Leaseurope

The Voice of Leasing and Automotive Rental in Europe

Revenue Recognition for Lessors:
A clarification and discussion in the context of different approaches to lessor accounting

March 2010

Dear Sir David, dear Mr Herz,

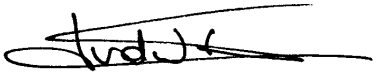
To date, the IASB and FASB (the Boards) have been developing a new model for lessor accounting that is based on the performance obligation approach. We understand that one of the main reasons the Boards opted for this approach is because they are concerned that the alternative approach, the de-recognition model, would in their view, always lead to up-front gains for lessors.

This assumption is, however, incorrect and in this paper we attempt to clarify both the existing revenue recognition situation for lessors, as well as that that would arise under future lessor accounting requirements.

We also explain why a lease contract does not create a new right but is instead transferring existing rights from the lessor to the lessee and have provided as an appendix to this paper a comparison of various ratios under the performance obligation and de-recognition models as further evidence of how the performance obligation model does not reflect the economics of a lease transaction.

We have significant additional reservations with respect to the performance obligation approach[1] for lessor accounting and are therefore **pleased to note that the IASB has recently acknowledged that further consideration should be given to the de-recognition model.** We would encourage the FASB to do the same and wish to reiterate our commitment to assist the Boards in developing a high quality lease accounting standard. We remain at the Boards disposal for any further input they may require on aspects of lessee or lessor accounting. Please do not hesitate to contact us or Leaseurope staff (Jacqueline Mills, j.mills@leaseurope.org - +32 2 778 05 66) for any questions you may have on this paper.

Yours sincerely,



Tanguy van de Werve
LEASEUROPE DIRECTOR GENERAL

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CHAIR, LEASEUROPE ACCOUNTING COMMITTEE

[1] These issues are not further described in this paper as they have already been developed extensively in our comment letter addressed to the IASB and FASB on 25 January 2010.

I. Types of revenue for lessors

This section describes the various categories of revenue for lessors other than those with short term rental activities (e.g. daily car rental firms). In our view, short term lessors should continue to apply the current operating lease accounting model as described in our 25 January comment letter.

1) Interest income

A lessor's interest income is the difference between the sum of the total rentals due to the lessor and the initial carrying value of the lessor's receivable. Effectively, this is the price the lessor is charging for providing the lessee with the funding in relation to the right to use the physical asset. Under current lease accounting guidance, interest income is recognised over the lease term. Under future lease accounting guidance (whether the model chosen is the de-recognition or the performance obligation model), interest income will also always be recognised over the lease term.

2) Revenue on service payments associated with a lease

In addition to the lessor making the right of use of the physical asset available to the lessee, the lessor may also provide various services such as insurance or maintenance of the leased asset to the lessee. A lessor will always be able to distinguish and bifurcate the portion of rentals attributable to these services from the payments it receives for the right to use the physical asset. Indeed, it is the lessor's business to be able to do so. Being executory arrangements, revenue on services associated with a lease is currently and will under any future lessor model be recognised over the lease term as and when those services are provided.

3) Sales revenue

Manufacturer/dealer lessors

Manufacturing companies may set up a leasing company to provide sales finance support. Manufacturers will produce goods and have a manufacturing cost of sales. When leasing, they will not use this cost of sales as the basis for calculating the terms of a lease. Instead, they will calculate the lease terms on the basis of the normal cash price of the asset (i.e. the asset's fair value). The difference between the normal cash price and the manufacturer's cost of sales is a sales profit for the manufacturer.

Third party lessors

Lessors that are independent from a manufacturer/dealer, also known as third party lessors, are lessors that are only seeking to earn interest income on a lease (plus potentially an income on disposing of an asset at the end of the lease). *They are not seeking to earn a sales profit on the leased good.* Indeed, because these lessors purchase assets to be leased to their clients at a normal cash price which is then used to calculate the terms of the lease, there is no sales profit for third party lessors to recognise. In other words, for a third party lessor, the difference between their "cost of sales" and the value of the asset used to calculate lease payments is equal to zero (this is further illustrated in Section III below).

