ELFA Cites Concerns About Lease Accounting Proposal in Comment Letter to Accounting Standards Boards

Washington, D.C., Dec. 15, 2010—The Equipment Leasing and Finance Association raised concerns today that proposed changes to lease accounting rules would increase the cost and complexity of lease accounting without significantly improving the quality and relevance of financial statements. In a comment letter to the Financial Accounting Standards Board and the International Accounting Standards Board, ELFA called for extending the June 2011 deadline for final consideration of the *Leases* Exposure Draft to give standard setters time to create a new lease accounting standard that is less complex, accurately reflects economic activity and avoids the adverse unintended consequences that could result from the current proposal. The letter is available at http://www.elfaonline.org/ind/topics/Acctg/pdfs/ELFACommentLetter121410.pdf

"ELFA is committed to assisting in the creation of a workable lease accounting standard that reflects the economic substance of transactions and improves the clarity in financial reporting," said David A. Merrill, ELFA Chairman and President of Fifth Third Leasing Company. "As it is now written, however, we do not support the lease accounting model presented in the exposure draft, nor do we think it is prudent to rush to adopt such a dramatic change in current lease accounting merely to meet an aggressive deadline of June 2011."

"ELFA has been analyzing the Exposure Draft since its release on Aug. 17 and diligently working to provide as much information to the FASB and IASB to make clear our issues with the Exposure Draft," said William G. Sutton, CAE, ELFA President and CEO. "We hope the accounting boards seriously examine the views and alternatives suggested by our comment letter and the other comment letters they receive."

ELFA's comment letter argues that the proposed lease accounting rules are unnecessarily complex, create a significant compliance burden for lessees and lessors, and replace sound lessor accounting models with untried approaches that do not reflect the economics of the transaction. The letter cautions that financial reporting by both lessees and lessors will be less transparent and more difficult to understand under the proposal.

The letter highlights significant concerns, including:

- Neither of the proposed lessor accounting models -- the performance obligation nor the derecognition approaches -- are improvements over the existing lessor models; instead they introduce an unnecessary degree of complexity.
- The proposed requirements related to lease term, contingent rents and remeasurement will be difficult and time consuming to implement and to account for on a recurring basis.
- The accelerated expense recognition pattern will negatively affect earnings.
- The proposal will have a negative impact on the economy at large by adversely affecting the ability of businesses to borrow, increasing the cost of capital and inhibiting capital formation.

ELFA Shares Widespread Concern

In addition to submitting a comment letter to the FASB and IASB, ELFA has joined dozens of other organizations representing all sectors of the global economy in expressing concerns about the lease accounting proposal:

- ELFA co-signed a comment letter to the FASB and IASB from 35 organizations, including the U.S. Chamber of Commerce and the Real Estate Roundtable. The letter warns that the proposed lease accounting rules could have a significant, negative effect on the banking system and credit and capital markets, and undermine efforts toward economic recovery. The letter also stresses that more time is needed to ensure the lease accounting project can be completed in a thoughtful and deliberative manner, and calls for extending the June 2011 deadline. The full letter is available at www.elfaonline.org/ind/topics/Acctg/pdfs/JointTradeAssocCommentLetter12082010.pdf

- ELFA co-signed a letter to the G-20 from 26 organizations. The letter notes that leases are the fundamental building block for many different sectors of the economy, and alerts the G-20 that the new rules could promote market instability for lessors and lessees and the financial services sectors that support lease transactions. The letter also denounces the rush to complete the lease accounting project. The full letter is available at www.elfaonline.org/ind/topics/Acctg/pdfs/G20SeoulSummitLetterUpdatedFinal.pdf.

- ELFA co-signed a letter to the FASB and IASB with Financial Executives International and three other organizations. The letter highlights key concerns about the proposed approach to lessor accounting, including that it is not robust enough to consider the full range of transactions and does not represent an improvement over the lessor accounting models that exist today. The full letter is available at http://www.elfaonline.org/ind/topics/Acctg/pdfs/FEIletter.pdf.

More Information

For more information about the Lease Accounting Project, visit the ELFA website at http://www.elfaonline.org/ind/topics/Acctg/. To schedule an interview with an ELFA expert on the lease accounting project, please contact Amy Vogt at 202-238-3438 or avogt@elfaonline.org.

About the ELFA

The Equipment Leasing and Finance Association (ELFA) is the trade association that represents companies in the $521 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 over 600 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. In 2011, ELFA is celebrating 50 years of equipping business for success. For more information, please visit www.elfaonline.org.

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