

Earning a Spot at the Table: Creating a Constructive Relationship with the FASB

by Rita Garwood 2016

In the final installment of a three part series, *Monitor* editor, Rita E. Garwood, sits down with members of the ELFA's Financial Accounting Committee — Bill Bosco, John Bober and Rod Hurd — as well as ELFA President and CEO Ralph Petta to discuss the ELFA's Lease and Finance Accountants Conference as well as the association's role in the lease accounting project.



Rita Garwood,
Editor,
Monitor

In the [first part of this series](#), *Monitor* asked members of the ELFA's Financial Accounting Committee what would be at the top of their to-do lists if they were ultimately accountable for a company's smooth transition to the new accounting standards. In part two, the panel discussed the [new revenue recognition standard](#), its influence on the new leasing standard and its implications on the ultimate performance outcome of an equipment finance company.

The final installment of this series focuses on the ELFA's role in the lease accounting project, including its relationship with the FASB and IASB boards as well as its efforts to educate members via forums such as the Lease and Finance Accountants Conference. The ELFA holds this annual conference for accountants, CFOs, controllers, tax managers, treasurers, finance directors and others responsible for financial reporting activities.

A Three-Pronged Approach

“We've worked hard over the years to develop an annual lease and finance accountants' conference agenda that will appeal to all levels of attendees as we have three tracks,” says Bill Bosco, principal of Leasing 101. “We've tried to set up the conference so there are basic, intermediate and advanced sessions in every time slot.”

Bosco says this arrangement enables attendees, including beginners who are just entering the field, to glean useful hands-on information in basic lease accounting, treasury and tax topics that they can bring back and employ on-the-job at their offices.

According to John Bober, global technical controller at GE Capital and chair of the ELFA Accounting Committee, attendees can learn the “how to” in detailed sessions, while other

sessions — such as a conversation with FASB and IASB board members — provides an opportunity to learn about the “whys,” which can demystify the process. “We spend a lot of time on developing standards and understand their theoretical aspects and their place in current events more than the average person in attendance,” Bober says. “And the conference gives people an opportunity to hear more about what’s going on and why.”

“We try to present an agenda that appeals to all levels of attendees and is broad enough so that it’s a good foundation in just the basics of lease and finance accounting, tax and financial reporting,” Bosco explains. “It’s basically an educational session that also has this unique feature in that we can actually talk to and possibly influence a FASB/IASB board member.”

FASB and IASB Board Interaction

One of the most important takeaways from this year’s conference, according to our panel, is the interaction between attendees and FASB and IASB board members. ELFA President and CEO-elect Ralph Petta shares a story of an attendee who raised an issue in the new leases standard to a FASB board member during a session’s audience Q&A segment. The board member was unaware of the issue and its significance, and asked the attendee to send him more information on the matter. Petta says this exchange of ideas is what makes the conference so valuable.

“Here is a board member, one of the seven people on the FASB board, who was not necessarily familiar with a real life business issue that was impacting a sector of an industry that’s prominent,” Petta explains.

Specifically, the issue was that the FASB staff had dropped the section in the lease classification tests that exempted certain leases of used equipment from the useful life test as they thought it was not significant and conflicted with the new thoughts on control concerning remaining life from the revenue recognition standard. Bosco says the venue enabled a representative from the railcar leasing segment to ask a question regarding the change in GAAP, which caused the board member to become aware of the change. “The takeaway was that they could go back to their boss and say, ‘We talked to the board members, and I think we’re going to get this issue solved.’”

In this scenario, Petta says the attendee who raised the question seemed to be taken aback when the board member requested an email with more information. “Wow! I can contact a board member?” Petta says. “Sure, that’s why they’re there.”

To top it off, there was a happy ending as the board took up the issue at their final decision making meeting on the lease project and reinstated the exemption to the classification tests. Timing is can be everything in life!

“We tend to think of conferences as something where people relay information to the audience,” Bober says. “But there’s a free exchange of information, and the board members do look at these conferences as an opportunity for them to perform additional outreach and hear more about issues.”

Taking the High Road to a Constructive Relationship

Bridgeway Capital CFO Rod Hurd says it is clear to conference attendees that the ELFA's relationship with the boards matters. "This is a forum where you can have your voices heard and people will listen," he says.

