

Submitted by email to: hhoogervorst@ifrs.org

To the Chairman and other members
of the International Accounting Standards Board (IASB)
30 Cannon Street
EC4M 6XH London
UNITED KINGDOM

Amsterdam, 10 December 2012

Ref: B2012.66

Subject: Statement of support for IASB's efforts to proceed with international financial reporting
standard on leases

Dear members of the IASB,

Eumedion took notice of the IASB Chairman's speech on 6 November 2012, in particular his statement on leases¹. Eumedion is the dedicated representative of the interests of 70 institutional investors – all with a long term investor horizon – and our general aim is to promote good corporate governance and sustainability in the companies our participants invest in. Together our members have more than € 1 trillion assets under management. Through the investments in equity and non-equity, long term institutional investors are a major source of the capital that is used by listed companies to grow, create wealth and provide employment, which is vital to the long term interests of the European economy.

Since we believe proper accounting for leases is important for investors, we would like to take the opportunity to share our thoughts on leases, ahead of the upcoming exposure draft.

The final exposure draft may very well cause us to request a few adjustments, but we want to make very clear that we believe that the IASB is on the right track regarding leases.

¹ <http://www.ifrs.org/Features/Pages/Hans-Hoogervorst-Speech-LSE-November-2012.aspx>

Please find below a number of arguments and observations we hope you, and others, will find encouraging in supporting the envisaged new standard for leases.

1. Eumedion concurs with IASB's observation that operating leases are a major source of off balance financing.
2. Eumedion fully supports IASB's efforts to create a standard that abolishes the current, rather artificial, difference in accounting for financial leases (on balance) and operating leases (off balance).
3. Eumedion concurs with the tentative thoughts of the IASB that there is a valid and relevant distinction to be made between leased assets that are 'consumed' like machinery, and those that are not, like land.
4. Eumedion expects institutional investors to benefit from a new leases standard since currently nearly all securities analysts now individually need to make more or less the same adjustments to take the off balance sheet leverage from leases into account. Especially since these adjustments are quite often very significant.
5. Eumedion expects the leases standard to result in a significantly better true and fair view of an entity's results and leverage:
 - a. Analysts will need to make less adjustments;
 - b. More accurate analysis and greater understanding of a company's financial position and performance, as the current practice of rough estimates on a handful of aggregated numbers is replaced by an audited calculation of leverage based on the actual assets leased;
 - c. Companies become easier to compare;
 - d. Less need for analyst judgment results in reduced uncertainty;
 - e. More time-efficient analysis reduces costs of analysis.
6. Eumedion also expects many reporting entities to make better economic decisions, with positive effects at a macroeconomic level as well. It is well known that many companies have structured leases in a way to appear less leveraged. We regard this as a dubious form of 'perception management'. Since the new standard allows for minimal opportunities for structuring a lease to become off balance, these companies are likely to evaluate future lease contracts and the alternative of buying the asset involved on proper economic decision making. This can only be in the long term interest of all stakeholders. This will replace a decision making process that has been influenced by finding ways to appear less leveraged.

Since adjusting for off balance sheet leases is so widespread among investors, this is usually a futile practice anyway, wasting time and money of companies, auditors, and investors. It is time for the IASB to bring this costly carousel of first window dressing and the subsequent analyst corrections to a grinding halt.

7. Companies pay the bill of reporting, but it is the investor that ultimately bears these costs as these bills reduce profit, and the scope for dividends. Therefore, investors and management of companies are increasingly weary of opportunities to 'cut the clutter' out of reporting: exclude data that does not add to the understanding and decision making process of stakeholders. Eumedion publicly invited companies to reduce this type of disclosure². If the interest of an entity's management is fully aligned with its stakeholders, the cost-benefit analysis of transparency will be very similar. If certain disclosure requests meet the cost/benefit analysis of knowledgeable investors, but there is opposition of management based on either a cost argument or a transparency argument, it raises the question how well management interests are aligned with stakeholder interests. We urge the IASB not to be too sensitive to any management that promotes sub-par reporting to allow for a continued game of keeping up appearances. This clearly is not in the interest of long term stakeholders, and not even in the long term interest of the company itself.
8. We also took notice of a press release issued by Leaseurope³, a representative body of lessor companies. Of course, it is not uncommon for a seller to downplay a negative trait of a product on offer, in this case the leverage in a lease contract. However, it is quite uncommon to head for a complete, and blunt, denial such as Leaseurope makes by stating that there is no leverage for investors in leasing a car for over a year. Standards should not accommodate such sellers, but should support investors in getting a true and fair view.
9. Eumedion would like to highlight that some of the reporting entities that engage in lease contracts that are currently off balance, that will under the new standard become on balance may have dubious motives to protest against a new leases standard. Some of these companies may be truly convinced that these contracts contain no leverage. Eumedion believes even those companies should agree that standards are primarily created to fulfill the needs of users of financial statements and IASB has gathered sufficient evidence that users consider operating lease obligations as leverage as well. Primary financial statements should reflect such leverage. There may also be forces that just oppose the standard in an effort to make an entity appear less leveraged than it is through the eyes of investors. Obviously, Eumedion believes the IASB should have little sympathy for these forces either.


² http://www.eumedion.nl/en/public/knowledgenetwork/spearheadsletter/2012_spearheads_letter.pdf

³ <http://www.leaseurope.org/uploads/documents/press-releases/pr121107.pdf>

10. Eumedion expects without any doubt that IASB's current tentative thoughts on a new standard for leases will result in improved financial reporting for investors. Therefore, Eumedion fully supports the IASB in its efforts and urges the board to finalise the Exposure Draft and the subsequent standard without further delay.

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 20 7085 885).

Yours sincerely,



Rients Abma
Executive Director