EuroCommerce

THE RETAIL, WHOLESALE AND INTERNATIONAL TRADE REPRESENTATION TO THE EU

IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

30 March 2011

Dear Sirs,

We have serious concerns about your planned reforms of International Financial Reporting Standards, particularly the proposed revision of IAS 17 – Leases.

The revised standard, as currently proposed by the IASB, would have a very significant impact on companies that use this type of contract.

Removing the current distinction between finance leases and operating leases would immediately trigger a sharp rise in these companies' reported debt, due to:

1. The inclusion of all of these contracts – and consequently the corresponding assets and liabilities – in the lessees' balance sheets, and not just those qualified as finance leases as is currently the case.

2. The obligation to recognize – separately from assets owned outright – a right-of-use asset in an amount equal to the present value of the lease payments, as a result of the operating structures chosen by the companies concerned (retailers, hotels, etc.).

If the proposed reform of IAS 17 goes ahead, it will give rise to **complex accounting issues** and **increased costs** for the companies concerned. What is won't do is improve the quality of information available to analysts, because of the resulting **high degree of volatility in the reported earnings, assets and liabilities of the companies that use leases**:

- **In the case of variable-rent leases, for example, in view of the wide range of available options, it will be incredibly difficult to estimate the present value of lease payments to be recorded in liabilities. And the probabilities will have to be recalculated at each successive balance sheet date.**

- Because the liability will be re-estimated at each period-end, it will be impossible to compare a company's balance sheets from one year to the next and comparisons between companies will be even more meaningless.

Rather than providing greater transparency, as claimed by the reform's initiators, the changes will render the accounts harder to understand. This is likely to lead to rating downgrades that will make it more difficult for companies to raise debt financing and severely restrict their ability to grow their business.

The proposed reform runs contrary to the G20's calls to accounting standard setters following the London summit in April 2009 to make accounting standards less complicated and to avoid uncertainty in measuring assets and liabilities in corporate balance sheets.

EuroCommerce a.i.s.b.l.
Avenue des Nerviens 85, B-1040 Brussels
F: +32 2 230 00 78
www.eurocommerce.be

It would also cut short the recovery in our business segments that are being counted on to help drive economic growth and create jobs.

In summary, we believe that the introduction of new disclosure requirements (covering for example lease payments, the duration of lease commitments and existing options) would improve the quality of information about lessees' obligations and rights without weighing down their balance sheets with non-essential information that is difficult to understand.

For these reasons, we sincerely encourage you to re-think the proposed reform.

Yours faithfully,

Xavier R. Durieu
CEO
T:+32 2 737 05 91
delberghe@eurocommerce.be