



FÉDÉRATION NATIONALE DES LOUEURS DE VÉHICULES

1850-100
Comment Letter No. 239

IASB
Sir David Tweedie
30 Cannon Street
London EC4M 6XH
UK

Sir Tweedie,

First of all, I would like to thank you for your letter of the 3rd September 2010 by which you invite us to send our comment on the Exposure draft of proposed standards on leases.

As we are particularly interested in this project, we have organized a meeting with French professional concerned by the exposure draft Leases. Please find herewith the position of the industry in France.

We hope you will consider our comment letter in order to improve the financial reporting information available to investors about the financial effects of lease contracts.

Yours sincerely,



BRANCHE
LOUEURS

Daniel G. Rigal
Secretary general
FNLV





FÉDÉRATION NATIONALE DES LOUEURS DE VÉHICULES

IASB
Sir David Tweedie
30 Cannon Street
London EC4M 6XH
UK

9 December 2010

RE: Answer to consultation about Exposure draft of proposed standard on leases

The *Fédération Nationale des Loueurs de Véhicules* answers IASB's letter dated 3 September 2010, asking for our comments on the Exposure draft of proposed standard on leases. The *Fédération Nationale des Loueurs de Véhicules* pools practitioners of short/long term operating leasing of private cars, commercial vehicles and industrial vehicles. It represents 345 companies (revenue: 9.6 billion Euro) managing 1,748,000 vehicles (including 1,340,000 vehicles on long-term operating lease) and registering over 700,000 vehicles annually.

We contacted operating leasing practitioners, i.e. leasing companies, lessee companies and financial analysts, to get their response to the Exposure draft. They made the following comments:

The requirement of transparency regarding companies' business commitments is easily understandable in connection with the fight against abuses and "diversions" of practices that can be made with lease contracts, as some companies failed to include on the Assets side of their balance-sheets some assets that should have been included (airplanes, real property, hospitals etc). However, while operating lease practitioners do share that transparency aim, it would seem that the complex implementation of the accounting project puts a real check on final users.



BRANCHE
LOUEURS



1. It is necessary to revise the scope of the standard

In particular, the flexibility of long term operating Leasing contracts lies in their ability to adjust to changes in the use of the leased assets by lessees.

For example, adjustment of monthly instalments on the basis of actual mileage is becoming unreasonably complex. The text underrates in long term operating lease the financing nature of use together with all services contributing thereto, to only see financing of an asset. The adjustable nature of long term operating leasing rental payments makes right-of-use recognition impossible, unless after dangerous assumptions, and justifies the exclusion of such transactions from the scope of the standard.



2. It is necessary to simplify the proposed recognition method and warrant parallelism between both parties to one contract (lessor/lessee)

The lessor should follow the derecognition model or the performance obligation model, depending on whether the lessor retains exposure to the risks associated with the vehicle (resale, SUV etc).

Assuming **performance obligation**, the risk remains with the lessor who retains the leased asset in its accounting, but also records lease payments to be received and a liability for the obligation to continue to supply the asset to the lessee during the lease term. This model conflicts with the model applied to the lessee, since the latter capitalises from the very beginning full use of the asset, whereas the lessor would only gradually fulfil its obligation of supplying the asset.

Especially, this so-called 'hybrid' approach which presents two recognition methods bluntly contradicts the aim of accounting unification of all lease products and unexpectedly restores the 'Risk and Reward' criterion of IAS 17. Because of the consequences on the regulatory capital of those lessors that belong to a bank, it further introduces a groundless distortion of competition between two types of lease (operating and financial lease).

Finally, the actual conditions of application of the general IAS are always decided in consultation with a company's auditors. History has clearly shown that the adopted methods are not unitary.

In view of such complexity, the FNLV recommends not to impose recognition in the balance-sheet, but to warrant transparency of long term operating leasing transactions through extended publications and disclosures.

Conclusion:

The complexity of the proposed standard is hard to handle. A redefined, extended obligation to disclose off-balance-sheet liabilities would result in greater transparency than the proposed model which supposes too much evaluation and probabilistic calculations. However, should the principle of the right-of-use in the balance-sheet be adopted, we should:

- **Return to simple recognition that would retain parallelism between both parties (lessor/lessee);**
- **Redefine the scope of the draft and the types of lease to which it applies (variable rental payments and replaceable assets should be excluded); and**
- **Select the sole derecognition model that provides symmetry with the treatment by lessees.**

To conclude, the FNLV shares and supports Leaseurope when it expresses its concern about the complexity of the mechanism and suggests a simpler method.