

Advocacy Recommends that FASB and IASB Develop Small Business Alternatives in New Accounting Standards on Leases

On June 30, 2009, the U.S. Small Business Administration's Office of Advocacy (Advocacy) filed a comment letter on a Discussion Paper (DP) issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), "Leases: Preliminary Views." The DP invited comments on all matters discussed in the paper. Advocacy offers recommendations related to the proposed standard announced in the DP. A complete copy of Advocacy's comments may be accessed at <http://www.sba.gov/advo/laws/comments/>.

- The DP proposed an overall approach that would apply the existing "finance lease" model to all leases, including operating leases. This approach would require that all leases be accounted for as though the asset was purchased and financed with a loan.
- Because the DP would reclassify operating leases as capital leases, this would substantially increase the debt shown on small business lessees' financial statements. This would also cause these small companies to have financial statements that show reduced earnings and reduced capital.
- The proposed changed standard would add complexity and result in small business lessees with financial statements that are less understandable and comparable than they are under the current standards.
- Advocacy commends FASB and IASB for their efforts to create a common standard on lease accounting but recommends that the boards develop alternatives that would minimize the burden of the proposed standard on small businesses engaging in shorter-term, less-costly lease transactions. In particular, Advocacy recommends that FASB and IASB create a de minimis exception to the standard that would exempt lease transactions of less than \$250,000 from the proposed standard.

For more information, visit Advocacy's Web page at <http://www.sba.gov/advo> or contact Assistant Chief Counsel Dillon Taylor by email at dillon.taylor@sba.gov or by phone at (202) 401-9787.