LEASEURPE
267, Av. de Tervuren
B – 1150 Bruxelles
☎+32/2/778 05 60
Fax +32/2/778 05 79

European Federation of Leasing Company Associations
Fédération Européenne des Associations des Etablissements de Crédit-bail
Europäische Vereinigung der Verbände von Leasing-Gesellschaften

Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Brussels, 28 September, 2007

LEASEUROPE RESPONSE TO THE INVITATION TO COMMENT ON THE EXPOSURE DRAFT OF A PROPOSED IFRS FOR SMALL AND MEDIUM-SIZED ENTITIES

Dear Mr Pacter,

Leaseurope, the European Federation of Leasing Company Associations, is pleased to submit its comments on the Exposure Draft IFRS for SMEs.

Given the scope of our activities as representatives of the European leasing and automotive rental industries, our comments below focus on the leasing section of the draft standard.

Our response is structured as follows. This introductory letter highlights our main concerns and is followed by a full response addressing the invitation to comment in detail. This in-depth comments section begins with concerns relating to the scope of the SME standard, considers the questions in the invitation to comment where Leaseurope can provide pertinent input and lastly provides a few additional comments relating to the drafting of the leases section of the standard.

Among our principal concerns, we feel that further clarity is required in relation to the scope of application of the SME standard to leasing firms. It should be noted that a significant portion of European lessors are neither financial institutions nor subsidiaries of such institutions but are instead are captive or independent firms. Leaseurope suggests that these companies do not hold assets in a fiduciary capacity and advocates that lessors who are subsidiaries of financial institutions should be allowed to consider their own eligibility to apply IFRS for SMEs. If this reasoning is taken into account, it is likely that many more leasing companies may fall under the scope of IFRS for SMEs than originally estimated by the IASB and, as a result, we recommend that the leases section provide complete guidance for all kinds of lessors, without cross-reference to full IFRS.

Leaseurope has already pointed out to the IASB that a risks and rewards approach to a leasing standard for SMEs may not be the most appropriate solution. Such an approach requires a significant amount of judgement to determine lease classification, which often leads to costly auditor involvement. Furthermore, we are of the opinion that, given that a substantial number of local jurisdictions currently use a legal or similar approach to lease accounting, the jump to a risks and rewards approach would represent an unduly burdensome investment for SMEs which is not justified by the true information needs of users of SME accounts. Such treatment may discourage lessees from entering into lease finance in the first place and we argue that accounting treatment should not cause such distortions.

Our preferred option would therefore be to see an executory contract model used in IFRS for SMEs. The purpose of financial statements is to provide relevant information to users and therefore accounts prepared under IFRS for SMEs should cover the information needs of the users of SME accounts. These users, of which potential lenders are an important category, do indeed require the necessary information to be able to make decisions about an entity's ability to honour its future commitments (amongst others). The executory model has clear merits in that it is easy to apply for lessees and lessors and offers users the necessary and comparable information via robust disclosures in the notes of the financial statements in line with their needs. The model therefore does satisfy user needs and we strongly disagree with the conclusions set out in BC97

If our arguments in favour of an executory model are not taken into account, it is essential that the current leasing treatment in section 19 of the ED be simplified extensively and should not just be a shortened version of IAS17. Failure to provide a simplified model for lease accounting would not respect the cost/benefit analysis referred to in BC25 as SME lessees and lessors will be required to make substantial efforts in terms of understanding and applying new concepts that will not result in better user information.

Our detailed comments below provide information on which aspects of the full IFRS risks and rewards model we recommend for simplification if applied to SME standards. Briefly, these include:

- Simplified criteria for classification purposes, with a preference for limiting classification criteria to the transferral of ownership or the existence of a bargain option, or failing this, the provision of quantitative guidance to determine whether a lease is a finance or operating lease. In all cases, the indicators in paragraph 19.5 should be removed as they should not have an overriding classification signification and their inclusion is likely to lead to confusion.

