model that is the basis for the proposal lease accounting model. They also say the proposal is far too complex and costly to implement. To me this means that there are serious flaws in the proposal. Jim Kroeker the Chief Accountant of SEC seems to agree that the proposal needs work as he said in a speech last week: "Frankly, with regard to leases, in my view it's simply time to get the obligation recognized on the balance sheet and move on. If only it were that easy. Of course, I expect that both boards will benefit from the exposure process and the others steps they are taking to test the proposals. I also expect that there will be modifications to improve the operation and understandability, and to determine whether certain areas of their proposals would benefit from an additional degree of pragmatism while achieving the broad objective set out in the respective proposals."

Contrary to what you say, the experts seem to think that lessee financial statements would not be accurate and would include amounts that should not be on the balance sheet.

I also hear on the street that the proposal would lead companies to buy rather than lease and cause them to hold on to equipment longer as the owner. The reasons being that the lease versus buy decision will have lots more considerations than just economic considerations, leases will be capital items not operating budget items and lots of leased equipment is returned with significant useful life remaining. This is appears to be the opposite of what you think. I think it will lengthen the equipment acquisition cycle and not increase economic activity.

Equipment lessors will only reduce lease terms by increasing rents or the amount of residual risk they are willing to take. That should increase the cost to lessees. Other factors in the proposed rules that will increase the cost to lessees are the loss of leveraged lease accounting and the reduction in amount of or deferral of sales type lease profits.

I do think that the new proposal will be revised so that it capitalizes less for our customers, is more workable and reflects a truer picture of the economic effects for both lessors and lessees. I also think there are many more reasons to lease than accounting so the volume of leasing, especially for small and medium sized companies will remain strong despite leases being capitalized.

The objections raised by the leasing industry associations and lessors that I have experience with want workable rules that make sense for lessors and lessees and readers of their financial statements. They are not merely trying to keep the status quo for self serving reasons.

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