

## Nordea Finance Response

Document Title IASB Exposure Draft Leases  
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15 December 2010 Date  
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International Accounting Standards Board  
 30 Cannon Street  
 London EC4M 6XH  
 UK

Dear Sir/Madam,  
 Nordea Finance submits the following comments:

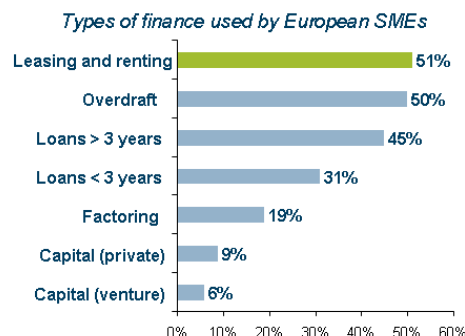
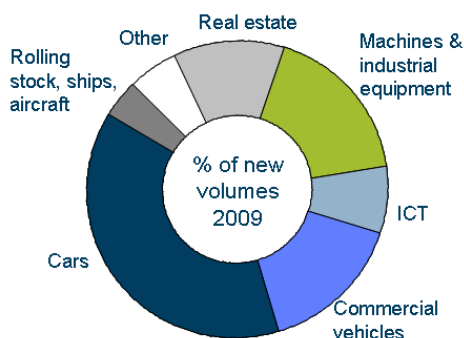
### 1 About Leasing in Europe

European Leasing industry is primarily small and medium size ticket leasing with high number of objects financed on the yearly basis with a low average value per deal. It's enabling over 20% of European fixed investments and being one of the main sources for the finance for the European SMEs. For many of these lessees leasing is the only way for financing their investments.

### Leasing in Europe

- €209 billion new leases granted in 2009
- More than 5 million individual contracts
- Average contract size of €27,000\*
- Types of assets leased:

- Industry responsible for financing 20% of all European equipment investment
- Crucial for business of all sizes to be able to access the assets they need:



\*Excluding real estate, if real estate is included, average of €35,000  
 Sources: Leaseurope 2009 Annual Survey of European Leasing and SME Access to Finance, Flash Eurobarometer, conducted by TNS Sofres/EOS Gallup Europe on behalf of the European Commission, 2005, covers EU15

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## **2 Nordea in Leasing**

Nordea as the biggest Nordic Banking group has presence in the Nordic and Baltic countries, Poland and Russia with the balance sheet of around 500bn€ Nordea Finance is a fully own subsidiary of Nordea.

Nordea Finance is the major Leasing company in this region with 14bn€ balance sheet and being number 12 in the Leaseurope ranking in the year 2009.

Nordea is also a property lessee for its premises and an equipment lessee of the IT equipment and a user of car fleet management services.

## **3 General Comments on the Exposure Draft**

### **3.1 Nature of the Leasing**

The ED does not recognise the nature of the leasing. The majority of leases are small ticket transactions that are in fact very different to the sophisticated, structured big ticket leases that are the focus of IASB's concern. Leasing is regarded as an easy, convenient and flexible tool for financing assets with low related costs. Its purpose is not to be a balance sheet restructuring instrument.

The outcome of the ED is a very complex accounting standard both for the lessees and lessors covering all types of leases that by their nature were not in the original focus of IASB leases project.

The simplest way to reach the original target would be done by improving principles and disclosures in IAS17.

### **3.2 Impacts on the Lessors**

The ED proposes inconsistent and complex accounting standards for the lessors with potential additional need for capital.

The proposed performance obligation model for lessors is inconsistent with the right of use model for lessees and does not reflect the economic reality of leases. Moreover, lessors are faced with 5 different methods for accounting for existing lease contracts creating unjustified complexity and reduced comparability as lessors of similar leases will have very different accounting.

The performance obligation approach could have substantial capital impacts for banks as lessors. Particularly considering the overall impact of the whole ongoing financial regulatory package (Basel III), this would have a significant impact on business activities and cost of lending.

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This complexity of the proposal increases operating costs of the lessors. This will also potentially lead to the higher lending cost for the lessees or even to the smaller supply of leasing if some lessors are withdrawing from the market. Especially SMEs will not be able to find cheaper alternative sources for funding and the use of asset as collateral.

### 3.3 Impacts on the Lessees

The ED proposes a complex accounting standard for the lessees and creates additional capital need for banks as lessees.

The complexity of the proposed standards increase administration cost for the lessees. This comes even with the simple financial leases for simple small equipment like copy machines, laptops, printers and cars. In the worst case administrative cost can be substantial part of the total cost of leasing.

As a consequence of requirement to hold more assets on balance sheets, lessees like banks, may be required to hold additional capital despite their risk profile remaining the same. Main impact will be in the property leases for the bank office premises. In the Basel III environment this will be an additional burden.

### 3.4 Impacts on the Economy

The proposed accounting standards will have a major impact on the lessors and lessees that could decrease the supply of finance and increase the cost of lending and the cost of using leasing. The complexity and inconsistency of the proposal do not increase the transparency or clarity of the lease accounting.

In the worst case this standard will lead to the substantial increases of administrative costs and increase of cost of lending. It will potentially also put more pressure to the capital needs of the financial sector. This will decrease the economic growth potential.

No cost/benefit analysis of the proposed accounting standard has been done. This analysis would ensure that the rules are appropriate and proportional to their purpose.

### 3.5 The Process

The ED doesn't provide a sufficient basis for moving forward before substantial improvements to the content have been made. The proposal suffers from too large number of conceptual flaws to be used as the basis for drawing up a final standard. The deadline June 2011 for publishing final standard should be postponed and new version of the ED should be sent out for comments after in-depth reassessment and simplification of proposals.

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