- The initial recognition of finance leases by lessees at present value of the minimum lease payments as this represents a true simplification for lessees whilst providing high quality information to users.

- The SME standard should not be silent on leases of land and building and such contracts should be considered as a single lease.

- The treatment for lessors who provide finance leases should no longer be a cross-reference to IAS17.

- The expensing of internal initial direct costs should be allowed in cases where the identification of such costs is too burdensome.

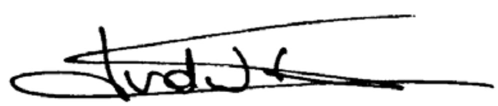
- Disclosure requirements should be significantly simplified as SME accounts user needs in respect to the extent of disclosed information are limited. For lease transactions, the simple disclosure of the maturity and conditions of finance lease related debt and the total future minimum lease payments are sufficient to meet user needs.

As a general remark, we believe the SME standard should not remain silent on important concepts and definitions simply for the sake of brevity. On the contrary, SME preparers and users should be assisted with additional guidance that will help them understand accounting treatment. Therefore, we would welcome that additional information on key leasing concepts such as minimum lease payments, the interest rate implicit in the lease and contingent rents be provided within section 19.

Finally, while we understand that the IASB would ultimately like to see one philosophy for lease accounting throughout its spectrum of standards, the Board should be aware that moving through various accounting models in a relatively short time frame is not a realistic approach. Not only would it require disproportionate investment in terms of understanding new concepts, implementing new IT systems, etc., it is also far from clear that the information provided will ultimately be of better quality or user relevance. Consequently, we would very much prefer that the leasing standard in IFRS for SMEs take on an executory approach and that a full cost benefit analysis be conducted upon completion of the new full IFRS lease accounting model to see whether it can adequately be transposed into SME standards, most likely with a substantial degree of simplification, before performing its integration. Automatic inclusion of the new approach should in no case be a predetermined conclusion.

We thank you for taking the time to consider our response to the invitation to comment and remain at your disposal for any further information. Please do not hesitate to contact us or Jacqueline Mills, Leaseurope Adviser, directly at j.mills@leaseurope.org or +32 2 778 05 66 for any additional queries.

Yours sincerely,



Dr Thomas Schröer
Co-chair, Accounting Affairs
LEASEUROPE ACCOUNTING & TAXATION COMMITTEE

Tanguy van de Werve
Director General
LEASEUROPE

ABOUT LEASEUROPE

Leaseurope, the European Federation of Leasing Company Associations, was founded in 1972. The Federation is the umbrella body of both the leasing and rental industries in Europe, and is composed of 48 Member Associations in 34 countries. The countries represented by the Federation are: Austria, Belgium, Bosnia-Herzegovina, Bulgaria, Cyrpus Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Morocco, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia & Montenegro, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine and the United Kingdom.

Leaseurope's 2006 Annual Statistical Survey of the European Leasing Market reveals that the new leasing business of its leasing Member Associations taking part in enquiry amounts to 297.5 billion euros. Grouped together within Leaseurope the 1,500 or so leasing companies represented via Leaseurope's members account for more than 92% of all European leasing.

LEASEUROPE
267, Av. de Tervuren
B – 1150 Bruxelles
☎+32/2/778 05 60
Fax +32/2/778 05 79

LEASEUROPE'S DETAILED COMMENTS ON THE EXPOSURE DRAFT IFRS FOR SMES

I. COMMENTS ON THE SCOPE OF IFRS FOR SMES

Title of the Standard

1. We feel that the title for the standard, IFRS for SMEs, may be misleading. In a European context, an SME is officially defined as an independent company with fewer than 250 employees and an annual turnover not exceeding €50 million or a balance sheet total of up to €43 million[1]. Consequently, there is likely to be some confusion between the term employed by the IASB and European law.

