

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

For the past two years, the Office of Advocacy (Advocacy) has been engaged with the Financial Accounting Standards Board (FASB) on its newly proposed approach to lease accounting. The proposal would substantially increase the debt on financial statements, making these statements both harder to understand and compare. Advocacy has sent FASB two comment letters offering recommendations on this proposal.

- On March 19, 2009, FASB issued a Discussion Paper (DP) proposing a new approach to lease accounting 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 this approach would reclassify operating leases as capital leases, small business lessees’ financial statements would show substantially increased debt. This approach would add unnecessary complexity and result in less understandable and less comparable financial statements.
- On June 30, 2009, Advocacy filed a comment letter with FASB in response to the DP. In the comment letter, Advocacy recommended that FASB create a de minimis exception to the standard that would exempt lease transactions of less than \$250,000 from the proposed standard.
- In its Exposure Draft (ED), issued on August 17, 2010, FASB continued to propose an overall approach that would apply the existing “finance lease” model to all leases, including operating leases. The ED did not adopt or otherwise address Advocacy’s recommendation to create a \$250,000 de minimis exception.
- On December 1, 2010, Advocacy filed a comment letter on FASB’s ED. A complete copy of Advocacy’s comments may be accessed at <http://www.sba.gov/advo/laws/comments/>. In the comment letter, Advocacy again recommended that FASB create a de minimis exception to 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.