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LEASING-UNTERNEHMEN



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### Joint Project IASB/FASB regarding the reform of lease accounting

Dear Sir David,

The "Bundesverband Deutscher Leasing-Unternehmen" (BDL) represents the interests of Germany's leasing companies. Around 200 leasing companies, ranging from medium-sized businesses to international conglomerates, have joined BDL to engage in dialogue with legislators, public authorities and other stakeholders about matters affecting the sector. BDL's members account for around 90 % of new leasing business generated in Germany, a market of some € 42 billion in 2009. Approximately € 39 billion of the € 42 billion of new leasing investments related to moveable assets, especially vehicles, machines and IT/office technology. In 2009 more than 21 % of all investments in moveable assets in Germany were funded through leases.

The German leasing companies have followed the Joint Project of IASB and FASB (the Boards) on lease accounting with great concern. We believe that the Boards should not rush the process developing an Exposure Draft or final standard but rather deliberate the future accounting treatment for leases thoroughly in order to ensure a true and fair view.

In our Comment Letter dated 16 July 2009 on the Discussion Paper "Leases – Preliminary Views" we expressed our central concerns, which were as follows:

- The proposed accounting model results in a considerable increase in complexity. The preparers of financial statements are faced with a dramatic increase in accounting efforts. These efforts are in total disproportion to the information benefits generated for users of financial statements. The excessive accounting effort is at odds with one of the central economic reasons to choose leasing as an investment alternative: to focus on the core business by outsourcing entire investment processes.
- The proposed accounting model is inconsistent with general accounting principles and with the Framework. This can be seen, for example, in the proposed accounting treatment of lease payments in optional lease extension periods. The proposal



contravenes the definition of a liability as the lessee does not have an unconditional obligation to enter into the extension period.

- Further inconsistencies result from the missing conceptual link between lessor and lessee accounting. The rudimentary discussion of the lessor point of view in the Discussion Paper does not meet the high standards which should be applied to Due Process in order to assure a transparent, democratically legitimate standard setting process.

Unfortunately, during the Boards' redeliberations since the end of the Comment Period for the Discussion Paper, we can see no evidence that the Boards will pay the necessary attention to the criticism expressed not only by leasing companies, but also by companies in other industries, national standard setters, auditing firms and academics in their comment letters. On the contrary, the complexity of the proposals has further increased and the inconsistency in the proposed accounting for lease payments which lack an unconditional obligation is being maintained. Furthermore with regards to lessor accounting the Boards continue to pursue the Performance-Obligation-Approach – to which approximately three-quarter of the commenting constituents objected in their comment letters.

We believe that generally the Boards' consideration of lessor accounting reveals considerable deficits of the reform process. The FASB favours the Performance-Obligation-Approach which would lead to an accounting outcome that completely fails to represent the economics of the majority of lease arrangements. Moreover it would lead to the recognition by the lessor of an obligation to allow the lessee to use the leased asset; in our view, this is conceptually inconsistent with the recognition of an unconditional right-of-use asset in the balance sheet of the lessee. The IASB further adds to the complexity by proposing no less than five different potential accounting treatments under the "hybrid model" (i.e. proposing different accounting treatments for short-term leases, investment property leases, manufacturer or dealer lessors, de facto sales) and by proposing to use the unsatisfactory Performance-Obligation-Approach for the vast majority of lease arrangements notwithstanding that both Boards initially started the project with the intention to abolish the (ostensibly problematic) differentiation between two different forms of lease, namely operating and finance leases.

Our impression is that the Boards are subordinating due process and the quality of the forthcoming leasing standard to their unrealistic project timelines. We believe that considerable damage may be inflicted on the leasing sector and thus on the supply of necessary funding sources for the whole economy. Especially in the current economic crisis, leasing has proved to be an essential financing alternative, one that should not be sacrificed to accomplish the Convergence Project in due time.

We therefore urge the Boards to refrain from their unrealistic timeline and to address the concerns expressed in the comment letters, especially regarding complexity and conceptual inconsistency, before publishing an Exposure Draft. A first step would be to abandon the Performance Obligation-Approach – on a stand-alone basis and within a "hybrid model" – in favour of an lessor accounting model which ensures a true and fair view of the economic substance of the arrangement. Leaseurope, the European



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umbrella organisation of the leasing industry, has repeatedly brought forward alternative solutions which we fully support.

Best regards,

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