2. Furthermore, the criteria for which companies are intended to be covered by the scope of the standard, as given in the Basis for Conclusions (BC34), leads to the inclusion of a wide range of companies, and is not coherent with the typical 50 employee entity example used by the IASB when deciding on the kinds of transactions, events and conditions that should be addressed in the standard (BC45). This in itself leads to confusion regarding the intended scope of application. Additionally, the European notion of SMEs includes so-called micro companies, with less than 10 employees and turnover or balance sheet total inferior to €2 millions. It is unlikely that the majority of these companies would be able to apply the ED as it currently stands.

3. Similarly to other stakeholders, we would therefore welcome the title of IFRS for Non Publicly Accountable Entities or another more appropriate label if one can be found and prefer that a separate solution for micro firms be examined.

Accounting Diversity and Complexity

4. Furthermore, we recognise that size is not always an adequate measure of the degree of sophistication of an entity. Nevertheless, we remain convinced that, despite the IASB's efforts to streamline full IFRS into an appropriate version for SMEs, the current Exposure Draft is much too complex to be appropriate for the full range of entities intended by the Board. However, accounting progress for medium to large firms should not be hindered

[1] Commission Recommendation of 6 May 2003

by the concerns relating to smaller enterprises, for whom the costs of such a standard are likely to be disproportionate to the benefits. It is therefore up to local jurisdictions to decide to which kinds of entities the standard could apply and whether this would replace partially or entirely local GAAP.

5. All the same, the IASB must be aware that the creation of this new standard will in the medium term add an additional layer of complexity to accounting, particularly in the EU, one of the IASB largest constituents, where full IFRS, IFRS for SMEs and local GAAP (sometimes differing according to the entity category) will coexist for a number of years, with implications in terms of cost of preparing multiple accounts and possibly comprehension and comparability of accounts for users.

Clarification of the Scope Applicable to Leasing Firms

6. Leaseurope would welcome clarity regarding the status of leasing companies in relation to the application of IFRS for SMEs. Within Europe, around 50% of European leasing companies are captives or independent firms, with the remainder being owned by financial institutions or having a banking license themselves[2]. Financial institutions are clearly considered to be publicly accountable entities and thus have to apply full IFRS. For those companies who are subsidiaries of financial institutions, it is unclear whether they should take into account their own eligibility to use IFRS for SMEs as explained in BC42 or whether they are considered to hold assets in a fiduciary capacity as described in BC34. Likewise, it is unclear whether captives and independent leasing firms are considered as holders of assets in this capacity.

7. As a significant number of European leasing firms are not financial institutions or subsidiaries of financial institutions, we disagree with the conclusions of BC62 and its consequences in terms of drafting the current ED so that finance lease accounting for lessors is a simple reference to full IFRS.

8. Unless further description of what is meant by a fiduciary capacity is provided in the basis for conclusions, we would argue that leasing firms, except if they are a listed company or a financial institution, should be considered as non publicly accountable entities as they do not seek funding from the public and do not hold and manage financial resources in the same manner as banks, insurance companies, investment or pension funds, etc. Those firms who are subsidiaries of such financial institutions should be allowed to consider their own eligibility for IFRS for SMEs.

[2] These figures are taken from Leaseurope's 2006 Annual Statistical Enquiry, a survey of its members' activities. The figures mentioned here are based on those provided by the member associations answering the question related to the profile of their member leasing firms.

II. STAND-ALONE DOCUMENT

9. The intention of IFRS for SMEs is to provide appropriate information to the users of SME accounts. This implies that the standard should cover guidance on all transactions common for SMEs and should be a stand-alone document. Otherwise, difficulties in applying the standard will appear and leave room for interpretation with the risk of discouraging firms from using IFRS for SMEs.

10. We agree that the hierarchy in section 10, which refers the preparer to the requirements and guidance of the standard itself, followed by its overarching principles, should be sufficient to cover all eventualities, provided that standard is sufficiently robust.

