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

Date: 5 September 2013  
Our reference: 522502  
Subject: Exposure Draft ED/2013/6

Dear Sirs,

Being the sole representative of Vehicle Leasing Companies in The Netherlands, the VNA is strongly involved in your project to revise the accounting for leases. We welcome the opportunity to respond to the Exposure Draft on IFRS Leases. Please find below our observations and recommendations.

We are pleased to see that some of our concerns of 2010 are recognized. However, we are not able to find sufficient justification for supporting the new ED’s approach. Automotive full service leasing is very much a matter of service rather than just financing. Looking at our typical short life low value arrangements we are very concerned that the proposals impose significant cost and administration burdens on businesses.

The inherent complexity of the Right of Use model and remaining questions about the precise difference between services and leasing is likely to result in frequent discussions about the correct interpretation with auditors and between lessee and lessor and will lead to less comparability of entities. In that respect we also question whether it would satisfy the ultimate users.

For these reasons we strongly recommend to retain the existing standard IAS17, with improvements where needed.

By formulating this response to the Exposure Draft the VNA does not give its support to the requirement for a new standard, but if you are minded to continue with this project then our comments and observations (Appendix 1) are intended to help remove some of the remaining complexities and difficulties that we have identified within the current proposals.
We trust you are able to review the Exposure Draft and incorporate our recommendations, should you decide to proceed with this project.

Yours sincerely,

VNA

Renate Hemerik
managing director

Appendix 1. Comments and observations Association of Dutch Vehicle Leasing Companies (VNA)
Appendix 2. ED Questions
Appendix 1.
Comments and observations Association of Dutch Vehicle Leasing Companies (VNA)

One type of lease

In our view there should only be one type of lease in order to achieve the transparency, simplification and consistency of approach and to provide clarity to users of accounts this project is looking for.

If all leases are supposed to convey the same types of assets and liabilities to a lessee, it does not appear to be logical to introduce different measurement requirements for different leases. If different measurement is needed to reflect varying economic realities, the more exact conclusion may be that different leases do not convey the same types of assets and liabilities, or that some leases do not convey assets or liabilities at all.

It is our conclusion that the introduction of Type A and Type B leases shows that the Right of use Model is not sufficiently robust to be applied in practice to the population of contracts referred to as leases.

Identifying a lease

We would observe that an agreement for the provision of services where the provider has a substantive right to substitute any asset used in the provision of the service, at total discretion of the service provider and without question, should not be considered as a lease but should be classified as a service contract.

This should be defined by the strength of the substitution clause within the agreement at inception and should not be subject to retrospective assessment depending upon whether substitution has taken place and the percentage of that substitution relative to the agreement.

The contractual ability (substantive right) of substitution totally at provider discretion should be sufficient and it should not be necessary to prove that substitution has taken place.

Reassessment of a Lease: portfolio approach

We are concerned that the current proposals would impose a significant and unnecessary burden on lessees brought about by small and insignificant market changes which may result in non material adjustments.

An example of this in the automotive full service leasing sector would be the need to continue the use of the vehicle for a very short period (2/3 months) - known as “informal extension” which in reality is a short term lease - while waiting for the new vehicle to be delivered, which would be offset on a portfolio basis by vehicles being early terminated due to employees leaving, business changes etc.
We would propose, therefore, that IASB/FASB review the reassessment aspect of the proposal such that reassessment is only required when there have been significant changes impacting on the total lease portfolio within a lessee or lessor business.

To have to re-asses many thousands of leases on an individual basis would be totally impractical and by nature of the potentially continuous minor movements would produce incorrect results.

**Observable stand alone prices**

Within the automotive full service leasing sector it is common practice for the total monthly payment to include costs for such items as servicing, repairs, tyres, maintenance of additional equipment such as tail lifts etc. which are in fact service contracts.

To separate these out at invoicing level would need considerable systems investment, particularly for SME lessors, and it would also be very difficult and time consuming for the lessee to determine the complex and fragmented market unit pricing for these elements.

We would therefore propose that if the lessor is able to provide the fair and reasonable percentage of the lease rental that applies to these services then the lessee should only need to account for the lease rental, after deduction of the services element.

In the unexpected event that the lessor is unable, or unwilling, to provide an appropriate breakdown of the lease expense into pure lease and service components then we propose that the lessee should be able to make reasonable estimates based on available market information to determine the service element of a “bundled” arrangement.

