



# **Lease Accounting**

# **Exposure Draft**

# **Response from:**

# British Vehicle Rental and Leasing Association

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# **Executive Summary**

- BVRLA members, on behalf of themselves as lessors, and their customers as lessees, are pleased to provide their comments to the draft standard on leases. We remain encouraged that the two Boards have formally acknowledged that leasing is an important source of finance to business, but we have serious concerns that the complexities arising from the proposed changes could, if not addressed, counter the commercial benefits of leasing.
- 2. Before making any changes to the existing accounting rules we believe that the Boards should spend more time investigating whether the requirements of users, particularly analysts, could be met by improving the key disclosures of lease commitments in the notes to the accounts. It is not obvious to us that such work has been carried out and it seems that the Boards have decided on a capitalization approach for all leases, regardless of the consequences for the preparers and the relevance for companies with leases of lower value assets.
- 3. In light of this, we make the following comments on the basis that the proposal outlined in the Exposure Draft (ED) is not the optimal approach, but nevertheless requires comments to be made.
- 4. We note that the proposals are aimed at meeting the needs of users of financial statements, but we, in our response, outline the reasons why the proposal is likely to reduce the usefulness of the financial statements. We also believe that the proposal will result in significant cost and complexity for preparers and a number of areas therefore need revising.
- 5. These key areas include the measurement of more complex leases, specifically term extension options and contingent payments, lessor accounting and transition provisions. We, in our response, propose a number of solutions in each of these areas, which we believe will enhance the benefits for users and, in many cases, also reduce the cost and complexity for preparers.



### Key areas of concern

- 6. Subjectivity If the proposals are not changed then, we believe, it will force subjective decisions to be made on critical areas, principally the assessment of the lease term and contingent items, will give rise to distortions and a lack of comparability, when appropriate, in companies' financial positions. This is diametrically opposed to the Boards' objective of achieving accurate transparency on any company's financial position.
- 7. Excessive Burden We remain concerned with the complexities associated with the proposed standard for lease accounting and specifically the administrative and cost burden this is likely to impose on preparers of accounts. The calculations required to accurately implement the ED's proposals are not straightforward for individual leases and the practical difficulties become extremely burdensome for lessees and lessors with thousands and even tens of thousands of transactions. We do not believe that the Boards have taken these practical difficulties into account at all in their proposals because their principal aim is to discourage structuring in significant individual leases and they have apparently overlooked the issues that arise for the vast majority of lessors and lessees engaged in the leasing of small and medium sized assets.
- 8. **Term Options** We disagree with the Boards' proposal that the lease term should be measured as 'the longest period more likely than not to occur'. We believe that the term that should be used as the basis for the computation of any right of use assets and lease liabilities should be the minimum term the lessee has contracted for (the true liability).
- 9. We believe that optional extension periods should be excluded. They should only be included where it is highly likely that the option will be exercised. This approach would satisfy the Boards' key objective and address many of the concerns being voiced by preparers, including increasing the objectivity of the standard and reducing its complexity.
- 10. Contingent Rentals only committed contractual payments should be capitalized. Where the lessee is able to avoid the contingent lease payments (that is, they are within its control), these should be excluded. This approach would be consistent with the treatment of contingent interest payments on debt instruments accounted for in accordance with IAS 32, 'Financial instruments: Presentation'. Under this approach 'usage' based contingencies (such as mileage under a car rental contract) would be excluded.



- 11. We also believe that the contingent component of a right-of-use asset should, where applicable, be amortised on a basis that reflects the future anticipated economic consumption.
- 12. Short-term leases the proposed simplification for leases less than 12 months in duration does not go far enough. We suggest that this needs a radical review, with leases less than 12 months being excluded from the proposals and treated as service contracts. In the vehicle rental business, the customers' needs are met by them requesting a transport service where a vehicle is provided from a category or pool of vehicles and therefore we believe this type of contract is much more akin to a service contract as the as the type vehicle provided rests solely with the vehicle rental company.
- 13. Service contracts Greater clarity as what is a service contract is required. This could be achieved by securing a clear definition of a lease contract which we proposed in this response.
- 14. Non Core & Materiality We believe standard setters should find appropriate ways to exclude non-core and immaterial assets from the scope of any new standard or to clarify how materiality considerations might be applied to lease accounting. For short term contracts (say up to 5 years) the impact of the capitalization of leases on net assets is likely to be immaterial as is the variance of total lease costs in the profit and loss account under the new rules when compared to the current straight line approach. If this is the case, does the new standard need to be applied? Alternatively should preparers be concerned with the quantum of lease liabilities relative to gross assets? There could be a wide range on interpretations as far as materiality is concerned.

