BUSINESSEUROPE

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Dear Sirs,

Re. Influencing the outcome on leases

We are writing to kindly ask that the boards reconsider the impact of one of the tentative decisions taken at the March 2014 meeting and subsequently publicised in the Leases Project Update August 2014 published by the IASB.

At that meeting the IASB and the FASB diverged in terms of lessee accounting, with the FASB opting for a dual model, while the IASB concluded that "*all leases result in a lessee obtaining the right to use an asset and the provision of financing, regardless of the nature or remaining life of the underlying asset. Accordingly, the IASB concluded that all leases should be accounted for in the same way.*" We are asking that the IASB and the FASB work to arrive at a converged solution for lessee accounting.

One of the main issues from the very beginning of the leases project has been the lack of a single widely supported view from constituents on whether and how to improve accounting for leases. This has been highlighted in our own discussions at the BUSINESSEUROPE Sounding Board and reflected in our various comment letters to the IASB and EFRAG on this subject.

What we said in our letter of 14 December 2010 remains true today: "*Some members of BUSINESSEUROPE are not convinced that a change in lease accounting is necessary…However, it is accepted that there is a fairly widespread wish to change the lessees' accounting for current operating leases and so our response … is intended to help the IASB produce a standard of high quality.*" While we have been critical of some of the proposals, the past discussions have always been about how to improve a converged approach being jointly proposed by both boards. Our criticism of the 2013 ED was not intended to indicate that we want a diverged solution.

The majority of our members also still agree with what we said in our reply of 17 July 2009 to the Discussion paper: "*we believe that the existing segregation between two different natures of lease contract is economically justified.*" In the view of these members, in order to arrive at a high quality accounting solution, it would be ***necessary*** to reflect these underlying differences in economics by having two different types of lease accounting models. A significant part of the opposition from our members to the dual model proposed in the 2013 Leases ED was triggered by the complexity of the proposed classification model. We note that the FASB has simplified the dual model proposed in the 2013 ED while making the distinction more principle-based by using the well understood criteria in IAS 17, as requested by many constituents. Moreover, we understand that the FASB has recently clarified that the liabilities related to "operating leases" are operational liabilities which may address some of the doubts raised about the 2013 ED. Also, it appears that the simplified dual model has support from the 100 Group and FEI.

Furthermore, some of the BUSINESSEUROPE members who have a strong conceptual or practical preference for the single model being pursued by the IASB could support a move in the direction of the FASB model if this is absolutely the only way to maintain convergence (which is substantially achieved today, at least in terms of the principles underpinning lease classification). Finally, some other members do believe that single model as proposed by the IASB would be preferable.

Therefore, while there may not be a clear consensus about what the most desired solution is, there is a strong view that non-convergence on such an important topic between IFRS and US GAAP is deeply troublesome. As leases impact nearly all companies to a varying degree, comparability between IFRS and US GAAP financial statements is important to ensure that users can perform a robust peer analysis without having to perform complex or short-cut adjustments between different companies, or seek additional information, to achieve some sort of comparability. Such an outcome, we believe, would represent no improvement whatsoever compared to the current situation. We note that LeaseEurope and the Keidanren have underlined recently that convergence was an important objective of the Leases project.

In summary, we believe that the detailed and thorough discussions and exchange of views over the past years have shown that there is no consensus on whether there is a conceptually clear or superior answer as to how to account for leases. From that perspective, and seeing that the two boards currently appear to be somewhat entrenched in their positions, it would seem that retaining the current IAS 17 guidance should be an option that needs serious reconsideration. In any case, no matter how the project continues to develop, we strongly urge the two boards to work together to arrive at an accounting approach that is simple, conceptually sound and converged.

We remain at your disposal should you wish to discuss this subject further. We will send a copy of this letter to EFRAG and the European Commission.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General