EQUIPMENT LEASING AND FINANCE ASSOCIATION

Organizational Checklist for Lessors

To Meet Lessee Needs Under the New Lease Accounting Rules

As your equipment finance company prepares to adopt the new lease accounting rules, each department within your organization should anticipate how the new rules will impact your lessee customers. The new rules—which take effect beginning in 2019—have greater implications for lessees than lessors. In order to provide appropriate responses in your product offerings and internal processes, you need to be aware of your lessee customers' needs and concerns. In particular, consider that under the new rules:

- Lessees may have a preference for shorter-term transactions because they will have a smaller impact on their balance sheet. For example, instead of requesting a 10-year lease, lessee customers may opt for a five-year lease with a five-year renewal.
- As lessees capitalize leases on the balance sheet, ROA and total liabilities will be impacted.

Here's a checklist to help each department in your equipment finance organization prepare for the impact of the new rules on your lessee customers:

- ❑ **Accounting/Tax** – Accountants on staff will need to understand how the accounting rule changes affect lessees and should take steps to train the financial product team and the sales team. This will help ensure that you are offering the financial product mix the lessee desires and the salesperson will be able to assist the lessee in understanding the financial statement implications of a proposed transaction. Budgets may need to be increased for the education and training of the accounting teams.

- ❑ **Operations/IT** – Operational changes needed will include software modifications to fit the new accounting standard and new processes that record, monitor and terminate transactions. Process flowcharts, internal controls and policies and procedures may require revisions.

- ❑ **Sales and Marketing** – The sales and marketing teams will need to know what drives their lessee customers' transaction preferences and develop new financial products and/or modify existing ones to meet their new needs. New marketing tools should include educational resources on the new accounting standard for lessees. Budgets may need to be increased for the education and training of the financial product, sales and marketing teams.

- ❑ **Credit** – The credit team that analyzes lessee customers for credit strength and approves transactions based on risk/return metrics will need to recognize there may be more lease applications for shorter term transactions. Underwriters will need to adjust their underwriting standards and financial statement reviews to take into account the new presentation of leases by lessees.

- ❑ **Asset Management** – Asset managers will need to be aware of the higher possibility of receiving off-lease assets that are newer than historical patterns would indicate.
- ❑ **Legal/Contracts** – There may need to be changes to the extent that financial products are modified.
- ❑ **Human Resources** – The greatest impact to the lessor will be making sure all teams in the company that are affected are appropriately trained. To the extent that a lessor wants to offer training or extra one-item assistance to their lessee customers, temporary staff may be needed.

More Information

To learn more about this topic, visit the Equipment Leasing and Finance Association's Lease Accounting webpage at ***www.elfaonline.org/industry-topics/lease-accounting***.

Disclaimer: The information in this document is a summary only and does not constitute financial advice. Readers should obtain their own independent accounting advice that takes into account all relevant aspects of a particular lessor's or lessee's business and products.