Many preparers, particularly those leasing relatively small value assets, could be faced with having to undertake several detailed calculations simply to come up with numbers which have little or no impact on their net financial position.

15. Lessor accounting - We do not support the Performance Obligation (PO) approach as it is not consistent with the proposals for lessee accounting. The de-recognition approach is a better fit with the lessee right-of-use approach. Under the PO approach balance sheets would be inflated by double-counting assets held in leasing operations. As such we would suggest that the de-recognition model is applied with residual value accretion



### Suggestions to simplify proposals

- 16. Lease term, option and contingent rental Requiring all lessees to estimate or even guess the length of time they expect to lease an asset in advance or even estimate the contingent rental payments they might make would impose significant burdens and subjectivity. We say this as the lessee either may not have this information in their possession or be able to make the necessary informed judgements.
- 17. Only committed contractual obligations should be used as the basis for the calculations.
- 18. Portfolio calculations While we strongly disagree with the concept of including contingent rentals, if the Boards, against all advice, should decide to impose the burden on businesses, then this could only be acceptable if the lessee is permitted to report their contingent obligations on a fleet portfolio basis, thereby simplifying the process. The practicalities of having to estimate the level of early terminations on every leased fleet vehicle would create immense reporting burden, which could be reduced if calculated on a portfolio basis.
- 19. Reassessments We recognise that from time to time reassessments of lease liabilities may be necessary. However, the ED currently requires an apportionment of this adjustment between the right of use asset and profit and loss account. In our industry it is likely that a lessee will not know how much any change in lease rental is due to a revision of the lease term and how much might be due to changes in other factors such as consumption or usage, in our industry's case, mileage.
  - The reassessment calculations could be numerous and complex and could significantly add to the implementation and compliance burdens imposed by the new standard. We therefore advocate that unless circumstances giving rise to the reassessment strongly indicate that a material part of the reassessment arises due to consumption or usage in the contract to date all the reassessment adjustment be made through the right of use asset and therefore adjusts profit and loss charges prospectively only.
- 20. Transition Due to the complexity and significant anticipated cost of the changes, lessees and lessors should be given sufficient time to make the necessary system and process changes. Given the need to make comparative accounts available, we would suggest a long transitional period of at least four years will be needed.



# **Specific Question**

### Question 1a: Lessees – recognising assets and liabilities

Do you agree that a lessee should recognise 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?

- 21. We would prefer no change and instead ask the Boards to consider enhanced disclosure in the notes to the accounts. It may also be helpful for the Boards to consider reiterating the principles under IAS 17. For example full disclosure of future minimum lease payments by due date band as currently required by paragraph 31(b) of IAS 17 coupled with disclosures of estimates of material contingent items and their potential due dates could well satisfy many users' requirements.
- 22. However, if this isn't agreed then we consider that the Right of Use ("RoU") model is satisfactory, but subject to simplifications outlined elsewhere in this letter.

### Question 1b: Lessees - measuring assets and liabilities

Do you agree that a lessee should recognise amortisation 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?

23. We agree that lessees should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments. We also believe the Board should allow lessees to opt for a financial method of depreciation if this adequately reflects right of use asset usage or consumption patterns.



### Question 2a: Lessors (The hybrid model adopted in the ED)

- (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?
- 24. We do not agree with a multi-model approach for lessors and believe that the derecognition model (with residual asset accretion) is the most consistent approach with the proposed lessee model. Under the lessee model, the lessee has acquired the right to use the asset so the argument that the lessor has forgone its rights to use the asset so should de-recognise the appropriate part of it seems indisputable. If there are some particular arrangements where this approach might prove difficult then these should be addressed separately. We believe the de-recognition approach is likely to fit the vast majority of leases by volume.

### Question 2b: Lessors (Performance obligation and de-recognition)

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?

- 25. We do not agree that the Performance Obligation is the appropriate approach for lessors especially at is it will not accurately represent lessors' assets and liabilities. We therefore support the de-recognition approach on the basis that it is consistent with lessee's ROU model.
- 26. Moreover, under the de-recognition approach the residual asset should be accreted using the rate implicit in the lease to ensure that income is recognised in a way that reflects the underlying economics. In typical vehicle leases, without accretion, around 45% to 50% of interest income will be recognised in the final year of a 3 or 4 year contract compared with nearer 10% on a pure asset financing basis.