Hurd says a lot of the ELFA's influence on the lease accounting project has been derived from the manner in which the association has conducted itself when interacting with the boards. While other associations decided to dig their heels in when it came to certain lease accounting issues, the ELFA took a different approach, which enabled continuing dialogue.

"Our view has always been that we want to be constructive and we want to work with the boards giving them information to make the best decisions, meaning improving transparency but getting the accounting and reporting "right" for lessees, lessors and users of financial statements says Petta.

"We established and stuck to a higher ground approach," Hurd says. "That's made it possible to change people's minds. The board today is more receptive than previous boards. There is no question that dynamic has changed."

Petta says the ELFA has encouraged the boards to ask its financial accounting committee for information on the business impact of their decisions prior to finalizing those decisions. "We want to be there as a resource, and that's how the board, at least in this country, has always looked at us," Petta explains. He says the boards will call the ELFA's committee when they are seeking information. "That's how we've always positioned our interaction with the standard setters, and it works."

"Our lobbying is really to provide information to help them make the best decision that makes the most sense to lessees and lessors in terms of presenting the economic effects of leases," says Bosco. "As Ralph said, that's how we got a spot at the table. They respect us. I've told the board that just because I work for a trade association does not mean I do not speak the truth."

Bober says the committee has educated the boards over the years on what a lease truly is and how it works. "People tend to view leases as an accounting construct when they're anything but," Bober says. "They're fundamentally a legal and tax construct to effectuate the commercial need to transfer rights to use property in exchange for consideration that you then need to throw into an accounting model. There are also many forms of leases that add to the complexity of accounting for the substance of the lease."

Petta commends the ELFA's Financial Accounting Committee for its work on the lease accounting project. He says if it were not for Bober, Bosco, Hurd and the committee, the association would never have made such an impact on the project, or been able to effectively communicate and educate its membership on lease accounting topics.

Petta explains that Thanks to the committee, Petta explains that the ELFA has always had a standing invitation to meet with the FASB once a year. During those meetings, the financial accounting committee has raised issues that are important to ELFA members. "It's been a tremendous resource," Petta says of the committee. "It's the poster child for how a trade association is supposed to utilize its volunteers and effectuate change in an area that is tremendously important to the industry that it represents. We can proudly point to many instances

where we changed minds that improved the outcome for all. Our policy also included never arguing for something that was self-serving to the industry and went against transparency.”

The Future of Equipment Finance

Petta says the ELFA has been working on lease accounting change since 1995 when it arose in an accounting theory paper as a potential FASB agenda item. “The industry thought it would be the end of life as we knew it if operating leases were capitalized by lessees in the manner originally proposed and if lessor accounting also overhauled as proposed,” Petta says. “We began our lobbying/educational project, and are proud to say that we got virtually everything we asked for — the operating lease liability is not debt, the operating lease expense is unchanged being the straight line rent and lessor accounting is virtually unchanged. We did lose on a few issues but we feel we won the war and lessees will continue to lease at the same pace as always.”

Bosco explains a presentation that he gives on the reasons why customers lease. “Only one of the reasons is accounting, and that’s not going to change any more than just adding the present value of operating leases to the balance sheet,” Bosco says, adding that accounting will continue to remain a partial, albeit strong, benefit.

According to Bosco, all the other reasons to lease remain the same, including regulatory, tax and liquidity reasons, as well as managing equipment risk, service and convenience. “The industry has been able to deal with lots of changes over the years, and has remained healthy, and some changes created new opportunities,” Bosco says.

Hurd points to the fact that many banks that were not already in the leasing business are jumping in to reap the benefits. “It’s because the fundamentals are solid,” Hurd says. “They’ve been proven over time. We’ve got 40 years of data history to present that says equipment leasing is a value proposition, a profitable bank product that adds value to the bank customer.”

Petta reminisces about his early days in the association when the investment tax credit was repealed by the tax reform act of 1986. “I remember vividly all of the talk about the how industry was coming to an end,” Petta says. “Well, companies adapt. They have smart people, and they’re flexible. They figured out a way to make money. There were tax issues in the 80s and the 90s that came and went. The industry survives. A similar thing happened 20 years ago. This is going to be no different than the investment tax credit elimination. The industry will adapt and it’s going to be fine. The fact is companies need assets to generate profits and our industry provides those assets and structures the lease terms and conditions to meet the customers’ needs.”