

**FOR IMMEDIATE RELEASE**

**New survey shows that European business considers costs associated with the IASB's new lease accounting proposals outweigh their benefits**

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**Brussels, 8 October 2010** – On 17 August 2010, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) released a draft standard setting out how businesses should account for their lease and rental transactions.

Leaseurope, the body representing the leasing industry at European level, has repeatedly warned that the proposals, which contain complex requirements that are very different to the existing accounting for leases, will have huge impacts on businesses. A new survey of around 125 European IFRS preparers, conducted by pwc in cooperation with the Erasmus University (NL), confirms that this will effectively be the case.

Leverage, interest coverage and other metrics such as EBITDA and EBIT are cited by respondents to the survey as being amongst the most significantly affected. The study also highlights that the proposals are likely to lead to a decrease in businesses' net earnings. In addition to financial statement impacts, responding firms expect to have to adapt their budgeting, IT systems and business and finance processes, amongst others, to be able to meet the new requirements and the vast majority do not have the information or resources required to do so. The costs involved in preparing for this new standard and implementing it on an ongoing basis are therefore likely to be significant.

When making an overall assessment of the proposals, more than 70% of respondents consider that the costs of implementing the requirements in their current form would outweigh any benefits they might bring in terms of improved information for the users of accounts. The study also pinpoints two particular areas of the proposals, accounting for lease renewal options and rentals payments based on a variable factor (known as contingent rentals), as being amongst the main source of complexity for preparers of accounts.

"It's very difficult to understand how standard setters can claim that the benefits of this proposed standard outweigh the costs involved", comments Rüdiger von Fölkersamb (Deutsche Leasing), Chairman of Leaseurope. "This pwc survey clearly demonstrates the contrary, that preparers will in fact be faced with an unjustifiable burden if the proposals are not dramatically simplified".

Mark Venus (BNP Paribas), Chair of Leaseurope's Accounting Committee adds that "while companies with property leases will see the largest impacts on their financial statements, let's not forget that many businesses have tens of thousands of smaller contracts providing them with the ability to use basic IT & office equipment, cars and the like, spread throughout their operations. The efforts involved in identifying these low-value contracts and collating the necessary data to report under the new requirements will be tremendous. With the average equipment lease contract in Europe being worth just EUR 27,000, companies preparing accounts under IFRS will surely be wondering whether changes to accounting that are this far reaching are worthwhile at all. "

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## Notes to the editors

### *About the pwc/Erasmus University Study*

The survey, entitled “Are you ready for the new lease standard? Preparers’ Views on new Lessee Accounting: European Impact Survey 2010” was conducted by pwc in cooperation with the Rotterdam School of Management, Erasmus University, The Netherlands and with the support of Leaseurope. The report examines the views of approximately 125 respondents from 21 European countries and various industry sectors on the proposed changes to international lease accounting.

The report and contact details of the authors are available from:  
<http://www.pwc.com/nl/nl/publicaties/european-impact-survey-2010.jhtml>

### *What are the new proposals for lessees?*

The proposals, issued on 17 August by the IASB and FASB, adopt an approach to accounting for lessees, known as the right of use model, that differs substantially from today’s standard. Under the right of use model, a lessee would *always* recognise an asset, the right to use the leased item, and a corresponding liability on its balance sheet. Under the current standard, a lessee recognises the leased asset only under so-called finance leases but discloses its commitments under other leases (operating leases) in the notes of its accounts.

The proposals are available from the IASB’s website at:  
<http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/ed10/Ed.htm>

### *What makes this so complex?*

The new accounting approach involves several additional changes to “simply” requiring that more assets and liabilities are shown on the balance sheet. Lessees will have to make complex probability assessments related to their lease terms and lease payments and will have to reassess these estimates at each reporting date. Instead of deciding whether a lease is a finance lease or an operating lease, firms will now be faced with complex judgement calls when determining whether they have a lease contract or a service contract.

### *What are the impacts likely to be?*

Businesses will see an increase in their leverage under the new proposals, possibly triggering existing debt covenants. Those operating in regulated industries, such as the banking sector, may be faced with higher capital requirements. Income statements will also be affected, with lease costs appearing to be higher in the earlier years of lease due to the accounting methods being proposed. Lessees are likely to experience a general increase in costs due to the significant changes in IT systems and internal processes and controls that will be engendered by the new proposals.

### *How important is leasing in Europe?*

In 2009, European leasing companies represented through the member associations of Leaseurope granted new leasing volumes worth in excess of EUR 209 billion. These leases were used to finance various types of equipment, vehicles and real estate throughout Europe. Leaseurope estimates that in 2009, the European leasing industry financed just under 20% of all new European investments (excluding real estate)<sup>1</sup>. A significant share of Europe’s SMEs, the backbone of the European economy, use leasing as a source of external funds. It has been estimated that 51% of European SMEs have made use of leasing or rental<sup>2</sup>.

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<sup>1</sup> Leaseurope leasing penetration rate estimate based on total new leasing volumes reported in Leaseurope’s 2009 Annual Survey, divided by total investment, excluding real estate, for the 23 countries and 30 members for which this data was available in the 2009 survey

<sup>2</sup> SME Access to Finance, Flash Eurobarometer 174, TNS Sofres/EOS Gallup for the European Commission, October 2005

Of the more than 5 million individual lease contracts granted by European leasing firms in 2009, 99% were granted to finance various types of equipment and vehicles, and the average lease contract, excluding real estate leases, was just above EUR 27,000<sup>3</sup>.

### *Why do businesses lease?*

In their many forms, leasing and rental are used by almost all businesses at some point in time. Leasing and rental products are easy to set up and offer a unique set of benefits to businesses. These include the possibility to finance the entire purchase price of an asset, use assets in a flexible manner without bearing the risks associated with ownership, manage working capital efficiently and simplify budgeting exercises. Additionally, leasing and rental products often include a range of associated services (such as insurance and maintenance) that effectively allow the user to outsource all of its asset-related needs to the lessor.

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### **About Leaseurope**

As a Federation, Leaseurope brings together 45 associations throughout Europe representing either the leasing, long term and/or short term automotive rental industries. The scope of products covered by Leaseurope's members ranges from hire purchase and finance leases to operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks. More information on Leaseurope and its members can be found at [www.leaseurope.org](http://www.leaseurope.org).

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<sup>3</sup> Source: Leaseurope's Annual Survey of European Leasing 2009