



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 investment<sup>1</sup> 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"<sup>2</sup>. We address these issues on the next page.

<sup>1</sup> 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.

<sup>2</sup> 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.

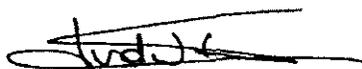
Although we fully understand that the IASB is not responsible for local GAAP, its work has an undeniable impact on national standard setters. This is particularly important in a European context where IFRS application is obligatory for listed companies and where we witness a spill over of IFRS rules 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:

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