

CBI response to the Exposure Draft Leases (ED)

September 2013

- 1) The CBI supports the objectives of the IASB project in general and welcomes the opportunity to comment on the revised Exposure Draft Leases (ED). We agree with the aim to replace IASB 17 so as to provide better information to users on the liabilities associated with leases.
- 2) However, we are concerned over what we believe to be small benefits compared to the costs of the proposal. As it stands, the proposal would create a substantial increase in administrative burden as companies would need to assess each lease on an individual basis, which in turn would require costly implementation, maintenance and audit. We are particularly concerned about the lack of clarity on how the new rules will affect the UK tax system, which could lead to a great deal of further regulatory change and cost for companies.
- 3) The Type B model in particular contains a number of conceptual flaws and inconsistencies with existing IFRS requirements. We believe this to be an inevitable consequence of the attempt to resolve the P&L issues in the previous Exposure Draft by forcing leases, non-financing in nature, onto the balance sheet.
- 4) The dual approach to the accounting of lease agreements should not be limited to the recognition and presentation in the profit and loss statement, but needs to be also reflected in the balance sheet (either by not putting access leases/rentals on the balance sheet in the first place or by requiring some sort of net presentation).
- 5) It is important that the final standard reflects the review of the IASB's conceptual framework in order to avoid a new leases standard that is inconsistent with the new conceptual framework in critical areas such as the definition of assets and liabilities and the boundary between a lease and a purchase.
- 6) Although the general principle of the "right to use" is now clear, there remain some areas of uncertainty at the margins between leases and services, and leases and purchases. Although from a technical perspective dealing with these uncertainties may appear to be 'fine-tuning' the proposals, this could have a very significant impact on the number of small equipment leases that will be categorised as leases.
- 7) The CBI is concerned that the proposals will add further clutter to accounts. The IASB's Feedback Statement on the Disclosure Forum held in January 2013 noted that preparers may err on the side of caution and 'kitchen-sink' their disclosures. It should be made clear that the disclosures set out in the ED will often only be relevant to the more significant leases entered into. With respect to this, we believe that the introduction of different accounting approaches for different leases creates new scope for confusion and uncertainty over the definition of 'insignificant'. This needs to be clarified.

About the CBI

The Confederation of British Industry (CBI) is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. We represent a broad cross section of UK businesses from both the financial services sector and non-financial sectors and in all sizes, from family owned businesses to FTSE 100.

The CBI helps create and sustain the conditions in which businesses can compete and prosper for the benefit of all. We are the premier lobbying organisation for UK business on national and international issues. We work with the UK government, international legislators and policymakers to help businesses compete effectively.