Consequently, third party lessors will never have any upfront sales profit to recognise, regardless of the accounting model that is applied for lessor accounting. The Boards' concern that a de-recognition model would lead to up-front gains for all lessors is therefore unfounded.

Within Europe, a substantial portion of lessors are third party lessors. Leaseurope estimates that out of the 2 000 or so leasing firms represented through its member associations, approximately 82% are third party lessors (48% are bank-owned and 34% are independent from banks or manufacturers) and the remaining 18% are manufacturer captives[2]. Of the top 20 European leasing firms, which represent 40% of the total European leasing market, 17 are bank-owned[3].

II. Existing approach to sales profit recognition

Current lease accounting guidance allows manufacturer and dealer lessors to recognise selling profit or loss (i.e. the difference between the fair value of the leased asset or if lower, the present value of minimum lease payments and the manufacturer's/dealer's cost of sales) when the leases they grant are classified as finance leases. When leases are classified as operating leases, this profit/loss is not recognised. The current guidance is based on the underlying principle that a finance lease is equivalent to an outright sale of the leased asset.

Other types of lessors (i.e. third party lessors) do not recognise sales revenue under existing guidance, independently of whether the lease granted is a finance lease or an operating lease. As explained above, this is because a third party lessor's business is different to that of a manufacturer. Indeed, third party lessors are only seeking to earn interest income on a lease (plus potentially an income on disposing of the asset at the end of the lease) and are not seeking to earn a sales profit on the leased good. Indeed, there is no sales profit for them to recognise.

III. Approaches to sales profit recognition under new lease accounting guidance

The right of use model currently being developed as the new basis for lease accounting no longer distinguishes between finance and operating leases. Instead, all leases are treated as the lessee having purchased a right of use asset that is being funded with an obligation to pay rentals[4]. Consequently, instead of distinguishing between leases that are equivalent to outright sales of the underlying asset (today's finance leases) and leases that are not (today's operating leases), the model considers that a right of use has always been sold to the lessee.

Consequently, the question that arises from this model is when a lessor would recognise sales profit. Bearing in mind that third party lessors do not have sales profit to recognise, this is an issue only for manufacturer/dealer lessors.

[2] Leaseurope's 2008 Annual Statistical Enquiry
[3] Leaseurope's 2008 Ranking Survey
[4] Paragraph 5.13 of the Leases Discussion Paper

1) Sales Profit Recognition under a De-recognition Model

If a de-recognition model is applied to lessors, lessors would de-recognise the right of use asset that has been sold to the lessee. This right of use is measured at the present value of lease payments. Some Board members have argued that this amount would represent an up front gain or sales revenue for all lessors.

The case of third party lessors

However, for a third party lessor, as mentioned previously, the difference between the cost of the asset they have purchased to be leased and the present value of lease payments (plus any residual amount), where the discount rate is the rate implicit in the lease, will always be equal to zero. This is because it is the cost of the asset that is used as the basis for calculating the right of use of the asset (which is equal to the present value of lease payments).

To illustrate this further, we have provided below an example showing the mechanics of how a third party lessor would price their lease payments and how there is no sales revenue for these lessors. The example used here is based on the same assumptions at the example used in our comment letter of 25 January.

A lessor purchases an asset at an normal cash price. This is equal to CU10.000,00.

The lessor determines that the residual value of the leased asset at the end of the lease contract (5 years) will be equal to 10% of the initial asset value (CU1.000,00). The lessor determines the interest rate it will charge, taking into account its cost of funds, the client's credit risk, etc. For the sake of our example, this rate is 10%. The lessor then calculates the required rental payments for this stream of cash flows, assuming that payments will be constant and using the constant rate it has determined.

In excel, the function used is PMT, where the arguments are rate = 10%; Nper (total number of payments for the loan) = 5; Pv (present value, the total amount that a series of payments is worth now) = (CU9.379,08). This represents the difference between the current value of the asset and the present value of the residual amount (i.e. CU10.000,00 – CU620,92). This is effectively the amount that the lessor is funding on behalf of the lessee. The resulting annual rental payment is CU 2,474.18.

