

International Accounting Standards Board Cannon Street 30 London EC4M 6XH United Kingdom

Date : December 7th 2010

Our reference: 399359

Subject : IFRS Exposure Draft Leases

Dear Members of the International Accounting Standards Board,

We would like to avail ourselves of the opportunity you offered to respond to your Exposure Draft Leases.

The Association of Dutch Car Leasing Companies (VNA) represents almost 90% of all cars and vans leased in the Netherlands. Its 80 members manage a total fleet of approximately 630,000 vehicles and purchase new cars for almost five billion Euros every year. The Dutch car leasing market has a turnover of almost eight billion Euros; that makes car leasing a significant industry by local standards.

The VNA recognizes your objections to the present IAS17 accounting standard, these being:

- 1. Many lease contracts include rights and obligations that meet the definition of an asset. For that reason, the assets arising from the lease contract should go onto the balance sheet of the lessee.
- 2. There is a lack of comparability, partly because similar contracts are treated differently.
- 3. There is undue complexity because of the bright line distinction between operating and finance leases.

With the exception of the first point above, the VNA strongly feels that the proposals fail to eliminate these objections. What is more, the VNA finds that the objections mentioned under 2 and 3 are in fact exacerbated in these proposals. Therefore, in our view the proposals in this Exposure Draft do not meet the target. We see an increasing lack of clarity, for example, in the distinction between a service contract and a lease contract and the subjectivity in estimating contingent options.

We would much prefer to see the existing IAS 17 c.a. standard adapted and improved to eliminate all the objections mentioned above.

Otherwise, we share the concerns expressed in the draft comment letters of - among others - EFRAG and Leaseurope on the Exposure Draft Leases as it stands at the moment. In that context, we would like to bring the following comments to your attention.

As regards lessee accounting, we argue for a linked approach, whereby the valuation of the asset
is similar to the valuation of the liability item. The lessee should in our opinion be able to depreciate
both the asset and the liability on an annuity basis and only have to carry out a reassessment when
it involves significant changes. In this respect we note that de-linking would increase the complexity
of lease accounting for lessees.



Page: 2

Our ref.: 399359

Date: December 7th 2010

As regards lessor accounting, we do not support a hybrid model of both the performance obligation
model and the derecognition model. Introducing two new models would in our view create similar
issues as currently is the case in making the distinction between operating lease and finance lease
in IAS 17, precisely the difference the IASB wants to eliminate. For that reason, we argue that
lessors should have to apply the (partial) derecognition model to all leases including the so-called
in-substance sales, which are currently out of scope. In addition, lessors should be allowed to
accrue the residual value during the term of the contract for the purpose of realizing a constant
return over the term of the contract.

- We do not regard the simplification proposed in the Exposure Draft Leases for short-term leases as an appropriate measure. Partly on account of the lack of materiality in many cases, we would like to see leases with a duration of no longer than 12 months excluded completely from the scope.
- As regards the transition to the new standard, the Exposure Draft Leases proposes applying a simplified (retrospective) model. We can understand this approach for long-term contracts. However, for car leasing, a full retrospective approach could provide a better reflection of the economic reality of the lease portfolio. We therefore argue for inclusion of an option for full retrospective application.
- As regards the Derecognition Model we argue to accrue the residual value during the term of the contract. According to the Exposure Draft the initial valuation of the residual value is based on the present value, but is not to be accrued during the term of the contract, whereas the related cost of fund is recognized over the life time of the contract. As a consequence, part of the result on the lease contract is deferred until the derecognition of the underlying asset. Given the fact that residual values are significant in the car lease industry, this will have a significant impact on the net results during the lease term.
- Finally, we would point out that our members expect to need about nine months for implementation since the supporting systems most likely need to be changed up to the level of (automatic) journal entries and the gathering of data required for disclosures. Most likely this will be more cumbersome for the Performance Obligation model as compared to the Derecognition Model.
 Assuming that the European Commission endorses this standard at the end of 2011 at the latest, our members cannot be completely ready to present comparative figures for 2013 before January 2013. Therefore, in our view January 1, 2014 is the earliest possible date for the new standard to come into effect.

We trust we have been of service to you with this reaction and will be happy to explain it in more detail.

Yours Faithful, Vereniging van Nederlandse Autoleasemaatschappijen (VNA)

Renate Hemerik managing director

Attachment: Our Answers To Your Questions in the Exposure Draft Leases



Page: 3 Our ref.: 39

Our ref.: 399359
Date: December 7th 2010

OUR ANSWERS TO YOUR QUESTIONS IN THE EXPOSURE DRAFT LEASES

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

REPLY: Yes, a lessee must do that, especially because a lease contract entails obligations and they need to be immediately visible in the financial balance sheet. Recognition of the right-of-use asset is mirroring the obligation entered into.

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

REPLY: Yes, as the period of use progresses and payments have taken place, the remaining liability reduces. The value of the right of use also declines, but can be influenced by factors other than the course of the contract period, so this value can differ from the obligations recognized as liabilities. Such variance is justified if there are significant changes. In our opinion however, the general rule needs to be a linked approach, whereby the lessee should be allowed to amortize on an annuity basis.

Question 2: Lessors

(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

REPLY: No, as regards lessor accounting, we do not support a hybrid model of both the performance obligation model and the derecognition model. Introducing two new models would in our view create similar issues as currently is the case in making the distinction between operating lease and finance lease in IAS 17, precisely the difference the IASB wants to eliminate.

In addition, the application of the performance obligation approach creates unjustified double-counting on the balance sheet; the lease receivable is a substitute for the asset and the asset should then also be reduced by the value of the receivable.

