

Equipment Leasing Association of America

May 21, 1999

Mr. Timothy Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 54

File Reference: 1082-194R

Date Received: 5/26/99

Re: Exposure Draft on Consolidated Financial Statements: Purpose and Policy, dated February 23, 1999

Dear Mr. Lucas:

The Equipment Leasing Association ("ELA") is the national trade association that represents over 800 companies involved in the \$180 billion U.S. equipment leasing and finance industry. We welcome the opportunity to provide the following comments on the Exposure Draft (Revised) entitled Consolidated Financial Statements: Purpose and Policy ("the ED"):

We believe that the definition of control contained in the ED represents a substantial improvement over the definition included in the Board's previous Exposure Draft. The new definition, which bases consolidation policy on the extent to which one entity exercises control over the policies and management of another entity (rather than over that entity's individual assets) restores the focus of consolidation theory to its traditional and, we believe, proper place. Nevertheless, we agree with those commentators who have told you and, we expect, will continue to tell you that the definition could be further improved by including a more explicit requirement that in order to consolidate a subsidiary, a parent should have a significant financial interest in that entity. Otherwise, in our view, the inclusion of another entity's financial statements in the consolidated financial statements will lead to increased confusion rather than increased transparency for users of the consolidated statements.

We believe that the ED is significantly improved by the inclusion of two contrasting examples of SPE's formed to engage in leasing activities. We believe that these examples and the accompanying commentary provide additional insights into the Board's intended application of the proposed new standard to these types of transactions. Therefore, we recommend that they be retained in any final standard the Board may issue on this subject.

We note that while the ED incorporates concepts contained in the existing consolidation literature (e.g. the distinction between protective and participating rights), it does not address the effect of the proposed new standard on the existing body of consolidation literature, particularly a number of EITF consensuses relating to SPE's engaged in leasing activities. We believe that it is essential that any new standard on consolidation policy make clear the Board's intent with respect to the future status of those consensuses. Our own recommendation would be that existing literature should be superceded in its entirety and that any concepts or provisions of those consensuses that are deemed to have continued applicability be incorporated into a final standard and elevated to the status of level A GAAP.

We would support inclusion of the proposed transition rules in the ED in any final standard the Board may issue on this subject. We still would prefer, for the reasons set forth in our response to the earlier ED, that the new standard be applied prospectively to SPE entities formed to engage in or facilitate a single transaction. However, we believe that removal of the requirement to restate prior periods to include entities that are no longer controlled at the time of adopting the new standard is a significant improvement over the previous proposed transition and encourage the Board to retain it in any final standard.

The ELA values its relationship with the Board and the FASB staff and very much appreciates the opportunity to participate in the dialogue concerning the development of an important new accounting standard that will affect its membership. We hope that you will find our comments on the ED helpful and would be pleased to discuss them with you further at your convenience.

Sincerely,

Michael Fleming, Presiden