Bundesverband
Deutscher Leasing-Unternehmen e.V.

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

Berlin, 16. September 2002
mv / gs
☎: 030 / 20 63 37-14
✉: bdl-mail@t-online.de
💻: http: / / www.bdl-leasing-verband.de

Re: Exposure Draft of Proposed Improvements to International Accounting Standards - Comments on the proposed limited revisions to IAS 17

Dear Madam, dear Sir,

our association represents the German Leasing Industry which generates real estate and equipment leasing investments accounting for about 50 billion Euro each year. Responding to the Board‘s request for comments with respect to the above mentioned exposure draft we would like to answer the questions concerning the limited revisions of IAS 17 as follows:

Question 1

Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements – a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the building element is classified as an operating or finance lease by applying the conditions in paragraphs 3 to 10 of IAS 17.

No, we do not agree in splitting integrated leases of land and buildings in separate parts.

In Germany, as in most of the other European countries, land and buildings are usually subject to integrated real estate lease contracts which do not separate between land and building elements. This reflects both the economic reality of the transaction as well as the provisions of civil law from which follows that the legal ownership of a building usually follows the legal ownership of the land. From the economic point of view, neither the lessor nor the lessee are able to asses or negotiate any separate part of the contracted lease payments. These payments can reasonably only be seen as a compensation for the whole bundle of benefits provided by the lessor, containing substantial service elements beside the land and building components.

According to SIC-27.3 even a series of transactions that involve the legal form of a lease should be linked and accounted for as one transaction when they are closely interrelated and negotiated as one transaction. Given this principle, the single transaction of a real estate lease should even more be treated as one integrated transaction and should not be split into separate parts since the overall economic effects can only be understood by considering the transaction as a whole.

Any separation of land and building elements of a lease could only be an artificial approximation and would be subject to several arbitrary estimations. Thus the proposed splitting of integrated real estate leases will not allow any reliable judgement of the separated parts and will not provide any better insight than looking at the lease as a whole. Moreover any efforts with respect to separation will complicate the accounting practice and thus will unnecessarily raise accounting expenses.

Par. 11B of the draft provides a presumption which qualifies the entire lease as a finance lease if the lease payments cannot be reliably allocated between the land and the building elements and if it is unclear that both elements are operating leases. We reject this assumption since – as we mentioned above – problems with the allocation of the lease payments will be the rule and not the exemption. In this case as well as in general, in our opinion the whole contract should be treated as a single integrated lease transaction.

Question 2

Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

Some of the initial direct costs in negotiating a lease can be characterised as capitalisable cost in the sense of IAS 16.7, others are rather sales and marketing cost in nature and should therefore be expensed immediately (see IAS 2.14(d) and IAS 11.20(b)). This ambivalent character of the initial direct costs is well reflected by the choice on how to account for such costs given in IAS 17.33 and 17.44. In our opinion the preparer of the accounts should be able to decide whether the individual character of the costs should lead to a capitalisation of the costs or to an immediate recognition as an expense.

Since the Board considered the allocation method permitted in IAS 17.33 to be not in accordance with the framework (see Par. A8 of the draft), the Board could just change the details of this method while maintaining in general the alternatively allowed immediate expensing of the costs.

We hope that our comments are helpful and will be taken into consideration in the Board‘s discussions of the proposed revisions.

Yours sincerely,

BUNDESVERBAND DEUTSCHER
LEASING-UNTERNEHMEN e.V.

Dr. Wolfram Eckstein
- Managing Director -

Dr. Martin Vosseler
- Head of Accounting Department -