

Gerrit Zalm
Chairman, Trustees of the IASC Foundation

Antonio Vegezzi,
Chairman, Due Process Oversight Trustee Committee

IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

By email

Brussels, 24 March, 2009

Dear Sirs,

Leaseurope is the voice of leasing and automotive rental in Europe. In 2008, the firms represented through our 47 Member Associations in 34 countries across Europe granted new leasing business worth in excess of 316 billion Euros. It is estimated that these firms were responsible for financing on average around 27% of all European investment excluding real estate.

Following the publication of the Discussion Paper on Leases on 19 March 2009 by the IASB, we are writing to you regarding the Board's due process in conducting the leases project.

When deciding to undertake a leasing project in 2006 together with the FASB, the IASB recognised the need to fully reconsider all aspects of lease accounting, including both lessee and lessor accounting issues. The importance of consulting stakeholders from the early stages of the project was equally acknowledged through the creation of a joint IASB/FASB working group comprised of individuals with significant experience and expertise in this field to assist the Boards and staff in their work.

From the very outset, the objective of this project was to produce a discussion paper setting out the Board's preliminary views. Given that this is not a mandatory step in the IASB's due process, the publication of such a paper is a clear signal from the IASB that lease accounting is an important issue and that consultation of a wide range of constituents early on in the standard setting process is essential to achieve a high quality standard.

As a result, we very much welcome this discussion paper and, as key stakeholders in the lease accounting debate, the European leasing industry remains committed to supporting the IASB in their efforts to achieve a new international accounting standard for leases.

We do however have a degree of concern with some of the decisions taken by the IASB in the run up to producing the discussion paper and its resulting content.

In July 2008, the IASB (and FASB) decided to defer lessor accounting and to focus on lessee accounting only, thus revising the initial project objective of reconsidering all aspects of lease accounting.

This decision leads to a number of significant issues, particularly for the many firms who are simultaneously lessees and lessors, as several models for lease accounting would co-exist for an unknown period of time. Consequently, Leaseurope was very much opposed to this decision, along with a number of other associations representing the leasing industry across the globe. Our concerns were set out in a letter sent to Sir David Tweedie, Chairman of the IASB, on 11 June 2008¹. However, we understand that, due to resource constraints and the need to achieve a new standard by the June 2011 deadline for convergence projects, the IASB deemed the postponing of lessor accounting to be unavoidable.

Nevertheless, as a result of IASB and FASB discussions held in January 2009 during which the FASB in particular appeared to call in doubt the previous decision to split lessee and lessor accounting, the leases discussion paper published on 19 March does contain a chapter on lessor accounting.

We would like to point out that this chapter does not present any analysis, preliminary views or indications on the direction lessor accounting would take. Instead it simply contains a "high level discussion" of some lessor issues and requests constituents' feedback. The IASB in particular has not publicly deliberated any of these issues. Consequently, in our view this last minute addition to the paper should not be taken as implying that lessor accounting has been duly considered by the IASB.

Moreover, at this point in time, it is highly uncertain as to how the IASB will proceed with respect to lessor accounting. January Board meetings and accompanying documents indicate that the FASB may work on developing a lessor model during the comment period to the existing discussion paper. The discussion paper indicates that the IASB will decide on the timing of any new standard for lessors after publication of the discussion paper. There is therefore a distinct possibility that a lessor accounting model may be included in an IASB exposure draft phase without any preliminary public consultation in the form of a discussion paper.

Lessor accounting is an extremely complex issue with major ramifications for leasing firms. The issue is further complicated by links to other ongoing IASB projects such as revenue recognition. It is therefore essential that lessor accounting is fully analysed and deliberated by the IASB, that the IASB's constituents are appropriately consulted and that the same due process steps that have been followed for lessee accounting apply to lessor accounting too. The current revenue recognition discussion paper does not afford this opportunity for consultation, as leases are specifically excluded from its scope².

In other words, Leaseurope is of the opinion that a comprehensive discussion paper phase cannot be avoided for lessor accounting. If a discussion paper fully covering lessor accounting issues is not produced, we would take the view that the IASB will not have fully respected their original due process commitments with the very possible consequence of the Board not achieving an improved, high quality financial reporting standard for leasing. Although the European leasing industry maintains that it would be preferable to consider the leases issue in its entirety as originally announced by the IASB, the addition of a poor quality, quick-fix for lessor accounting to the future lessee standard examined in the Discussion Paper would not in our opinion be a viable solution.