11. Nevertheless, we would like to point out that the aim should not be to simply "copy and paste" full IFRS into the SME standard, leaving out additional guidance and explanations when they are too long. Brevity should not be privileged at the expense of understandability. It may well be worthwhile to include further, possibly simplified, guidance within the standard when needed and we would recommend that cross references to full IFRS be eliminated. In particular, certain definitions relating to leasing in general as well as lessor accounting for finance leases should be readdressed. Our comments on these aspects of the standard are further detailed below in § 38 – 41 and § 27-28.

III. RECOGNITION AND MEASUREMENT SIMPLIFICATIONS THAT THE BOARD ADOPTED

Comments on the Adopted Simplification Detailed in BC92

12. In the ED, the Board has adopted a measurement simplification for lessees under a finance lease in comparison with full IFRS. Indeed, IAS 17 Leases requires that the lessee make two measurements for a finance lease, i.e. both the fair value of the lease property and the present value of the minimum lease payments and to apply the lower of the two. In paragraph 19.8, the Exposure Draft however requires only that the fair value of the leased property be measured.

13. Leaseurope suggests that fair value measurement is not necessary in a SME context and does not lead to simplification for the lessee or additional necessary information for the users of SME financial statements. Consequently, we would recommend that the lessee measure the assets and liabilities arising from the finance lease contract at an amount equal to the present value of the minimum lease payment. Moreover, measurement at present value of the minimum lease payments will provide sufficient information as most

lease contracts will represent exchanges of equal values or otherwise they would not be entered into. Nevertheless, impairment testing and impairment requirements will ensure that the lessee's asset is not overstated.

14. This treatment represents a true simplification from the full IFRS requirement as the minimum lease payments can be taken from the lease contract whereas a fair value of the asset would imply a separate calculation and, depending on the nature of the asset, may not always be straightforward to determine.

15. Furthermore, the IASB should bear in mind that a certain number of the companies likely to fall under the scope of the SME standard currently apply an executory approach to lease accounting. Consequently, it is the lessor and not the lessee who has the leased asset on its balance sheet. Requiring the capitalisation of the lease under IFRS for SMEs, accompanied with a fair value measurement requirement for the lessee would represent an additional change and further complexity in relation to their current accounting treatment, without providing better information for users.

16. We are therefore of the opinion that the cost/benefit trade-off discussed in BC25 has not been respected when the IASB considered this "simplification".

Other Recognition or Measurement Simplifications That Should be Considered

A. Classification of leases

An executory model for leasing is preferred for SMEs

17. In its response of 30 June 2005 to the *Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities,* Leaseurope raised the concern that the risks and rewards approach to IAS17 lease accounting requires a significant amount of judgment in determining whether a lease should be classified as a finance or an operating lease. As this judgement call still today poses difficulties for the users of full IFRS, we are of the opinion that the preparers of SME financial statements will have even more difficulty in performing the classification, resulting in expensive auditor involvement that may discourage lessees from entering into lease contracts in the first place. We view this as a discrimination against leasing in comparison with other methods of finance such as traditional loans and argue that accounting treatment should not have an influence on an entity's financing decisions.

18. We refer the reader to sections IV and VII of this response for further information on why we find that a risks and rewards approach to lease accounting for SMEs is at this stage not justified.

19. Leaseurope recommends accordingly that, if the risks and rewards approach is to be maintained in the SME standard, further simplification and guidance be given for lease classification, particularly as constituents may be unfamiliar with some of the IAS17 concepts or criteria used in paragraphs 19.3-19.7 of section 19 Leases.