#### **Question 3: Short-term leases**

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?



- 27. As we have outlined above, we remain concerned with the disproportionate reporting burden the proposed standard could have, especially for businesses renting low value assets over a short period, such as rental cars for a few days. It would seem both appropriate and proportionate for such leases to be exempt from the proposed reporting standard.
- 28. Leases of less than 12 months should be treated as service contracts and costs expensed directly to the profit and loss accounts. For most lessees the values of any short-term lease liabilities and ROU assets are likely to be immaterial but lessees will still have to calculate the figures to demonstrate this.
- 29. As long as the 12 month rule is applied rigorously we believe there is little opportunity to structure transactions and we are not aware of any corporate failures where failure to recognise lease liabilities of less than 12 months has been a significant underlying cause.
- 30. We also wish to point out that if the financial reporting information is to be truly meaningful, then peppering the balance sheet with a spectrum of leases will be likely to confuse readers. Instead, pursuing the exemption, outlined above, would prove to be a vital aid in helping the standard setters strike a fair balance between reducing the burden on the lessee's business and ensuring the readers of the accounts have sufficient transparency on the firm's fundamental financial position.

### Question 4a. Definition of a lease (general)

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

31. We believe that the current definition is too wide and is likely to lead to a different interpretation as to whether the agreement is an operating lease or an executory contract. We say this as the current accounting method applied for an operating lease and a service contract is very similar, we believe it is vital for the standard to be written clearly, with specific emphasis to ensure service contracts are excluded. In doing so, will help to reduce the possibility of service agreements being incorrectly interpreted as a lease agreement, and vice versa. Such clarity in the standard would help to reduce the uncertainty as to whether the agreement is an operating lease or an executory contract and reduce related management time to review.



- 32. We therefore propose that clarity could be secured by considering the following alternative approach and definition. Firstly, a lease is a contract which, in exchange for consideration, conveys to a lessee the right to use a specified asset for a period of time that is more than a minor part of its economic life. The lessee will have obtained a right to use when it controls the asset for more than a minor part of its economic life.
- 33. The lessee will have obtained that control when the contract conveys the ability to the lessee to direct the use of the asset for more than a minor part of its economic life and when it has obtained the right to consume more than a minor share of the future economic benefits of the asset through its use of the asset over the lease term.
- 34. An asset is specified when the agreement specifically identifies the asset (or part of a larger asset). An asset is not specified when, even though the agreement specifically identifies the asset, the lessor can substitute the asset at any time without requiring the lessee's consent or, if the lessee's consent is required, it is feasible or practical for the lessor to substitute the asset, having obtained that consent. Assets that are fungible and easily replaceable on an open market do not therefore generally qualify as specified assets. In many outsourcing type contracts, assets may well be specified by serial or registration. This is simply a precaution on the part of the lessor to ensure clear identification on the assets it owns rather than an indication that the lessee requires that specific asset.
- 35. We therefore propose that the following definition is considered: A lease is a contract that, in exchange for consideration, conveys to a lessee the right to use a specified asset for a period of time that is more than a minor part of its economic life. The lessee will have obtained a right to use when it controls the asset for more than a minor part of its economic life.
- 36. As you will note, a principles based approach could be constructed in conjunction with the necessary clarification of IFRIC 4 as many of these contracts are also likely to contain significant service components. Firms, using this suggested exemption under non-core, may also be required to make a disclosure of this fact, and perhaps outlining their reasons, as this would assist the readers of the accounts. The lessee's auditors will make the final decision to ensure a fair and accurate position is reported.
- 37. We therefore would recommend that the standard is redefined so that the standard is clear and transparent as to which types of leases are included.



### Question 4b. Definition of a lease (leases vs purchases/sales)

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?

- 38. We do not support this proposal as we believe it will create a different classification of leases, which will simply add to the level of complexity and confusion. We also note that the existing standard does not include the distinction today and fail to understand the overall benefit the proposed change would add.
- 39. We also noted that the proposed amended is narrower that the finance lease currently written and will not, in our view, add any meaningful information or substantially improve transparency.

### Question 4c. Definition of a lease (leases vs services)

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?

