1850-100 Comment Letter No. 117

## **Hitachi Capital**

## Hitachi Capital (UK) PLC

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## Hitachi Capital (UK) PLC response to the IASB/FASB leases exposure draft

Hitachi Capital (UK) PLC [HCUK] is part of one of the world's largest corporations, a wholly owned subsidiary of Hitachi Capital Corporation, one of Japan's largest non-bank financial institutions. As part of a wider financial services offering, HCUK finances, via lease arrangements, the purchase of vehicles and specialist business equipment. At the balance sheet date of 31<sup>st</sup> March 2010, operating leased assets and finance lease/HP receivables totalled £530m, total assets amounted to £1,473m and total turnover in the year to 31<sup>st</sup> March 2010 was £238m.

HCUK, as a lessor, has a number of key concerns regarding the leases exposure draft, summarised as follows:

- 1. The costs of the proposals would outweigh its potential benefits. The complex nature of the proposals would lead to onerous processes and, as a consequence, significant system development to meet the financial reporting requirements set out in the exposure draft. Moreover, there appears to be little evidence that financial reporting would be improved as a result.
- 2. The requirement to make ongoing complex estimations and assumptions regarding lease terms and rental payments would create financial statements of a subjective nature rather than providing a true and fair view. This would also further increase the costs and would be unlikely to provide users of accounts with better information. Lessors, as well as lessees, would be required to recognise assets and liabilities that they do not have.
- 3. The balance sheet measurement appears to be overly burdensome, particularly for leases of small value and/or short term, e.g. car leases. Whilst the asset would be written down on a straight line basis over the life of the lease, the liability would be accounted for on an actuarial basis over the same period. This would provide additional complexity to the preparer but would be of little value to the user of the accounts.
- 4. The commercial benefits of leasing would be reduced. With the proposal to bring all leases onto the balance sheet, lessees' banking/loan covenants may be impacted thereby restricting the use of leases as a financing option.

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