Alternatively, using the same PMT function, one could simply say that the present value of payments (Pv) is equal to (CU10.000), the asset price, and that the future value (Fv) to be obtained after payments are made is equal to CU1.000 (the residual value the lessor is taking). The function will then solve for the amount of rental payments that are required to balance the equation, i.e. annual payments of CU 2,474.18.

The journal entries and the financial statements on day one of the lease and are as follows:

Journal entries on day one of the lease:			
		Debit	Credit
Lessor purchases asset	Asset	10,000.00	
	Cash		10,000.00
		Debit	Credit
Lessor recognises receivable and de-recognises right of use	Asset		9,379.00
	Receivable	9,379.00	
Lessor's financial statements on day one of the lease:			
Balance sheet	**Initial**		
Asset	620.92		
Receivable	9,379.08		
Total Assets	10,000.00		
D&E (balancing #)	10,000.00		
P&L			
Net result	0		

As can be seen from the example above, third party lessors would never be able to de-recognise more than the cost of the asset and consequently will never recognise an up-front sales profit. The only way to do so would be to calculate the present value of the lease payments at a rate that is *lower* than the rate used to calculate the rentals in the first place. Provided the rate used to discount future rentals is the *implicit rate of the lease*, then third party lessors will have no sales margin to recognise: the sum of the receivable and residual amount will always equal the initial cost of the asset.

If an asset is recovered at the end of the lease term at its residual value and then leased a second time, *the residual value should be used as the cost of the underlying asset*, and the same reasoning applied.

We also recognise that one of the reasons the Boards have tentatively decided not to pursue the de-recognition model is because they consider that it does not function well in situations where fully depreciated assets still generate rental streams (the de-recognition model would result in a negative asset or deferred income in such cases). However, this will only happen in situations where the underlying leased asset is held at amortised cost and has an extremely long useful life. This will typically only arise in leases of land and buildings and will not be an issue if the assets are carried at fair value e.g. through allowing and exercising a fair value option for these types of lessors.

This issue is therefore not a flaw of the de-recognition model but is due to the method of asset valuation used. If property lessors apply the fair value option in IAS40, it will not arise. We note that the Boards have recently tentatively decided to scope investment properties out of the leases guidance.

The case of manufacturer/dealer lessors

In the case of a manufacturer/dealer lessor, the de-recognition model should lead to the recognition of a receivable and a residual (if any), the sum of which is greater than the manufacturing cost of the asset. While there is no sales profit for a third party lessor to recognise, it is however therefore possible for a manufacturer/dealer lessor to recognise such an up-front gain because the price of the asset that they have used to determine the rental payments is different (greater) to their cost of sales.

We use the same example as above and assume that the manufacturer's cost of sales is CU8.750,00. The normal cash price of the asset is CU10.000,00 as above and it is this amount forms the basis for calculating the rental payments. The excel calculation that is made by the manufacturer to price the rentals is: rate = 10%; Nper (total number of payments for the loan) = 5; Pv (present value, the total amount that a series of payments is worth now) = CU9.379,08 (= CU 10,000.00 - CU620,92).

The journal entries and the financial statements on day one of the lease are as follows:

Journal entries on day one of the lease:			
		Debit	Credit
Asset made available for lease/sold	Asset	10,000.00	
	Inventory		8,750.00
	Turnover		10,000.00
	Cost of sales	8,750.00	
Lessor recognises receivable and de-recognises right of use	Asset		9,379.00
	Receivable	9,379.00	

Lessor's financial statements on day one of the lease:	
Balance sheet	**Initial**
Asset	620.92
Receivable	9,379.08
Total Assets	10,000.00
D&E (balancing #)	10,000.00
P&L	
Turnover	10,000.00
Cost of sales	8,750.00
Gross profit	1,250.00

In this example, the manufacturer/dealer lessor has recognised an upfront profit of CU1.250,00, i.e. the difference between the cost of sales and the normal cash price of the asset.