¹ A copy of this letter can be found in attachment

² Preliminary Views on Revenue Recognition in Contracts with Customers, §S11(c)

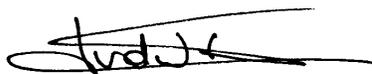
Additionally, we wish to highlight that during a recent survey of IASB working groups by the Trustees' Due Process Oversight Committee, the leases working group consistently responded with negative comments on the functioning and usefulness of the group. In particular, of all the existing IASB working groups, the leases working group stood out as being the most critical with respect to the frequency of meetings, the suitability of discussions and the consideration given by the Board and staff to the group's input.

The creation of this group at the start of the leases project was very much welcomed by the European leasing industry as a signal of the Board's willingness to engage with stakeholders to improve financial reporting for leases. However, it is now apparent that its functioning has not been effective. In particular we note that, to our knowledge, the group has not been involved in any discussions relating to lessor accounting, neither on the technical aspects of the issue, nor on the implications of including or excluding lessor accounting from the leases project. This is clearly a missed opportunity for the IASB and FASB.

Going forward, we encourage the Trustees to ensure that the IASB appropriately considers lessor accounting following the due process that is expected of such a body and that a more effective use is made of the leases working group.

Given the significant share of investment that the European leasing the industry is responsible for, it is essential that proper process is followed when developing a new lease accounting treatment to ensure that this key form of finance is not compromised in any way. This is particularly important in today's economic environment where many businesses are struggling to find finance. Leasing is often a viable alternative source of funds for these companies. Leaseurope wishes to reiterate its commitment to assisting the IASB in achieving their objective of producing a high quality leases standard and we are at your disposal for any further queries you may have.

Yours faithfully,



Tanguy van de Werve
LEASEUROPE DIRECTOR GENERAL



Mark Venus
CHAIR, LEASEUROPE ACCOUNTING COMMITTEE

Copy to:

Sir David Tweedie, Chairman, IASB
Rachel Knubley, IASB Senior Project Manager
Pervanche Berès, Chairwoman, ECON Committee, European Parliament
Stig Enevoldsen, Chairman, EFRAG
Jörgen Holmquist, Director General, DG Markt, European Commission

Attachment:

Letter to IASB Chairman, Sir David Tweedie, 11 June 2008 – Lessor Accounting



Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

By email

Brussels, 11 June, 2008

Dear Sir David,

Leaseurope is the voice of leasing and automotive rental in Europe. In 2007, the firms represented through our 46 Member Associations in 34 countries across Europe granted new leasing business worth in excess of 340 billion euros, making the European leasing market the largest in the world. Together, these companies finance just under 20% of all European investment¹ and 28% of all European investment in moveable goods.

We are writing to you following the IASB's April discussions on the status of the Memorandum of Understanding (MoU) between the IASB and FASB during which proposals for the 2008 MoU were considered, including plans for the lease accounting project.

During this meeting, we understand that the IASB tentatively decided that in order to meet a June 2011 deadline, it would be necessary to proceed on the issue of accounting for lessees separately from accounting for lessors.

The European leasing industry strongly opposes this recommendation which fails to recognise the realities of the leasing business. While we understand that the IASB wishes to prioritise its areas of work in order to make progress on MoU projects, this cannot be done at any cost and such a course of action will have serious repercussions on the European (and international) leasing industry. In other words, while convergence between IFRS and US GAAP is an objective that the European leasing industry supports, it should not imply a quick fix of only one side of a transaction that can only be understood as a whole and of what is, as a whole, a fundamental accounting issue.

The reasons given for working on lessee accounting separately from lessor accounting are that the lessee part of the existing leasing standard presents "serious deficiencies" and that lessor accounting appears to be a "relatively low priority for investors and some Board members"². We address these issues on the next page.

¹ Average European leasing penetration rate. Investment figures are gross fixed capital formation, excluding investment in private dwellings taken from Eurostat. Based on data for 2006.