For these reasons, we argue that lessors should have to apply the (partial) derecognition model to all leases including the so-called in-substance sales, which are currently out of scope. In addition, lessors should be allowed to accrue the residual value during the term of the contract for the purpose of realizing a constant return over the term of the contract.

According to the Exposure Draft the initial valuation of the residual value is based on the present value, but is not to be accrued during the term of the contract, whereas the related cost of fund is recognized over the life time of the contract. As a consequence, part of the result on the lease contract is deferred until the derecognition of the underlying asset. Given the fact that residual values are significant in the car lease industry, this will have a significant impact on the net results during the lease term. For that reason, we argue for the possibility to accrue the present value of the residual value on the balance sheet in the case of the derecognition model.



Page: 4

Our ref.: 399359

Date: December 7th 2010

(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

REPLY: The performance obligation approach deviates from the basic principles of treating assets in the financial statements and causes an undesirable difference in the implementation rules for leasing and loan agreements. As mentioned in our answer to Question 1 in our view, only the derecognition model should be applied.

Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

- (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in profit or loss over the lease term (paragraph 64).
- (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in profit or loss, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other IFRSs and would recognize lease payments in profit or loss over the lease term (paragraph 65). (See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

REPLY: No, the VNA does not believe that these reduced requirements will bring significant relief to the IFRS lessee for short-term rental agreements. The VNA argues for exclusion of these agreements from the obligation to be capitalized, either by the lessee or by the lessor.

Question 4

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

REPLY: No, we think the distinction between a service contract and a lease contract is not clear enough. We had hoped this Leases standard to resolve the lack of clarity in IFRIC4. Unfortunately this new concept standard does not specifically address this topic.

(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

REPLY: No, we see an undesirable difference from the criteria in the Revenue Recognition Exposure Draft (IAS18) of earlier this year. We suggest to also include the contracts that represent a purchase or a sale as part of the Derecognition Model in order to ensure a consistent application for leases and to avoid "bright-line" discussions.

(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

REPLY: No, this is insufficient. More detailed rules and definitions about services are needed.



Page: 5

Our ref.: 399359

Date: December 7th 2010

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

REPLY: No, we do not agree. The VNA does not see why the proposed exceptions are valid for exemption from this ruling whilst plain vanilla leases, such as car leasing, are not. In the conviction of the VNA, the sole argument for adjusting the existing IAS 17 (as set out in the accompanying letter) does indeed still apply to 'big ticket' leasing. For 'small tickets' we see too much complexity, subjectivity and lacking clarity.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

REPLY: No, taking account in the measurement and estimate of the actual end of the term, including accounting for extension or termination options thereby, brings a great deal of subjectivity into the valuation and measurement. We argue for using the agreed term of the contract at inception. Only if actual contractual adjustments become apparent in the meantime does this in our opinion require an adjustment of the measurement.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not?

If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

REPLY: No, in the extension of our reply to question 8, we comment that your proposals are in conflict with your aim for clarity. In the Exposure Draft rather more than less subjectivity is introduced. We argue for keeping options out of the proposals. And if they do have to be accounted for, then only if they are significant and satisfy clear delineation rules.



Page: 6 Our ref.: 399359

Date: December 7th 2010

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not?

If not, what other basis would you propose for reassessment and why?

REPLY: We agree, but would like to emphasize that there must be a significant, contractual change before having to re-measure the obligation or the right.

Question 12: Presentation - Statement of financial position

- (a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (b): Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?
- (d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

REPLY: Both a, b, c and d:

As stated before the VNA doesn't believe in a hybrid model for lessor accounting. We strongly suggest to apply only the derecognition approach.

Under the circumstances that a performance obligation approach would finally still be allowed we really believe the double counting of the lease asset should be netted on the debit side of the balance sheets itself. Under no condition it is acceptable that one lease asset should be double counted and negative influences the solvability ratio's and others.

Question 16

(a) The exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186– BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

REPLY: We agree that, for very long-term contracts, it would be good to be able to apply a simplified, retrospective regime. But that should not be the only option.

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?



Page: 7

Our ref.: 399359

Date: December 7th 2010

REPLY: Yes, we argue for a choice: simple or full retrospective application. Precisely for those situations in which full retrospective treatment is possible and feasible, that possibility should be available at the discretion of the party involved.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

REPLY: We argue for an effective date not before 1 January 2014.

According to the VNA working group, companies need at least nine months for transition, starting from the date on which the standard is finalized. We regard the standard as final once the European Commission has endorsed the standard.

Only if the European Commission endorses the IFRS standard before the end of 2011 can IFRS entities be ready in January 2013 to present their comparative figures in the correct manner. January 1st 2014 would then be a feasible effective date.

Question 17

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not? Other comments?

REPLY: No, we are not convinced that the advantages justify the administrative costs. Car leasing distinguishes itself more by the services aspect than by the financing aspect. The car and van leasing contract is characterized by relatively low monthly installments and relatively high volumes. The number of kilometers driven with the leased item is a strongly fluctuating variable, which means that the lease obligations almost always have to be adjusted annually for each object. The periodic re-measurements of the lease portfolio based on these proposals are very labour-intensive. Lessees with fleets of some scope will need to spend a lot of time under the envisaged IFRS regime to periodic adjustments of the obligations.

Question 18

Do you have any other comments on the proposals?

REPLY: In the next few years, a range of IFRS standards will be implemented with significant impact, including Fair Value Measurement, Financial Instruments (IFRS 9), Revenue From Contracts With Customers, Insurance Contracts, Leases and Post-employment benefits (IAS 19). For that reason we have concerns about (i) the effects of all these changes on (an improvement of the transparency in) the balance sheet and (ii) whether the IFRS entities can provide sufficient quality in order to implement these things correctly.