International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH
United Kingdom

14 December 2010

Subject: Exposure draft for ‘Leases’

Dear Sir / Madam,

LeasePlan Corporation N.V. (“LeasePlan”) is pleased to have the opportunity to provide feedback on IASB’s exposure draft for ‘Leases’. LeasePlan is a financial services company focused on fleet management. Established in the Netherlands more than 45 years ago, we have grown to become the world’s leading provider of fleet management services. With 6,000 employees we manage 1.3 million vehicles for our corporate clients and we hold top three market positions in the majority of the 30 countries in which we operate. Our lease contract portfolio amounts to EUR 13 billion (representing 1 million funded vehicles).

We support the joint efforts of the IASB and the FASB to harmonise the accounting treatment of leases. We also recognise the need for greater transparency and agree to the concept that all lease contracts are recognised as rights and obligations explicitly in the financial statements of lessees. However, we have strong reservations against the application of these principles, as proposed in the exposure draft. Our main concerns are the following:

- The measurement of the rights and obligations of leases for both lessees and lessor is very complex. Assessing and reassessing the lease term, contingent rentals, expected payments under term option penalties and residual value guarantees is burdensome, requires too many subjective assessments and will in our view overall not contribute positively to transparency, and certainly not in a way that justifies the associated costs for business;
- The hybrid approach proposed for lessors is unnecessary and a missed opportunity to come to one uniform approach for this industry. We strongly recommend to only allow the derecognition model for a lessor (with one major modification, being the accretion of the residual value);
- The straight line depreciation of the right-of-use asset in combination with the interest expense on the liability to make lease payments leads to front-loading of expenses. Whilst this is in line with a situation where a company avails of an asset through outright purchase (and associated...
financing), we are of the opinion that lessees are losing the benefit of matching in time expenses with future economic benefits coming from the respective asset. Given the contracted nature of a lease as a combination of depreciating and financing an asset for a specified contractual period of time, such matching in time is a benefit for businesses that could be justified to be maintained, even in the interest of transparency of the income statement;

- With respect to transition, we think a full retrospective approach should be allowed.

A more detailed response and motivation is included in the appendix to this letter, where we responded to the questions from the exposure draft.

We hope our comments and suggestions contribute to the development of a high quality and workable standard. In this respect we encourage the IASB to expand the cost/benefits analysis prior to issuing a final revised standard.

Yours faithfully,

LEASEPLAN CORPORATION N.V.

V. Daemi  
CEO and Chairman of the Managing Board

A.B. Stoelinga  
CFO and Member of the Managing Board
Appendix – Response to Exposure Draft questions

The accounting model

Question 1: Lessees

(a) 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?

(b) 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?

Response:

(a) As outlined in our introductory comments we understand and agree to the need for more transparency in lease accounting. Therefore we conceptually agree to the proposed approach to recognise an explicit asset and liability. We have however serious reservations on the so-called contingent features such as the expected lease term and the expected lease payments. We question whether these subjective features lead to the aimed greater transparency and are of the opinion that the costs hereof outweigh the benefits, in particular for low value assets with a high service (‘pay by use’) nature.

(b) Yes we do, however not the straight line depreciation of the right-of-use asset as proposed, since this treatment results in front-loading of expenses for businesses. Given the specific nature of leases (i.e. combining the depreciation and financing of an asset into a series of equal lease instalments), and the contracted nature of such leases over a specified period, we are of the opinion that lessees should be given the opportunity to expense lease instalments equally over time within the specified period, thereby matching the future economic benefit flowing from the respective asset. This is in our opinion in line with the economic concept of valuing of an asset through lease, where lessees are seeking constant expenses over the contract duration. The added value of a leased asset is generally constant over the lease term and this justifies also a constant expense to be reflected in the income statement over the lease term. This could be achieved in the standard by allowing lessees to depreciate their right-of-use asset progressively over the lease contract period, in line with the contracted payment schedule.

Question 2: Lessors

(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?

(b) 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?

Response:

(a) We do not agree to a hybrid approach for lessors. Under the proposed treatment, there still remain two models with a bright-line distinction. As a result, similar leases may be accounted for differently. The proposed distinction is very much alike the IAS 17 treatment and is based on ‘risks and rewards’, which is inconsistent with the right-of-use concept that applies to lessees. In addition, there is not a clear principle for applying each of the models and therefore it is unclear how the indicators mentioned in the proposal should be interpreted. It would be our preference to have one model for lessor accounting: the derecognition model under the condition that the residual asset is accreted.