- 40. For the reasons outlined above (see question 4a what is a lease) we do not believe the guidance is sufficient. Firstly, we have found the guidance to be difficult to understand and unlikely to assist users of the standard differentiate between a service and lease contract. Simply importing IFRIC 4 concepts into the guidance is in itself insufficient and requires further clarification.
- 41. Specified asset it is unclear whether this refers to a specific asset for example, how would the standard apply in practice, should this only apply to a specific make and model of a vehicle, or will also contracts where the customer has access to any vehicle, such a rental car? We believe the current drafting of B2 and B3 is confusing is could lead to inappropriate interpretations being adopted.

### **Question 5: Scope exclusions**

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?



42. While it is not directly applicable to our industry, we believe it is illogical to exclude intangibles and does look like a retrograde step by the Boards.

### Question 6: Contracts that contain service components and lease components

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

- 43. We do not agree with the proposed approach especially as this will impact where the service is incidental to the outsourcing arrangement. We do believe it is appropriate for the 'distinct services' to be applied to lessees and further guidance should be provided.
- 44. Where the lessee is simply paying a combined payment for the both the lease rental and service payment and the split between the two is not clear, then the lessee will first need to request this information from the lessor. If this information is not readily available, and to reduce the burden on the lessee, by allowing the lessee to make an estimate based on comparable basis to other similar stand alone leases would help to simplify the reporting burden.
- 45. Should the Boards address our concerns previously mentioned regarding the potential for the boundaries between a lease and service contracts being blurred, then we believe it would substantially reduce the incidence of the lessee having to make an assessment. We believe this is vital, as we wish to ensure that the financial position is not incorrectly stated or over-inflated with financial commitments which relate to service contracts.
- 46. Lessees should try to obtain details of or estimate any service component and account for this in accordance with service contract rules. Only when it is impossible to obtain the details or make reliable estimates should lease accounting rules be applied to the entire contract.

### **Question 7: Purchase options**

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

47. We agree with the proposal for purchase options.



#### **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?

- 48. We do not agree with the proposal. From a measurement perspective, we do not believe it is appropriate to base the financial reporting outcomes based on probabilities, which in practice are unlikely to exist.
- 49. It is therefore important that that options and renewals be excluded from the lease term. As we have explained previously, the proposals are far too subjective and dependent on judgements that are difficult to verify and therefore the relevance of the financial information produced for the user is of very limited value.
- 50. Amounts relied on to determine lease liabilities should only be used when they can be determined with a high probability in terms of both amount and timing. In practice this will mean contractual lease terms excluding options to extend or renew or, alternatively, minimum lease payments.
- 51. If early terminations are to be taken into account, in practice this will have to be on a portfolio basis and based on previous experience adjusted for known and verifiable changes in circumstances, if any. In practice it will be impossible to apply to assess each individual lease as to whether it will early terminate or not.

#### 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?



- 52. We do not agree with the inclusion of contingent rental, as to so would be to judgement and detract from the reliability of the financial statement.
- 53. Expected outcome technique using probability estimates is far too subjective.
- 54. Generally, contingent items should be should be dealt with directly in profit and loss when they occur.
- 55. We remain concerned that the Boards' decision to recognise a single asset and liability could lead to a flawed model for lessee accounting as the lessee will end up recognising assets and liabilities that it does not actually have. We therefore believe that this approach is inconsistent with the conceptual framework and may not provide users of accounts with improved information to the extent that the recognition of contingent rental, for example, does not meet the definition of asset / liability. Hence, users of accounts may be provided with misleading information and this does not prejudice the quality and relevance of the financial information.

#### **Question 10: Reassessment**

Do you agree that lessees and lessors should re-measure 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?

56. We agree that when facts or circumstances indicate that there is a significant change in the lease liability then reassessments need to be made.



57. In our industry it is highly likely that lessees will renegotiate the terms of their contract in respect of both duration and consumption (mileage) at the same time and that the rentals are adjusted without reference to the impact of each component. It may therefore be impossible for them to allocate any reassessment adjustment between the right of use asset and profit and loss account (for previous periods' impact) as required by paragraph 18 of the ED and therefore we believe that the default position should be that reassessment adjustments should be made solely through the right of use asset unless it can be demonstrated with a high level of certainty that the profit and loss charges to date have been materially misstated and by implication that the data is available to demonstrate this. In any event we recognise the resulting carrying value will be monitored for a potential impairment which will mitigate any risk of the carrying value that has been misstated. We understand that this would not be inconsistent with the spirit of the treatment of paragraphs 36 and 37 of IAS 8.