² Observer notes – agenda paper 3, 21 April IASB/FASB meeting

i) Serious deficiencies with today's lessee accounting

While IASB has currently concluded that assets and liabilities are not recognised under IAS 17 in accordance with their conceptual framework definitions, our members are of the opinion that the existing standard has undeniable merits in that it recognises the fact that different kinds of leasing products exist. Moreover, once the classification decision has been made, the rules are, for the most part, clear to apply.

ii) Lessor accounting of relatively low priority for investors and Board members

With lessor accounting appearing to be less of a priority for some Board members, it should be made clear that for the leasing industry it is obviously at least as important as lessee accounting. Indeed, current lessor accounting itself has a number of flaws that European lessors would like to see addressed. Moreover, the IASB writes accounting standards in such a way as to ensure that financial reporting provides the necessary information to all categories of users. This includes not only investors but also lenders, creditors, debtors, employees, public authorities and the general public. Their needs must be duly taken into account along with those of investors. Accounting standards cannot be aimed at solely one set of users. Furthermore, the costs for lessees as preparers of accounts must be kept in mind. Decisions on any changes to standard must take into account a cost/benefit analysis in terms of comparing the gain in useful information for users and the burden for preparers. Accounting standards should not become so complex that they will discourage the use of a product that has economic value.

We therefore disagree entirely with these arguments for dividing the leases project and take the view that a better conceived, fundamental review of lease accounting is necessary and should not be neglected.

As you have already received a number of letters from other leasing associations, including the US Equipment Leasing and Finance Association (ELFA), the UK Finance and Leasing Association (FLA) and the Canadian Finance and Leasing Association (CFLA) setting out the disadvantages of separating lessee and lessor accounting, we will simply recall in this letter that such a separation would lead to asymmetric accounting treatment for the industry and for an unknown period of time, generating confusion and uncertainty. Many lessors are also lessees (for instance financial institutions or those with certain vendor programmes) and would have to manage parallel accounting treatments for the same products. Moreover, the analysis of who has the right to use asset (and the corresponding obligations) under a lease cannot be considered in isolation from the point of view of only one party to the transaction. There is also likely to be significant double counting of the same asset. For instance this would be the case if a right of use asset were to be recognised by the lessee (whereas they are not today) with the lessor also recognising a tangible asset. This clearly does not reflect economic reality.

In short, the European industry very much fears that accounting for leasing will no longer be understood by users, with the exception of the most sophisticated investors. This is likely to have a knock on effect on the leasing business as lessees may shy away from using a product for which accounting treatment is difficult irrespectively of the product's undeniable economic and financial merits.

The European leasing industry also wishes to draw the IASB's attention to the fact that at a certain point any changes brought about to full IFRS standards will be relayed into IFRS for SMEs. It is unrealistic to expect "non publicly accountable entities", a term which covers an entire spectrum of entities of varying degrees of size and sophistication, to be able to deal with such a situation regarding lease accounting. Under no circumstances should a leasing standard applicable only to lessee accounting be made available in the SME book.

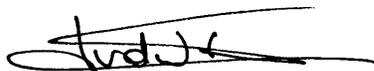
Although we fully understand that the IASB is not responsible for local GAAP, its work has an undeniable impact on national standard setters. This is particularly important in a European context where IFRS application is obligatory for listed companies and where we witness a spill over of IFRS rules into local standards. A convoluted international leasing standard will lead to major uncertainty on local level. This is clearly not desirable from the leasing industry's point of view.

As a further comment, we would like to stress that, regardless of the approach taken by the IASB to modify lease accounting, all previously announced due process steps for the project, including the publication of a discussion paper providing a comprehensive overview of the issue, should be respected. We would also request that the IASB allow for a sufficiently long consultation period between the various steps of its due process. This is of particular importance to the European leasing industry as it can take longer to reach consensus between a number associations operating in varying legal and taxation frameworks than for those associations focusing on a particular market. Nevertheless, the benefits of having a high quality, European industry level reaction to the standard should outweigh any such disadvantages and it is paramount the voice of the largest leasing industry be adequately taken into account in the process.

In the context of the consultation process, we would also recommend that the IASB and FASB make better and more extensive use of the Joint Leases Working Group set up to act as a sounding board on the leasing project. As you know, the group has met only once since its creation in December 2006. The input of the various lessees, lessors, analysts and other experts on the group can only be beneficial to the Boards' work, ultimately contributing to a better final standard for all users.

We remain at your disposal for any queries you may have and look forward to the next Board deliberations on leasing in June. The European leasing industry intends to address further comments to the IASB on the project approach, including the more technical aspects of lease accounting, following this June meeting.

Yours sincerely,



Tanguy van de Werve
LEASEUROPE DIRECTOR GENERAL



Dr Thomas Schröer
CHAIR, LEASEUROPE ACCOUNTING COMMITTEE

Copy to:

Pervanche Berès, Chairwoman, ECON Committee, European Parliament
Stig Enevoldsen, Chairman, EFRAG
Jörgen Holmquist, Director General, DG Markt, European Commission