We understand that the Boards are concerned about manufacturer/dealer lessors recognising sales revenue on what are today's operating leases (currently not considered to be equivalent to outright sales). However, under a lessor model where the manufacturer/dealer lessor has sold the right of use asset, it would appear to be logical that *if* there is a profit (or loss) on *this* sale (i.e. the sale of the right of use) to be recognised, it *should* be recognised. Indeed, in cases corresponding to today's operating

leases, the manufacturer has sold a portion of the leased asset to the lessee that corresponds to the right to use this asset. As control of that right has been transferred to the lessee, the lessor should recognise any profit or loss on that sale upfront.

One may argue that it is not appropriate for a manufacturer to recognise a full sales profit if it has a more than trivial residual interest in the lease (the sale profit shown in the example above is equivalent to the sales profit that would arise in an outright sale, a finance lease or if the lessors' residual interest is ignored). Others however would agree that if a manufacturer has gone through an added value production process and is using a lease to support its sales, it should be able to recognise the same amount of profit as if it had sold the asset itself for cash consideration, particularly as the profit is observable by reference to market prices.

Nevertheless, the issue of manufacturers taking a full upfront profit under the de-recognition model can be addressed, for instance by the manufacturer recognising an amount of revenue and cost of sales that are proportionate to the fraction of the underlying asset that the sale of the right of use represents. In other words, the resulting profit/loss would be a *portion* of the full profit/loss that the lessor would have recognised in the case of an outright sale. One method of accounting for this has been illustrated in Example 2 of page 11 of Leaseurope's letter dated 25 January.

2) Sales Profit Recognition under a Performance Obligation Model

It is our understanding that, under the misconception that the de-recognition model leads to the up front recognition of profit for all lessors, the Boards have devised an approach where sales revenue would always be taken over the life of the lease: the performance obligation model.

Nevertheless, the Boards appear to have acknowledged that it is appropriate for such revenue to be recognised in certain circumstances. Consequently, the Boards are now forced to scope out certain transactions from the leases guidance so that they qualify as sales instead. Very recently, it has been decided that when control of the underlying asset and/or all but a trivial amount of the risks and benefits associated with the underlying asset are transferred to the lessee, these contracts are no longer leases but outright sales and lessors can therefore recognise sales revenue on these. In other words, the Boards are now re-introducing a form of classification into the leases model, when one of their own criticisms of the existing approach relates precisely to the existence of two different categories of contracts. The consequence of this decision is that it will *reduce comparability* between different contracts: some leases will be grossed up under a performance obligation model and others (sales/purchases) will not. It is questionable whether this will provide more meaningful information to users.

The recently determined indicators of when leases are in fact outright sales still need to be examined in detail by the European leasing industry. However, it would appear that the category of contracts where a manufacturer/dealer could recognise sales revenue (again, third parties would have no such revenue to recognise) would be more restrictive than under today's approach. This means that manufacturers who run their own leasing companies to support their sales will either be forced to turn to third party lessors to obtain their sales revenue or will have much greater difficulty in selling their products. In either case, accounting will be driving business practice.

To illustrate this issue, the following section describes the use of leasing by manufacturers in the printing and photocopier sector and explains how their business models will be forced to change under the new lease accounting guidance based on the Boards most recent tentative decisions.

The nature of leasing in the printing and photocopier industry:

- Approximately 75% of all machine placements are generated through leasing
- One third of this leasing is done in-house by the manufacturer and the remaining two thirds by third party lessors (vendor programmes)
- The in-house leases qualify currently as finance leases. Manufacturers therefore recognise sales profit on these leases under current guidance
- Of these finance leases, less than 10% would qualify as "sales" under the Boards' recent tentative decisions

As is apparent from these figures, *leasing plays a key role in supporting manufacturer sales*. This is because many businesses prefer to lease as leasing enables them to outsource their asset related-needs to a service provider rather than purchase an asset and bear the risks associated with it. Moreover, in times of restricted funding, leasing is also a precious source of asset finance.