#### **Question 11 Sale and leaseback**

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

58. Agree with sale and leaseback proposals.

### **Question 12a: 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?
- 59. We agree that the lease liabilities should be shown separately from other liabilities but only in notes to accounts and not on face of balance sheet.
- 60. We agree with the proposal to include right of use assets within the appropriate category of other similar assets. Disclose amount of right of use assets within each category within fixed asset note only, but not on face of the balance sheet.

### **Question 12b: Presentation - Statement of financial position**



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, totalling 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?

61. We do not support the performance obligation approach.

### Question 12c: Presentation - Statement of financial position

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?

62. For lessors whose principal activity is not leasing, separate disclose of lease receivables and residual assets in notes only. On face of balance sheet disclose within general asset categories only (debtors and fixed assets).

### Question 12d: Presentation - Statement of financial position

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?

63. All separate disclosures in notes only.

### Question 13: Presentation - Statement of comprehensive income

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

64. For lessors whose principal business activity is leasing then separate disclosure of lease items on face of the profit and loss, balance sheet and cashflow.



65. For lessors whose principal activity is not leasing and for all lessees, all lease related disclosures should be given in the notes to the accounts only: no separation of amounts on faces of the profit and loss, balance sheet or cashflow.

### Question 14: Presentation - Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

66. No. We believe that separate presentation of these items is only essential when leasing is the principal part of the preparer's business.

#### **Question 15 Disclosure**

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognised in the financial statements arising from leases; and
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?
- 67. Disclosures should only be made of assumptions that have a significant impact on the balance sheet. Paragraphs 70 to 86 are far too onerous. We believe firms should only have to disclose paragraphs 70, 73, (a), (i), (ii) (iii), (iv), (vi). In the event more information is required, then the company directors should make a judgement about what is required in order for the accounts to give a fair and honest view.

#### **Question 16a Transition**

(a) The exposure draft proposes that lessees and lessors should recognise 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?



**68.** A choice should be given between the method outlined in paras 88 to 96 of the ED or full retrospective application and the method used should be disclosed in the accounts.

#### 69. Question 16b Transition

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

70. Under the form of the standard exposed in the ED, preparers should have the option to adopt full retrospective as it is the only way to resolve occurrence of significant losses on implementation. The adoption of linked measurement of lessee assets and liabilities would make full retrospective application unnecessary.

#### **Question 16c Transition**

Are there any additional transitional issues the Boards need to consider? If yes, which ones and why?

71. Due to the complexity of the changes, lessees and lessors should be given sufficient time to make the necessary system and process changes. With the need to make comparative accounts available, we would suggest a long transitional period of at least four years is appropriate. This should help to ensure that the concerns raised are fully addressed and the proposed changes can be shared for final comment.

## **Question 17 Benefits and costs**

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?

72. We remain concerned with the complexities associated with the proposed standard for lease accounting and specifically the administrative and cost burden this is likely to impose on preparers of accounts.



- 73. We remain concerned that the exposure draft was published before any meaningful cost/benefit analysis in terms of comparing the gain in perceived significant useful information for users and the burden for preparers was carried out. We however note that field work is being undertaken and would encourage the Boards to publish its findings so that all stakeholders can see clearly how the Boards have taken into consideration the evidence obtained and how this has been reflected in the proposals.
- 74. We do not agree with the Boards' assessment of the costs and benefits of the proposed requirements. We note that 74% of the respondents to the discussion paper considered that the costs of the new standard for preparers exceed the benefits for users. In the absence of any rigorous cost/benefit analysis we remain concerned with the reliability of the Board's underlying assumption for changes and would indeed ask that the proposals are simplified and that specific steps are taken to ensure any additional reporting burden is minimised.

#### **Question 18 Other comments**

Do you have any other comments on the proposals?

75. No.



## **Bona Fides**

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Bona-fides BVRLA, the Industry and its Members

### **BVRLA**, the Industry and its Members

- The BVRLA is the trade body for companies engaged in the leasing and rental of cars and commercial vehicles. Its Members provide rental, leasing and fleet management services to corporate users and consumers. They operate a combined fleet of 2.6 million cars, vans and trucks, buying 44% of all new vehicles sold in the UK.
- Through its Members and their customers, the BVRLA represents the interests of more than two million business car drivers and the 10 million people who use a rental vehicle each year. As well as informing the Government and policy makers on key issues affecting the sector, the BVRLA regulates the industry through a mandatory code of conduct.