Additional (quantitative) guidance to classification should be provided

20. Firstly, we would recommend that lease classification be largely simplified. In order to achieve this, our preferred option would be that distinction between finance and operating leases be based on two simple criteria, the transferral of ownership at the end of the lease term and the existence of a bargain option (i.e. paragraphs 19.4 a and b, the other criteria should be removed). This approach has the advantage of being clear-cut to use and is likely to capture the vast majority of finance leasing contracts. We therefore believe that it is appropriate for use in SME standards. Alternatively, our second option would be to base lease classification on quantitative tests instead of the criteria in 19.4. However, we would like to stress that such calculations still make reference to concepts that less sophisticated lessees may not be able to apply or to information that they may not possess. One possible quantitative test is the so-called “NPV test”, where the net present value of the minimum lease payments should amount to a certain (important) percentage of the leased asset’s fair value. However, while the use of this measure would be preferred to the current qualitative criteria provided in paragraph 19.4, lessees with little experience in present value calculations may find it easier to apply an equivalent ratio which is the residual value to initial investment ratio. Our third and least preferred option would be to retain the criteria of the current paragraph 19.4 but to complement each individual criterion with further guidance in the form of quantitative examples so as to render the classification decision as straightforward as possible.

Indicators should not play the same role as classification criteria

21. Additionally, the indicators in IAS 17.11 transposed into paragraph 19.5 should clearly not have a classification relevance of their own, since they are simply examples of factors to be recognised anyway in paragraph 19.4. As this issue is source of a debate under IAS17 itself, we strongly recommend that these indicators be removed from the standard. At the very least, it should be made clear that they do not have any overriding classification significance in comparison with the criteria in paragraph 19.4.

Leases of land and buildings

22. The exposure draft contains no guidance on the leases of land and buildings. It should be noted that IAS17 currently requires the leases of land and buildings to be accounted for separately. This requirement is subject to debate and is sometimes difficult to implement, even for full IFRS lessees and lessors. Nevertheless, the SME standard should not remain silent on the issue. Instead clear and simple guidance should be provided.

23. We would propose therefore that section 19 include a paragraph stating that the leases of land and buildings should be accounted for as one transaction when the distinction between land and building in a lease transaction cannot be performed reliably. Indeed, in most European counties, land and buildings thereon are seen as an integral package and a split between the two may be completely arbitrary. Additionally, this treatment is consistent with SIC-27-3 which states that: "*A series of transactions that involve the legal form of a lease is linked and should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence.*".

24. Classification of this single lease should be performed according to the classification criteria as described above.

B. Finance leases for lessees

Depreciation and impairment issues

25. Paragraph 19.11 refers the preparer to Section 16 Property, Plant and Equipment of the ED for depreciation treatment. This fails to recognise the fact that leases may not always be of property, plant or equipment but may also be of intangible assets, etc. Consequently, paragraph 19.11 should also refer to Section 17 Intangible Assets other than Goodwill. Furthermore, if leases of biological assets remain under the scope of this section (see below for further comments on this point), a reference to Section 35 Specialised Industries should also be included.

26. No guidance is given on how the leased asset should be impaired. Preparers should be referred to Section 26 Impairment of Non Financial Assets for this guidance.

C. Finance leases for lessors

Initial recognition and subsequent measurement should not be a cross reference to full IFRS

27. As noted above, a substantial share of lessors are not financial institutions and thus may fall under the scope of IFRS for SMEs. We therefore believe that it is necessary to include guidance for lessors providing finance leasing within the SME standard, in the context of producing a stand-alone document of accounting guidance for SMEs.

28. If the Board wishes to maintain a risks and rewards approach to lease accounting for SMEs, the concepts of IAS17 relating to the provision of finance leases by lessors should thus be imported into section 19 of the SME standard.

Additional guidance on initial direct costs is necessary

29. It is important that guidance be given as to how initial direct costs should be treated. It should be noted here that initial direct cost treatment for finance lessors is the subject of debate under full IFRS lease accounting and that care should be taken to render the situation as clear as possible for SME lessors.

30. In this context, we would like to point out that it is not always possible for lessors to measure these costs, which are "*incremental and directly attributable to negotiating a lease*" as such an exercise may require sophisticated analytical reporting tools that lessors do not always possess.

31. To illustrate the issue, one should consider that the types of costs covered by the concept of initial direct costs as given in IAS17 could be external as well as internal ones. However, the identification of internal costs that are directly attributable to contracts may pose numerous practical problems for lessors. For example, in a large firm, lease contracts are likely to be written by the in-house legal department while in smaller enterprises, external lawyers may well prepare lease contracts. This would lead to inconsistent reporting between larger and smaller firms, as the larger company would not capitalise the costs (if they are not incremental or clearly identifiable), while the smaller enterprise would (as they are clearly incremental and directly attributable).