If manufacturers cannot make profit on their sales through their in-house leasing programmes, they will seek other means of doing so. This will involve increased recourse to third party lessors (vendor programmes/lease assignment) as is shown below:

	Manufacturer lessor business models	**Revenue recognition under today's guidance**	**Revenue recognition under future (PO obligation) guidance**
1	In-house lease (direct or indirect, e.g. through an asset dealer)	Currently these in-house leases qualify as finance leases and manufacturers recognise sales profit	Less than 10% of these contracts would qualify for sales revenue recognition
2	Vendor programme (manufacturer sells asset to a third party who provides a lease to the end user)	The manufacturer recognises sales profit on the sale of its asset to the 3rd party	No change
3	In-house lease and assignment of receivable or sale of asset and receivable (=lease) to a 3rd party	The manufacturer recognises interest margin on the sale of the receivable and sales profit on sale of the asset to the 3rd party	No change

When using business model 1 above (in-house leasing), manufacturers will no longer be able to recognise sales profit for *90% of their leases written under the performance obligation approach.* They will thus be forced to apply business models 2 and 3 instead. As a result, the only effect the new lease accounting guidance will have is to change business practice by forcing manufacturers to conduct third party programmes and/or will prevent end-users from obtaining equipment, with a potentially significant economic impact.

However, if the model to be applied to lessors were to be the de-recognition model, there would be *no need for a distinction between leases that are sales and other leases and there would be no change in existing market practice***.**

IV. Leasing: a transfer of existing rights or the creation of a new right?

In order to justify the performance obligation, some Board members have argued that a lease contract creates a new right. A lessor therefore does not lose control of the leased property for the lease term and continues to recognise the leased item[5].

During the lease, it is the lessee that controls the leased asset[6]. By definition therefore, the lessor cannot make use of the asset during the lease term, it has given up this right to the lessee. For example, when providing a car lease, it cannot drive the car itself; it has allowed the lessee to drive the car instead[7]. Yet, under the performance obligation approach it would be accounting for this car on its balance sheet as if it was effectively able to use it. For instance, it would depreciate the asset, implying that it was consuming the economic benefit of the car. This would be misleading to the users of the lessor's financial statements as it is the lessee that is consuming that economic benefit (and is reflecting this in the subsequent measurement of its right to use asset) and not the lessor.

In the context of lessee accounting, the Boards have frequently argued that airlines should have the rights associated with their use of aircraft on lease on their balance sheets. Under a performance obligation approach, the Boards now seem to be saying that aircraft lessors should have the same aircraft on their balance sheets, even though they cannot use them.

Consider a situation where an entity has purchased two identical assets. It uses one asset and leases the second one out. At one point in time the first asset becomes unavailable for a period of time (e.g. it is confiscated and can only be recovered after a legal procedure or is temporarily inaccessible, etc.). The entity can therefore not use the

[5] See IASB agenda paper 11/FASB memo 29, May 2009 Board Meetings

[6] The Boards have recently decided that a lease conveys a right to use an asset and that this is the case when the lessee controls the use of the underlying asset (Staff summary, February 2010).

[7] In other words, the lessor has provided the lessee with a right to quiet enjoyment of the asset. While there may be contracts that allow substitution in the event of non-performance, this is a right for the lessee to demand replacement, rather than for the lessor to withdraw the asset. The vast majority of lease contracts prevent the lessor from intervening in any way except in the event of default.

asset and would consequently make an adjustment to its carrying value to reflect this. The entity is in *exactly the same situation when leasing out the second asset* – it cannot use the asset for a period of time and should consequently reflect this in the asset's value. This is effectively what the de-recognition model does and what the performance obligation model fails to do.

From a conceptual point of view, there appears to be no justification for the fact that, while there is only one physical asset in the "lease system", generating one stream of economic benefits, a lessee would have an asset for the right to use the physical asset and the lessor two assets: a receivable and the physical asset. Under this approach, the lease has created three assets out of one initial asset.

