The Voice of Leasing and Automotive Rental in Europe

European Commission
DG Internal Market
Unit G1 – Consultation on Financial Supervision

By email: MARKT-G1@ec.europa.eu

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**Re: Leaseurope comments on the de Larosière report**

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. These leases were used to finance equipment, vehicles and real estate throughout Europe and Leaseurope estimates that leasing was responsible for financing on average around 27% of all European investment excluding real estate[1].

The above figures clearly show that leasing makes a considerable contribution to the European economy by providing businesses with finance for their investment needs. In particular, a significant share of Europe's SMEs use leasing as a source of external funds. One survey estimates that within the EU, 39% of all SMEs make use of leasing[2].

Following the publication of the de Larosière report and the European Commission's ensuing consultation, Leaseurope wishes to express its support for and draw the Commission's attention to a particular recommendation of the de Larosière Group for correcting regulatory weakness.

The recommendation we are referring to is recommendation 4 where the de Larosière Group highlights that "**accounting standards should not bias business models, promote pro-cyclical behaviour or discourage long-term investment**".

In this context we wish to draw attention to a recent discussion paper published by the IASB that proposes a new model for lessee accounting[3]. This new approach for lease accounting will require, inter alia, lessees to recognise an asset for their right to use the leased item that includes rights under optional lease periods. Under current standards, leases considered as operating leases do not generate assets on the lessee's balance sheet. Instead, information on these contracts is included in the notes of the financial statements.

Many straightforward leases contain options providing the lessee with the flexibility to extend the lease beyond an initial term. As a result of the new proposals, lessees will have to estimate their most likely lease term from the outset of the contract. This term could be either the initial term or another, longer term including the optional period.

[1] In 2007
[2] Exco Grant & Thorton Survey of SMEs (2001). In comparison, the survey estimates that 46% of SMEs in the EU use bank loans.
[3] Discussion Paper DP/2009/1 "Leases : Prelmininary Views", IASB, 19 March 2009

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Moreover, lessees will be required to reassess these decisions at each reporting date, generating movements in asset and liability values. These requirements will not only be costly for preparers of accounts, they will also result in financial statements that are increasingly volatile and pro-cyclical as lessees are likely to be optimistic about their renewal intentions in good times and more prudent during phases of weaker economic conditions.

At a time when the European regulatory community is considering the implications of mark-to-market principles and the resulting volatility and pro-cyclicality of financial statements, Leaseurope takes the view that any new proposals for accounting standards that are likely to produce or reinforce such effects should be avoided and that alternative solutions should be considered, in line with the de Larosière report's recommendation for wider reflection in this field.

We also wish to point out that, as they will have more assets on their balance sheets under the new approach, firms who make use of leasing may need to hold additional capital against these assets. Given the current economic climate and the fact that capital is in short supply, the impact of the proposed changes on business activities is likely to be significant. For instance, for lessees operating in regulated industries such as banking, the impact on capital ratios should not be underestimated.

Moreover, the European leasing industry has significant concerns that the approach adopted by the IASB in their discussion paper will be unnecessarily complex. Its costs are likely to be disproportionate to the gains for the users of accounts and it may very well obscure the true economic benefits that leasing offers. This is particularly important in the current economic climate where many businesses are struggling to find financing. Leasing can often be a viable alternative source of funds for these companies.

Given that leasing is responsible for a significant share of European investment, Leaseurope considers that any new accounting standard that would result in hampering businesses' access to finance and therefore their ability to invest should be avoided. Not only would this be contrary to the de Larosière Group's recommendation that accounting standards should not discourage long term investment, it could also be extremely harmful for the European economy at this stage.

Leaseurope remains at the Commission's disposal to discuss these points further. The European leasing industry's preliminary views on the new proposals can be consulted on our website www.leaseurope.org. Please do not hesitate to contact us or Jacqueline Mills (j.mills@leaseurope.org, +32 2 778 05 66) if you require any further information on the issues raised in this letter.

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