32. Consequently, we would suggest that initial direct costs (i.e. both external and internal costs) be capitalised *unless* the identification of internal direct costs is too burdensome, in which case it should be possible to expense such costs. Indeed, we believe that this

approach would be more consistent in terms of a cost-benefit analysis for SME lessors than what is currently proposed in the ED.

D. Operating Lessees for Lessors

Revenue should be recognised so as to faithfully represent the transaction

33. The recognition and measurement treatment for operating leases granted by lessors in paragraph 19.13 is taken directly from IAS17. As the Board is undoubtedly aware, this provision in IAS17 has lead to difficulties for lessors. Consequently, in order to avoid the same uncertainty for SME accounting and to facilitate the uptake of the SME standard by local jurisdictions, paragraph 19.3 should clearly state that *the interest method of revenue recognition can be used when using a straight line method would lead to the transaction not being faithfully represented*.

34. Indeed, if straight line depreciation is used, otherwise profitable leases would show losses in their early years thereby not contributing to users' understandibility nor faithfully representing the transaction. As a result, the financial statements of operating lessors can be misinterpreted as a growing leasing business will have lower profits per lease transaction than a declining business. Leaseurope is of the opinion that such treatment does therefore not reflect the true and fair view of a lessors' business, nor does it provide user relevant information.

IV. RECOGNITION AND MEASUREMENT SIMPLIFICATIONS THAT THE BOARD CONSIDERED BUT DID NOT ADOPT

Comments on the Basis for Conclusions in BC97

35. In our previous response to the *Staff Questionnaire* mentioned above, Leaseurope pointed out that the risks and rewards approach to lease accounting is not commonly accepted in all jurisdictions. Indeed, a number of European countries apply a legal ownership approach to lease accounting, or allow companies to choose between a legal or economic ownership approach. As a result, we were and remain concerned about the level of future uptake of an IFRS for SME standard that would be based on a risks and rewards philosophy within these jurisdictions and the burden it would imply for lessee and lessor firms within these.

36. Consequently, Leaseurope recommended an executory model for lease accounting for SMEs which would in practice result in all leases under IFRS for SMEs being treated as IAS17 operating leases.

37. While we can understand that the Board wishes to align the risks and rewards approach of IAS17 to SME standards so as to have a consistent approach to leasing throughout their standards, we do not agree with the basis for conclusions in BC97. The executory model, which is based on the fact that the lessor retains ownership of the leased asset, has clear merits in that it is easy to apply and offers users comparability via disclosures in the notes, which form an *integral part* of financial statements. Thus, users, including lenders who need to assess a potential borrower's capacity to honour its future commitments, would indeed have the necessary information to make the appropriate judgements. We believe that the burden on SMEs is too high in relation to users' information needs that would be substantially covered by this approach. Once again, we consider that the cost/benefit analysis of this treatment has not been adequately taken into account.

V. ADEQUACY OF GUIDANCE

Concise Standards vs. Understandable Standards

38. We believe that if the IASB is to choose a risk and rewards approach to lease accounting for SMEs, it is essential that they provide clarifications and definitions on some of the terms used within section 19 as the exposure draft has simply dropped the information given in the full IFRS for sake of brevity. The leasing section will not be understandable to SME preparers, more used to local lease accounting notions and not necessarily familiar with IAS17 concepts, if additional information is not provided.

39. Therefore, we take the view that additional guidance should be given on the definitions of the at least following terms: minimum lease payments, the interest rate implicit in the lease and contingent rents as they are referred to within the standard. This guidance should be given at the beginning of section 19.