Logically, *a right to future cash flows cannot be used to support both a physical asset and a receivable*. If the cash flows are attached to a receivable, then the physical asset has no future income stream and would otherwise be technically impaired.

In reality, what is happening in a lease situation is that a lessor is *exchanging* its right to use the asset for a series of payments that is appropriate consideration. It is not creating new rights, it is instead transferring existing rights to the lessee. Indeed, this is how the right of use model for lessees is described in the March 2009 Leases Discussion Paper.

Therefore, if one is to develop a coherent accounting model for leases where accounting for lessors is consistent with these conclusions for lessees, the following facts must be taken into account:

1) The lessor has performed upon delivering the asset to the lessee[8]. It does not have a continuing performance obligation to permit use of the leased asset throughout the contract and therefore cannot recognise a liability for such an obligation (as it does not exist).

2) The lessor has given up the right to use the leased asset to the lessee as it has been acquired by the lessee[9]. This implies that an asset is a bundle of rights, some of which can be transferred (via a lease contract for instance). If some of these rights are transferred, the lessor has effectively given up some of the "value" of the asset i.e. it has foregone its entitlement to the future economic benefits associated with this right to use during the lease term. On the other hand, it has retained rights over the residual value; these rights are independent from that part of the asset that gives rise to rentals. This shows that rights over the asset are clearly identifiable and separable. The lessor's measurement of the leased asset should reflect this situation.

[8] This is the justification for the lessee's obligation to make rentals meeting a liability. Indeed, the obligation is unconditional because the lessor has performed. This is confirmed in the Leases Discussion Paper and reinforced by paragraph 3.19 of the Discussion Paper which states that 'unless the lessee breaches the contract, the lessor has no contractual right to take possession of the item until the end of the lease term".

[9] Paragraph 5.13 of the Discussion Paper notes that "the Boards tentatively decided that in a lease contract the lessee has bought a right-of-use asset and is funding that acquisition with an obligation to pay rentals

3) The lessor no longer controls the right to use the asset during the lease term. As it is the lessee that controls this right, in order to be consistent with the Basis for Conclusions in the Derecognition Exposure Draft which states that "two parties cannot control the same asset simultaneously"[10], the lessor cannot control this right and should de-recognise the part of the asset associated with the right.

V. Conclusion

In conclusion, the de-recognition model:

- Does not lead to any up-front revenue of any kind, with the exception of sales profit for manufacturer lessors, a situation which reflects the added value that the manufacturer has created by completing a production process. Under this model, in order to reflect any residual interest, a manufacturer's profit/loss can be limited to a portion of the full profit/loss that the lessor would have recognised in the case of an outright sale.
- Does not require the creation of artificial categories of contracts, i.e. a distinction between leases/sales which carries a risk of miscategorisation and creates lack of comparability between economically similar contracts.
- Reflects lessor business models and will not force market (commercial) practice to change.
- Is conceptually and fundamentally consistent with the right to use model for lessees.
- Reflects the fact that a lease creates a transfer of rights from one party to another.
- Is the only model that appropriately reflects the economics of a lease transaction (see for instance ratio analysis in appendix).

[10] BC18, Exposure Draft ED/2009/3, Derecognition, Proposed Amendments to IAS 39 and IFRS 7

Appendix: A comparison of lessor ratios under the de-recognition model and the performance obligation model (gross and net presentation)

The following note briefly compares the impact of various accounting models for lessors (de-recognition, performance obligation - gross presentation, performance obligation - net presentation) on some key financial indicators of lessors. The underlying calculations and definitions of the ratios used have been made available to the IASB/FASB staff.

Lease example:

- Machine cost: €10,000.00
- Lease term: 5 years
- Payments: annual, in arrears
- Lessor's residual value: 10%
- Rate implicit in the lease: 10%
- Present value of the residual value: €620.92
- Amount to amortise: €9,379.08 (= €10,000.00 - €620.92)
- Rental payments: €2,474.18

This is the same basic lease example used in Leaseurope's 25 January comment letter on lessor accounting models (examples 1, 3 and 4).