**Short Term leases: 24 months**

The maximum of 12 months concept will avoid a significant amount of unnecessary administration and information gathering for no overall benefit. We recommend to extend the time definition of a Short Term lease out to 24 months to reduce even more the business burden for these short life low value arrangements of which car rental takes a large portion. This would then also cover the afore mentioned informal extensions.

**Accounting for changes in Residual Assets**

This Exposure Draft would appear to address the impairment of residual assets well but does not appear to acknowledge that significant proportions of lease portfolios may well realize more than their carrying values and contract residuals on disposal.

Under the existing IAS17 treatment, lessors are able to adjust their estimated realizable values to reflect latest assessments of market movements. This allows for a more uniform recognition of total contract income because potentially sizeable end of contract profits can effectively be spread more evenly over the contract life rather than be realized in a single accounting period when disposal takes place.

We therefore recommend that lessors should be able to re-assess residual assets on a regular basis and be permitted to accrete residual assets to these adjusted values, whether they are higher or lower than the original contract residual value set.
This would allow lessors to reflect expected contract income more evenly over the contract period and acknowledges the fact that a given lease expense can be arrived at by setting different pricing components, including future residual values, in a number of different ways.

In addition we note that under the existing IAS17, the lessor tests its net investment in the lease for impairment (both the receivable and the residual). If under the future Leases standard it is not allowed to do the same, this will result in a lessor being forced to recognize impairment losses that it actually does not have in cases where the value of the leased asset covers the credit loss.
Appendix 2.
The questions in the Exposure Draft ED/2013/6

Question 1. Identifying a lease

This revised Exposure Draft defines a lease as “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. An entity would determine whether a contract contains a lease by assessing whether: (a) fulfillment of the contract depends on the use of an identified asset; and (b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset. Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

The definition of a lease as proposed in § 7 in our opinion is unclear. The criteria of (a) an identified asset - explicitly specified asset - and (b) the right to control the use of the identified asset will give rise to a lot of interpretation discussions. We expect that this new definition again will result in structuring contracts in such a way that it narrowly passes the test for not qualifying as a lease. The current Exposure Draft does not provide sufficient guidance to distinguish between leases and service contracts.

This is of increasing importance because in modern society access is becoming more important than possession. The pay-as-you-use option in automotive full service leasing is upcoming practice. This evolution creates a better usage of the asset and is therefore sustainable. This transforms the vehicle leasing transaction from a finance solution to a service, a trend which will become significant in the next couple of years. This phenomenon deserves more attention in future proposals, to make the IFRS standard more sustainable.

Question 2. Lessee accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

First, we do not support this new proposal including a dual approach and we think it is inconsistent with the initial objectives of the Board. In our view no distinction should be made between different types of lease contracts and one approach should apply.

Using the consumption of more than an insignificant portion of the economic benefits will give rise to a either a grey area or a new bright line with new interpretation discussions.
in our view the current IAS17 approach can be maintained, possibly with improved disclosure requirements if needed.

**Question 3. Lessor accounting**

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

As indicated above, in our opinion a single approach would be in line with the initial objectives of the Leases project. It is not the lessor’s prerogative to estimate the (consumptive) behavior of the lessee. For lessors too, there should be one type of a contract.

About the impairment, we would suggest to look after a more coherent impairment proposal, e.g. an impairment based on a portfolio approach. Currently a lessor tests its net investment in the lease for impairment (both the receivable and the residual). If under the future Leases standard it is not allowed to do the same, this will result in a lessor being forced to recognize impairment losses that it actually does not have in cases where the value of the leased asset covers the credit loss.

**Question 4. Classification of leases**

Do you agree that the principle on the lessee’s expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

No, we do not support this approach. The new tests include new concepts and new judgmental thresholds that are not defined within the Exposure Draft. Instead the instrumentality of the asset to the lessee should prevail.

**Question 5. Lease term**

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

We agree with the proposals on lease term, provided the significant economic incentive is too obvious to ignore. To avoid interpretations discussions about the ‘significant economic incentive’ it is preferred to provide more guidance about the definition or use existing definitions within the IFRS framework.
Question 6. Variable lease payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

The reassessment due to index changes may be appropriate, although the materiality has to be taken into account. From a cost-benefit point of view the reassessment should be reduced to index changes.

Question 7. Transition

Paragraphs C2–C22 state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the boards should consider? If yes, what are they and why?

We agree with these proposals.

Question 8. Disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognized in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

We do not agree with the proposals. The disclosure requirements are too extensive. As set out above, in our opinion it would be better to retain IAS17, possibly with adjusted disclosure requirements instead of this new Lease approach with both a new right of use model and detailed disclosures.