40. Once again we wish to stress that some leasing terminology remains debated under full IFRS. As explained above, initial direct costs are not always commonly understood. In the ED they are defined briefly in section 19.8, which deals with accounting for lessees. As we suggest bringing in accounting for finance leases by lessors into the standard, we would recommend that a definition of initial direct costs inline with our concerns iterated in paragraphs 29-32 above should also be given in the beginning of section 19.

41. As a general comment, Leaseurope would recommend that concepts which are unclear under IAS17 should not be imported directly into IFRS for SMEs but should be clarified in a simple manner so as to avoid misinterpretation.

VI. Adequacy of Disclosures

Robust Disclosures Are Necessary under an Executory Model

42. If a executory approach to lease accounting were to be retained in the IFRS for SMEs, Leaseurope would strongly advocate that this be accompanied by full and robust disclosures so as to allow users, including lenders, to be able to have a fair view of the firm's leasing commitments. The notes are an integral part of financial statements and thus have an equally important role to play in providing information to users as the balance sheet and P&L statement. In this scenario, lessees should disclose the total future minimum lease payments, lease payments recognised as an expense, with a distinction between minimum lease payments, contingent rents and sublease payments as well as a general description of all their material lease arrangements, including the existence of renewal or purchase options, any restrictions imposed by the lease arrangements, etc.

Disclosure Requirements Must be in Line with User Needs

43. However, if the IASB opts to retain the risks and rewards approach in the final standard, we feel that the level of disclosures currently required remains simply too high and we cannot see any evidence of a full analysis of user needs in relation to these having been carried out. If there is such evidence, this should be clarified in the basis for conclusions.

44. In our view, the needs of users of SME financial statements in relation to disclosures are limited. Users simply need to ascertain whether a firm can meet its various commitments or whether their interests in the firm are well taken care of. In relation to the leasing standard, the simple disclosure of the maturity and conditions of finance lease related debt and the total future minimum lease payments under operating leases are sufficient to meet user needs.

Comments on Disclosure Requirements for Leasing in the Current ED

45. The above paragraph 44 is our preferred option for leasing disclosures under a risks and rewards approach. However, in addition to this, we would like to comment on the current state of disclosures for leasing as set out in the ED.

A. Disclosures for Lessees

Finance leases

46. We welcome the exclusion of the full IFRS requirement to reconcile the total future minimum lease payments and their present value. Indeed, this requirement would be unnecessarily burdensome for SME lessees. The requirement to disclose simply the future minimum lease payments is much more appropriate.

47. Nevertheless, we fail to see why this is required for *each future year* when even full IFRS requires the disclosure for only certain periods (i.e. not later than one year, later than one year and not later than five years, more than five years.). Such detailed information is habitually not readily available in a lessor's reporting systems and SME's would be again be required to make costly investments that will not lead to the provision of better information. We believe that user information requirements would be more than satisfied with disclosures where a division between short term (less than one year) and long term (in excess of one year) lease commitments is made.

48. Furthermore, paragraph 19.12 (e) covers a general description of all of the lessee's leasing arrangements, the word *material* included in the full IAS17 having been omitted. We do not understand see the justification for omitting the materiality criteria.

49. Materially is a key concept as illustrated by the following example. An SME lessor involved in leasing transactions of plant or equipment essential to its business's activities should probably provide disclosures on these leases whereas disclosures on a car lease of the same firm is likely to be of little interest to users. Guidance, preferably of a quantitative nature, to what materiality entails should be given so as to avoid costly auditor involvement on the concept.

Operating leases

50. The same comment on materiality as above is relevant to section 19.14 (d)

B. Disclosures for Lessors

Finance leases

51. If the IASB intends to create an all encompassing leasing standard for SMEs in section 19 as recommended by Leaseurope, disclosures for finance leases for lessors should entail those of IAS17, with the exception of IAS17 47 (a) which requires a

