

**FOR IMMEDIATE RELEASE**

**Quality must take precedence over speed: Leaseurope calls on IASB and FASB to re-expose their proposals for a new lease accounting standard**

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**Brussels, 21 December 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 issued its comment letter on the Boards' proposals in which it expresses concerns on the need to completely overhaul existing lease accounting and the relative costs and benefits of the proposals.

Leaseurope is of the opinion that the new standard, which contains extremely complex and subjective accounting requirements, will have significant impacts on businesses. Paradoxically, it may fail to provide the users of financial statements (such as investors, analysts, credit rating agencies and lenders) with a real improvement in financial information compared to the current accounting for leases. Concerns surrounding the burdens of the proposals have been confirmed by a recent survey of European preparers of accounts<sup>1</sup> where around three quarters of participating companies report that the costs of the new standard outweigh its benefits.

Currently, leasing accounts for approximately 20% of all European equipment investment and is often the only available source of financing for businesses like SMEs or startups. It is also a simple solution for companies to obtain flexible access to the assets they need to do business. Beyond the accounting and operational complexity that will be generated, there may therefore also be wider economic consequences should leasing become less readily accessible for businesses as a result of the proposals.

In its comment letter to the Boards, Leaseurope has also highlighted a number of significant conceptual and technical flaws with the proposals. Among these, one of the most fundamental issues that has yet to be resolved is what the definition of a lease contract actually is. The association is also concerned that the conceptual premise of the basic model for lessees, known as the right of use approach, has not been applied consistently throughout the proposals, and notably to the accounting from the perspective of lessors. These views have been echoed in a joint statement issued today by international leasing industry associations representing approximately 90% of the global leasing market.

Chairman of Leaseurope's Accounting Committee, Mark Venus (BNP Paribas), notes that "we are at a turning point in the standard setting process. The level of comment has been exceptionally high and by now the Boards should be fully aware of the extent of reasoned criticism of their proposals. How the project progresses going forward will depend on the diligence with which they take on board the reactions and alternatives provided to them by their constituents. We trust that these views will be appropriately integrated into their upcoming discussions and re-deliberations on the future lease accounting framework."

Tanguy van de Werve, Leaseurope's Director General, adds that "given the number of major issues that still need to be worked through and the disproportionate nature of the current proposals, Leaseurope is of the opinion that Boards are not close enough to a high quality standard to be able to respect their June 2011 deadline. We are therefore calling on the IASB and FASB to modify and re-expose their proposals for lease accounting. While accepting that this will imply a delay to the process, we believe it to be essential if the Boards are to reach their objective of an improved and converged international accounting standard for leases. Quality must take precedence over speed."

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<sup>1</sup> ["Are you ready for the new leases standard? Preparers' Views on new Lease Accounting: European Impact Survey 2010"](#), PWC Accounting & Valuation Advisory Services

## **Notes to the editors**

### ***How can I access the comment letters?***

Leaseurope's comment letter on the IASB/FASB Exposure Draft is available at <http://www.leaseurope.org/uploads/documents/positions/pp101215.pdf>.

The global leasing industry associations' statement, reflecting the key concerns of the US Equipment Leasing and Finance Association (ELFA), Leaseurope (the European leasing and automotive rental federation), the Japanese Leasing Association (JLA), the China Leasing Business Association (CLBA), the Canadian Finance and Leasing Association (CFLA), the Australian Equipment Lessors Association (AELA), the Australian Fleet Lessors Association (AFLA) and the Truck Renting and Leasing Association (TRALA) can be consulted at:

<http://www.leaseurope.org/uploads/documents/positions/pp101221.pdf>

Both of these papers will be available shortly on the IASB's website: [www.ifrs.org](http://www.ifrs.org).

### ***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, which 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>2</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>3</sup>

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>4</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>2</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>3</sup> SME Access to Finance, Flash Eurobarometer 174, TNS Sofres/EOS Gallup for the European Commission, October 2005

<sup>4</sup> Source: Leaseurope's Annual Survey of European Leasing 2009