(b) No, we do not support the performance obligation model as it does not properly reflect the economic substance of a lease contract. Instead, we are of the opinion that the derecognition model with accretion of the residual asset is the only suitable model.
Our main reservation against the derecognition model as proposed is that the discounted residual asset remains stable over the contract duration, thereby resulting in very unevenly spread results (interest margin) for the lessor, mostly witnessed by a significant (expected) gain at the end of the contract for an amount equal to the difference between the 'real' residual value (that was expected) at the end of the contract and the discounted 'stable' residual asset. Arecognition of the residual asset would result in a stable return on assets and therefore better representing the economic relevance of the contract for the lessor.

**Question 3: Short-term leases**

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in profit or loss, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65). (See also paragraphs BC41–BC46.)

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?

**Response**

(a) Basically the only relief is the absence of discounting, all of the other requirements mentioned in the proposal such as (re)assessing the lease term and contingent features remain. We would be in favour of further relief by allowing not to recognise assets and liabilities for short-term leases, which is in line with the treatment for lessors.

(b) Yes, we agree to the proposed approach.

**Definition of a lease**

The exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). The exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs K9, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

**Question 4**

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

(b) 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?

(c) 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?
Response:

(a) A logical and evident consequence of the new accounting rules for leasing will be a focus on the definition of a lease. This can result in behaviour that aims to account for certain contracts as service contracts rather than lease contracts. In the context of our business this can be the case when providing mobility services whereby the question is whether the right to use a specified asset is conveyed. This behaviour can only be avoided by clear definitions and we therefore plead for a more detailed definition of a lease.

(b) We do not agree upon this distinction as this was mainly based on the performance obligation model for lessor accounting for which we have raised our objections.

(c) We refer to our answer under (a).

Scope

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC.33–BC.46).

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?

Response:

The proposed scope exclusions do not affect us. However, conceptually we see no reason why leases of intangible assets are excluded. Leases of intangible assets are included in IAS 17 and by excluding them there will no longer be proper guidance.

Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC.37–BC.54). If the service component in a contract that contains service components and lease components is not distinct:

(a) the IASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) the IASB proposes that:

(i) a lessee should apply the lease accounting requirements to the combined contract.

(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in Revenue from Contracts with Customers.

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?

Response:

Yes, we do agree to the proposed approach, provided there is no performance obligation model.
In our industry, all service components in lease contracts are distinct service components and therefore separable from the lease. Therefore, we are happy to accommodate that lessors should always separate service components from the lease.

Furthermore, we suggest that lessees also always separate service components from the lease for which they should seek this information from their lessors.

**Question 7: Purchase options**

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

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?

**Response:**

Yes, in our opinion this is a proper treatment.

**Measurement**

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

(a) assumes 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 (paragraphs 13, 34, 51, B16-B20 and BC114-BC120).

(b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121-BC131). Lessees should only include these contingent rentals and expected payments under term option penalties and residual value guarantees that can be measured reliably.

(c) is updated 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 (paragraphs 17, 39, 56 and BC132-BC135).

**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?

**Response:**

No, we oppose to the proposed treatment of the lease term. If there is an established practice and proven track record that lease contracts for certain specified assets do terminate on or around the agreed end date, we deem it appropriate that the lessees base themselves on the agreed contract term and not subjectively assess ‘the longest possible term that is more likely than not to occur’. In the case of car leases there is no reason to have or assume a material deviation between the contracted lease term and the real lease term (as measurable in arrears). Car leases are normally not structured around options to renew, but are typically terminated at or around the agreed end date (and replaced by a new lease or buyback) instead. Our business consists of non-cancellable leases with a fixed term, without explicit renewal options in the contracts. However, in practice very few contracts are terminated exactly on the agreed contract end-date.
We think the proposed treatment of the lease term results in reduced comparability since similar leases can be treated differently based on subjective assessments.

We propose that both lessees and lessors apply to the formal contractual lease term and only in a situation where this formal contract term is adjusted is such adjustment reflected in the (subsequent) measurement of the liability to make lease payments. In our view this removes complexity, takes away subjectivity and increases comparability.

**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?

**Response:**

No, we strongly oppose to the proposed treatment of contingent rentals and expected payments under term option penalties and residual value guarantees. In our view the proposed treatment is conceptually incorrect since it results in lessees recognising obligations they have the discretion to avoid and lessors recognising assets they cannot control.

In our business, contingent rentals will consist of additional mileage. Upfront assessing and subsequently reassessing the mileage will be extremely burdensome for both lessors and lessees. The mileage can be very volatile during the contract and therefore it is questionable if a reasonable assessment can be made at all. Furthermore, the proposals create unnecessary complexity in combination with very little added value for the users of the accounts. Different scenarios and probabilities will need to be assessed, under the condition that reliable data is available. In order to properly apply these proposals, significant adjustments will need to be made in the leasing systems in our operating companies. We are of the opinion that contingent rentals should not be included in the measurement of the lease.

