CANADIAN FINANCE & LEASING ASSOCIATION
ASSOCIATION CANADIENNE DE FINANCEMENT ET DE LOCATION

September 13, 2013

Email: commentletters@iasb.org

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Exposure Draft on the Leases Project

Dear Sir,

The Canadian Finance & Leasing Association ('CFLA' or 'Association') is pleased to respond to the Exposure Draft, ED/2013/6 Leases (the 'ED').

The CFLA represents the asset-based financing, equipment and vehicle leasing industry in Canada. This industry is the largest provider of debt financing in Canada, after traditional lenders such as banks and credit unions providing funding for approximately $89 billion in total assets. We estimate that between 20% and 25% of business capital assets are acquired through asset-backed financing and leasing in Canada each year.

The CFLA's more than 200 company members range from large multinationals to national and smaller regional domestic companies, crossing the financial services spectrum from manufacturers' finance companies and independent leasing companies, to banks, insurance companies, and suppliers to the industry. Our members provide financing and leasing to Canadian small, medium and large businesses as well as consumers. A full list of members is attached.

As an Association, we assessed the ED proposals from the perspective of users of financial information as well as preparers of financial information. As users we are interested in the impact that the ED proposals will have on the quality and understandability of customer financial statements we use in assessing financial strength and credit risk

As preparers, we are interested in finding a framework that appropriately reflects the economics and essence of the leasing model and the long term viability of leasing, which has been a useful financing alternative for small to mid-market companies to obtain access to assets to meet their business needs.

We recognize the extensive effort that the standard setters have undertaken over the past 5+ years to develop a new approach to lease accounting; one that first and foremost more faithfully represents a lessee's financial position with respect to lease activity and one that provides users of financial statements with "a complete and understandable picture of an entity's leasing activities"[1.] We also recognize the political sensitivity and the need from a standard setter perspective to conclude this project.. That being said, we also believe that we ultimately need to "get to the right answer". It is clear from the extensive outreach activity conducted by the Boards there is little consensus across the user community with respect to the economics of lease transactions and the nature of the adjustments that are required to financial statements to adequately reflect those economics.

As a user of financial information we approach the exercise with a "debtor orientation". We regularly use financial statements in making credit decisions with respect to our lessees and are keenly interested in a framework that provides consistent, quality, decision-useful information. Of most importance / relevance to us in reviewing a set of financial statements is the ability to assess the capacity of the lessee to meet the contractual cash flow requirements underlying its lease obligations. This is entirely consistent with the stated objective in paragraph 3 of the proposed standard – "to establish the principles that lessees and

[1] Introduction to IASB Leases Exposure Draft ED/2013/06

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lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease". It is not clear to us, however that the standard as proposed, accomplishes that purpose. Complex measurement requirements, differences in the way different categories of leases or lease features are handled (short term leases, equipment vs property leases, non-lease components) and variations in outcome which cannot be readily identified and extracted would be considered to detract from the value of the information required from a credit adjudication perspective.

We have several concerns with respect to the practicality of implementing some of the proposed guidance as it is currently presented relating to the proposed model for lessee and lessor accounting. On an overall basis, it is our view that the proposals will introduce a level of cost, complexity and effort for all involved (lessees, lessors and users of financial statements) without a commensurate increase in the quality of the information provided.

On reviewing the Background Conclusions section, we see that many of our concerns are echoed in the comments provided in the Alternate Views section, particularly those provided by Thomas J. Linsmeier in paragraphs AV11 to AV13. We agree with his assessment that the requirements as proposed would in fact "hinder [rather than help] users' abilities to assess the amount, timing and uncertainty of the cash flows". We also agree with the observation made by Marc A. Seigel in paragraph AV39 that the proposed requirements will in fact "exacerbate the difficulty users will have in analyzing the lessee's financial position and performance".

Although we acknowledge that there are challenges with respect to the model and requirements currently outlined in IAS 17, we do not believe that the proposed approach will in fact provide sufficient benefit to the markets to warrant the added cost and effort that it will require. Companies enter into leasing product for a wide variety of purposes to achieve a wide variety of economic and business objectives. Leases take on many different forms, the economic substance of which is not in our view, equivalent to a financed purchase in all cases. Additional consultation and debate is required to devise a model that is conceptually sound and grounded in the conceptual framework; one that provides for internal consistency across a range of lease products without the need for arbitrary accommodations or simplifications (i.e. – short term lease 12month cut-off, difference in application of Type A vs Type B classification criteria to equipment vs property leases); one that is clear on what the nature and characteristics of the resulting assets and liabilities are (i.e. – tangible, intangible, financial); and one that is able to effectively articulate the connection between balance sheet recognition of assets / liabilities and the emergence pattern of related income and expense amounts.

Until such time as the IASB and the Financial Accounting Standards Board are able to resolve the inherent inconsistencies and challenges in the model as currently proposed, we believe that entities should continue to apply IAS 17 in its current form supplemented by the requirement for additional disclosures that would assist users of the financial statements in understanding key terms and associated cash flow amounts. The current IAS 17 model is well understood by both users and preparers of information and generally accommodates a range of different leasing products reasonably well. Although our members believe that IAS 17 currently provides sufficient disclosures to enable them to assess and manage risk in an informed and prudent manner, we did note that certain stakeholders expressed a need for additional information as part of the outreach process.

If you have any questions concerning our comments or would like to discuss any of these items further please do not hesitate to contact the undersigned.

Yours truly,

David Powell
President& Chief Executive Officer