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Sir David Tweedie,
Chairman
International Accounting Standards Board
First Floor,
30 Cannon Street
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LETTER OF COMMENT NO.

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12 May 2008

Dear Sir David,

THE REFORM OF LEASE ACCOUNTING

The UK Finance and Leasing Association (FLA) and British Vehicle Rental and Leasing Association (BVRLA) were glad to hear that at your joint meeting on 21/22 April the International Accounting Standards Board and the US Financial Accounting Standards Board decided on a mid-June 2011 deadline for the lease accounting project. The project is, as you know, of great interest to the UK industry, but is also causing considerable uncertainty. We are keen to see as rapid progress as possible, and a definite deadline is helpful.

I understand that the Boards will be considering in June how to re-define the project to ensure the 2011 deadline is achieved. We gather that one option is that the project would only consider lessee accounting, and leave lessor accounting to the revenue recognition project, on which no deadline has yet been set.

The FLA and BVRLA believe that this would have a number of serious disadvantages. First, the industry would have to deal with two parallel and differing leasing standards, one for its own accounts and financial reporting and the other for the customer's.

Second, it would have to do this for an unknown length of time. The current uncertainty for lessors would therefore continue, perhaps indefinitely. As you know, the leasing project has been underway for a very long time. We are disappointed at the slow progress since the project first appeared on the Boards' agendas in 2006. It is difficult to understand why lessor and lessee accounting cannot be handled together within the 2011 deadline.

Third, the interaction of two parallel standards is likely to give rise to opportunities for 'creative accounting', which we know the Boards, rightly, oppose.



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Finally, it is surely logical to consider lessor and lessee accounting together. A separation is artificial. It is very likely that decisions on lessee accounting would subsequently compel decisions on the lessor side that made little or no commercial sense. It could reduce the transparency of lessor accounts - again in conflict with the Boards' overall approach - simply because lessee accounting had previously been considered in isolation. And lessors are often also lessees, so they would be in the peculiar position of applying different lease accounting standards to the two activities.

In all the circumstances, we hope that you will decide not to separate lessor and lessee accounting.

Whatever the Boards' decision, we hope that you will also continue to ensure that the leasing industry is fully involved in consultations. In that context, it would be helpful if the Advisory Group could meet more frequently, so that it was able to make a more significant contribution.

Yours sincerely,
A handwritten signature in cursive script, appearing to read 'Stephen Sklaroff'.

Stephen Sklaroff
Director General
FLA

A handwritten signature in cursive script, appearing to read 'John Lewis'.

John Lewis
Director General
BVRLA