Residual value guarantees should in our opinion be treated as they are today: the maximum amount payable under the residual value guarantee. In our view this is a better representation of the commitments and takes away complex valuation issues.

With respect to term option penalties a clear definition is lacking. We suggest the final standard includes such a definition.

**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?

**Response:**

No, we do not agree with the proposed treatment of lease term, contingent rentals, expected payments under term option penalties and residual value guarantees and therefore also do not agree with the proposals regarding reassessments.

Reassessing at each reporting date will require preparers to go through an extensive exercise. Especially for car leasing, where the volumes are large and the investment values low, this will be an exercise where the costs outweigh the benefits. Furthermore, this approach leaves room for subjective interpretations.

We propose a treatment where no periodic reassessment is required and refer to our proposals as described above.
Sale and leaseback

The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents the sale of the underlying asset, the leaseback would also meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).

Question 11

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?

Response:

No, we do not agree. The seller/lessor is transferring the residual right to use the asset after the lease term has expired to the purchaser/lessee while retaining the right to use the asset during the lease term. These rights can easily be determined using the derecognition approach.

Presentation

The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

Question 12: 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?

(b) 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?

(c) 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?

(d) 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?

Response:

(a) We agree that the liability to make lease payments should be presented separately from other financial liabilities and that the right-of-use asset should be presented separately from other property, plant and equipment. We do believe that such asset cannot be classified as an intangible asset due to its nature and that further clarity should be provided on this classification.

(b) As already indicated we do not support the performance obligation model. The fact the proposals include a net presentation is another illustration of the conceptual flaws in this model.
(c) We agree that the right to receive lease payments should be presented separately from other financial assets and that the residual asset should be presented separately from other property, plant and equipment.

(d) Yes, we agree to this approach. It shows the relationship between the right to receive lease payments and the residual asset under the sublease and the liability to make lease payments arising from the head lease.

**Question 13: 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?

**Response:**

Yes, we are of the opinion that lessees should present lease expenses separately in the income statement.

**Question 14: 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?

**Response:**

Yes, we agree to the proposed treatment since we believe it provides useful information.
Disclosure

Question 15

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?

Response:

We are of the opinion that disclosure requirements to a certain extent are useful. However, the proposals are, in our opinion, too burdensome for preparers and this level of detail would not provide adequate insight. We share IFRAG’s opinion that the level of disclosures should depend on the specific situation and it should be stated more clearly that these disclosure requirements are not mandatory in all situations.

Transition

Question 16

(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?

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

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Response:

(a) We believe that a mandatory simplified retrospective approach is not the best approach in all situations. We think that conceptually, a full retrospective approach is a better solution. In the fleet management business the contract durations are relatively short so we see no reasons why a full retrospective approach is not possible. An important disadvantage of the proposed simplified retrospective approach is that all leases are considered new leases at the moment of transition and that leases will be confronted with front loading of expenses (under the current proposals). [TK: would this still matter if progressive depreciation of right-to-use asset is allowed?]

(b) Yes, in our opinion and with reference to the response above, a full retrospective approach should be permitted.

(c) In our view it would not be conceptually right to recognize the residual asset at fair value at the date of initial application. In the exposure draft there are no other references to apply fair value to the residual asset so it would not be appropriate to introduce fair value at transition. This is even more relevant in case of full retrospective application.

Benefits and costs

Question 17

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?
Response:

No, we do not agree that the benefits outweigh the costs. The proposals impose an extraordinary level of complexity, both for preparers and for users of the financial statements. Preparers will incur significant costs, not only with initial implementation of the complex solutions but they will also be faced with higher process costs because of the periodical reassessments of several parameters.

Users of financial statements will have difficulty understanding the complex models which are applied. Both these complex models and the extensive disclosure requirements may put too much focus on this particular topic, distracting the users from what the financial statements are intended for: to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

In conclusion: it is certain that the proposals result in significant costs, whilst we seriously doubt whether serious benefits will be achieved. A more simplified approach will significantly reduce the costs and may also result in higher benefits. Therefore, we encourage the IASB to expand the cost/benefits analysis.

Other comments

Question 18

Do you have any other comments on the proposals?

Response:

In view of publication of the final standard mid 2011 at the earliest and the likelihood that this final standard will differ (significantly) from the exposure draft we are of the opinion that the very earliest feasible effective date is 1 January 2014 taking into account the requirement to prepare the 2013 comparative financial information.