Other assumptions:

Equity

- De-recognition model: 8% total assets
- Performance obligation models: same equity as under de-recognition

Debt

- Cost of debt under all models: 8%

Overheads

- De-recognition model: 1.5% total assets
- Performance obligation models: same overheads as under de-recognition

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De-recognition

	Y1	Y2	Y3	Y4	Y5
Total Assets	8,525.82	6,904.23	5,120.47	3,158.34	1,000.00
Liabilities	7,843.76	6,351.89	4,710.84	2,905.68	920.00
Equity	682.07	552.34	409.64	252.67	80.00
Total Liabilities & Equity	8,525.82	6,904.23	5,120.47	3,158.34	1,000.00
Net result	114.00	97.19	78.71	58.37	36.01
Key Indicators					
Cost/Income (banking approach)	56.82%	56.82%	56.82%	56.82%	56.82%
Liabilities/Equity	11.50	11.50	11.50	11.50	11.50
Equity/Total assets	8.00%	8.00%	8.00%	8.00%	8.00%
Return on Equity	14.25%	14.25%	14.25%	14.25%	14.25%
% of total profit taken in year	29.67%	25.29%	20.48%	15.19%	9.37%

Performance obligation - gross

	Y1	Y2	Y3	Y4	Y5
Total Assets	16,042.81	12,552.91	8,894.03	5,049.25	1,000.00
Performance Obligation	7,503.26	5,627.45	3,751.63	1,875.82	0.00
Debt	7,857.48	6,373.13	4,732.76	2,920.77	920.00
Equity	682.07	552.34	409.64	252.67	80.00
Total Liabilities & Equity	16,042.81	12,552.91	8,894.03	5,049.25	1,000.00
Net result	127.72	103.61	77.69	49.79	19.70
Key Indicators					
Cost/Income (banking approach)	93.85%	94.90%	96.08%	97.42%	98.94%
Liabilities/Equity	22.52	21.73	20.71	18.98	11.50
Equity/Total assets	4.25%	4.40%	4.61%	5.00%	8.00%
Return on Equity	15.97%	15.19%	14.07%	12.15%	7.80%
% of total profit taken in year	33.24%	26.96%	20.22%	12.96%	5.13%

Performance obligation - net

	Y1	Y2	Y3	Y4	Y5
Total Assets	8,539.55	6,925.47	5,142.40	3,173.44	1,000.00
Debt	7,857.48	6,373.13	4,732.76	2,920.77	920.00
Equity	682.07	552.34	409.64	252.67	80.00
Total Liabilities & Equity	8,539.55	6,925.47	5,142.40	3,173.44	1,000.00
Net result	127.72	103.61	77.69	49.79	19.70
Key Indicators					
Cost/Income (banking approach)	54.01%	55.24%	57.14%	60.67%	70.63%
Liabilities/Equity	11.50	11.52	11.54	11.55	11.56
Equity/Total assets	7.99%	7.98%	7.97%	7.96%	8.00%
Return on Equity	15.97%	15.19%	14.07%	12.15%	7.80%
% of total profit taken in year	33.24%	26.96%	20.22%	12.96%	5.13%

Impacts of accounting models on key financial indicators:

De-recognition

- Constant ratios, consistent with user expectations
- Appropriate profit recognition

Performance obligation - gross presentation

- Ratios are not constant over time
- Cost/income doubles
- Liability/equity ratio doubles: suggests gearing has increased but this is not really the case, no new funds have been raised
- Equity/assets ratio decreases: note, regulated lessors may be required to hold additional regulatory capital
- Net result front ended: skewed due to artificial mismatches in depreciation/amortisation of the various components, impacts on ROE

Performance obligation – net presentation

- Ratios are not constant over time
- Cost/income, liability/equity and equity/assets ratios are more in line with de-recognition results
- Net result front ended: skewed due to artificial mismatches in depreciation/amortisation of the various components, impacts on ROE