reconciliation between the gross investment in the lease at the balance sheet date and the present value of minimum lease payments receivable at this date. This disclosure provides little additional pertinent information for users and one of the only cases where such a disclosure would be useful is for very long term contracts. Such cases however are rare. Data collected within Leaseurope's 2006 annual statistical survey shows that 83% of all leases are granted for an original term of up to 5 years only. Another example of where such a disclosure could be useful is for those lessors who have an important interest rate and/or currency risk. It should be pointed out however that these lessors are likely to have matched their assets (mainly lease receivables) with their liabilities (mainly loans). Therefore, a possible alternative could be that a description of the lessor's hedging policies be required instead of the above reconciliation. Moreover, in practice, the proposed disclosure would amount to lessors having to reveal their future interest margin which is sensitive information from a competitive point of view. Thus, we feel that overall the cost/benefit trade-off in relation to the needs of the users of SME accounts would not be conducive to including this disclosure in section 19.

Operating leases

52. The comment on materiality is the same for section 19.23 (c).

C. Disclosures for Sale and Leaseback Transactions

53. The materiality comment also applies to section 19.27

VII. MAINTENANCE OF THE *IFRS FOR SMEs*

54. While we agree that IFRS for SMEs should be adapted on a regular basis to take into account changes with full IFRS or specific SME issues as described in question 11 of the invitation to comment, we have some major reservations as to how this would affect the leasing standard and ultimately the leasing business.

55. As pointed out earlier in our response, a large number of countries have a full operating lease approach or a choice of approaches to lease accounting within their local GAAP. Although Leaseurope would prefer to see an executory model chosen for SME accounting, the potential adoption of a risks and rewards approach to lease accounting in IFRS for SMEs would already represent a major adjustment to leasing treatment and imply considerable investment on the part of preparers.

56. The IASB is currently in the process of *completely reviewing* its existing approach to lease accounting which will result in a new full IFRS leases standard in the medium term. We gather that this approach, upon completion of the new full standard, could be considered for integration into the SME standard so as to avoid the coexistence of different models for leasing within IFRS standards.

57. While we understand that the IASB would like to see one philosophy for lease accounting throughout its spectrum of standards at some future date, the Board should be aware that passing from a legal model to a risks and rewards model and ultimately to a new model in a relatively short time frame is not a realistic approach. Not only would it require disproportionate investment in terms of understanding new concepts, implementing new IT systems, etc. it is also far from clear that the information provided will ultimately be of better quality or user relevance. Importantly, the end result may be that lessees prefer to forgo lease finance in favour of other means of finance where the accounting treatment is stable and simple.

58. Consequently, we would very much prefer that the leasing standard in IFRS for SMEs take on a an executory approach and that a full cost benefit analysis be conducted upon completion of the new full IFRS lease accounting model to see whether it can adequately be transposed into SME standards, most likely with a substantial degree of simplification, before performing its integration. In no case should automatic inclusion of the new approach be a predetermined conclusion.

VII. Additional Comments

Scope of Section 19

Investment Property

59. As with full IFRS, section 19 does not cover property held by lessees accounted for as investment property which should be accounted for under section 15 investment property. Similarly investment property provided by lessors under operating leases are also to be covered by this section.

60. However, in spite of this inclusion in its scope, section 15 does not provide guidance for how to account for property held by lessees accounted for as investment property, except for giving the option in paragraph 15.2 that "*a property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property*

and the lessee uses the fair value model for that property and for all of its other property classified as investment property". No other guidance is provided. We take the view that this option is too complex for the purposes of SME standards, however, if it were to be maintained, further detail is required in section 15.

61. In relation to investment property provided by lessors under operating leases, section 15 provides information only on the measurement of the investment property and does not give detail on other aspects of accounting. These other aspects could be covered by section 19 and consequently, investment property provided by lessors under operating leases should only be scoped out of section 19 in relation to their *measurement*.

Biological Assets

62. Contrary to IAS17, the measurement of biological assets held by lessees under finance leases and those provided by lessors under operating leases are not scoped out of the leasing section. Consequently, both measurement and all other aspects of accounting are to be covered by section 19. If this is the Board's intention, the reasons for this complete inclusion in the scope of section 19 should be covered in the basis for conclusions.