

DEUTSCHE IMMOBILIEN LEASING GMBH (DIL)

15.08.02

International Accounting  
Standards Board  
30, Cannon Street

**London EC4M6XH**  
United Kingdom

**Proposed Improvements to International Accounting Standard IAS 17  
(revised 1997)**

Dear Sirs,

Thank you very much for informing the companies affected by the proposed improvements concerning the International Accounting Standard IAS 17 and asking for comment.

I am pleased to comply with this wish because as former president of Leaseurope I have already had the possibility to contribute ideas to the revised version of IAS 17 in 1997. Now I am exclusively speaking as manager of a real estate leasing company operating in 12 European countries which has realised over € 20 billion of investments. First of all, I want to mention that especially due to the recent developments in the United States the actual allocation of property has become a new importance. In this respect, I really appreciate that you maintain the bottom line of IAS 17 namely the allocation of the economic ownership in the balance sheet under consideration of the risk and reward approach — which is also inherent to the generally accepted accounting principles according to HGB — and thus allocating under quality and unlike US GAAP quantity aspects.

When classifying the lease you now insert the demand concerning real estate leasing that the land and buildings elements are treated separately for the purposes of lease classification — operate or finance lease — unless title to both elements is expected to pass to the lessee by the end of the lease term. First of all, we have to consider that in the most important European countries real estate leasing as transfer for use is based on law of tenancy and is therefore always classified as “operating lease”. If the transfer of title from the lessor to the lessee is already intended from the inception of the lease, the contract is to be qualified as “hire purchase” according to civil law.

Equivalent for the using of land and buildings are rent payments expressed in monthly rents per m<sup>2</sup>. The costs for the land and buildings elements are often not known to the lessee, they are frequently not of interest at all. Regarding this there is also an (enforced) "connection of use between the land and buildings. From the lessee's point of view an economic differentiation is irrelevant. As a person familiar with the daily business of real estate leasing I can only tell you that a different allocation namely e. g. the land with the legal owner/lessor on the one hand and the building with the lessee on the other — just as foreseen in your approach — would turn the principle of true and fair view upside down.

For this reason, I ask you to delete subparagraph 11 A from your draft.

With respect to 11 B the suggestion to allocate minimum lease payments for land and buildings at the inception of a lease would lead into an economic dead-end road for the daily leasing business grown over decades. The lease payments are not derived from two separate assets but from the transfer of use of a specified building exactly defined usable space with which of course has been built on a plot of land. Making differentiation in accounting regarding this point could not be comprehensible for those people reading the balance sheet. In this respect I also ask you to eliminate 11B accordingly.

In order to achieve an objective accounting there is no demand for theoretical games but effective legal and economic access to the assets in order to exclude — like unfortunately happened in the United States — creative accounting. For this reason you should increasingly direct your gaze at the effective legal terms of the contract especially with respect to lease contracts. If — as it is common in Germany — the lessee is entitled to reduce or withhold rent payments in case the leased object is defective of unusable and he has not caused these circumstances, the lease is consequently to be qualified as "operate lease". You should take these economic important contents of the contract into account when amending IAS 17.

As a manager in the European real estate leasing industry with nearly four decades of experience I am glad to be at your disposal for an in-depth discussion at any time.

Yours sincerely,

