



European Association of Public Banks

– European Association of Public Banks and Funding Agencies AISBL –

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

15 December 2010

EAPB general comments on the IASB ED/2010/9 “Leases”

Dear Sir David,

The European Association of Public Banks welcomes the opportunity to comment on the current Leasing Accounting reform project. The European Association of Public Banks (EAPB) represents the interests of 35 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.

Our members are keen to have a single, efficient global leasing standard. Therefore we welcome the cooperation between the IASB and FASB to adopt the same standard concerning leasing. It is important to consider both, the lessor's and the lessee's perspective in order to properly assess the implications for leases and leasing transactions. Nevertheless, a specific Discussion paper on lessor accounting would have been helpful. Moreover, our member institutions feel that the Board failed to take into consideration the public criticism raised at the March 2009 DP.

Banks would be particularly affected by the proposed amendments of accounting rules on leases. This is because of –along with the negative repercussions on the balance sheet structure and its ratios– the proposed changes would also have a negative impact on the regulatory capital requirements of banks. In the absence of adaptations by supervisors, the IASB proposals would result in higher regulatory capital requirements which would not be linked to higher exposure but exclusively driven by the accounting changes for leasing.

While we understand the Board's objective to include all transactions that meet the asset or the liability definition, in line with the theoretical basis of the right of use approach, we fear the practical implications of this approach will lead to complexity, desobjectivation and structuring problems. In the end, this risks making financial statements incomprehensible. The proposed treatment of options, contingent lease payments and residual value guarantees creates new margins for interpretation in the estimation of the overall lease term. A better result would be achieved by complementing the disclosure provided in the notes. Especially with regard to underlying assets that do not form part of an entity's core business,



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this approach would not enhance the decision-usefulness of the information for users of financial statements.

The hybrid model proposed for accounting for leases on the part of the lessor would not provide more suitable information neither. Our member institutions also have doubts with regards to the compatibility of the right of use and the performance obligation approach. In our understanding, there is multiple recognition of the underlying asset or of the rights thereto, a rationale that we do not understand. Instead, we would support a symmetrical approach for lessor and lessee accounting in the sense that, if and when –on the part of the lessee– the underlying asset shall be accounted for by means of the right of use approach, the lessor should generally apply the derecognition approach, i.e. that the underlying asset should be derecognised on a pro-rata basis. In this respect, we would like to explicitly object to the performance obligation approach.

Finally, our member institutions would require sufficient time in order to implement the proposed far reaching changes. They also oppose the mandatory application of the currently proposed amendments to every single contract that may already exist when initial application takes place. We share the Boards understanding that leases represent an important source of finance for entities. This should be taken into consideration by means of adequate grandfathering rules.

Should you have any questions please do not hesitate to contact us.

Kind regards,

A handwritten signature in black ink, appearing to read 'Schoppmann'.

Henning Schoppmann
EAPB

A handwritten signature in black ink, appearing to read 'Julien Ernout'.

Julien Ernout
EAPB