



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

FASB / IASB EXPOSURE DRAFT ED /2013/ 6 – LEASES

Dear Sir/Madam,

The Federation of Finnish Financial Services (FFFS) is a member of Leaseurope and European Banking Federation. While supporting the views put forward in these responses, the FFFS submits the following comments.

1. General remarks

- Our position on the ED is that only limited development in a better direction has been conducted since the consultation of the previous ED in 2010. The ED is still **unnecessarily complex** (particularly in relation to definition of leasing, re-assessment, classification and disclosure) and its costs are disproportionate to the gains for the users of accounts.
- We believe that the proposed approach will result in accounts that are **less understandable and comparable** than today because greater proportion of subjective factors has been introduced. Against this background, the aim to increase the transparency in accounting will not be met.
- The introduction of different **categories of leases (Type A and Type B) does not reflect their economic nature** and goes against the long-stated objective of removing lease classification.
- No **cost/benefit analysis of the new model has been conducted**. The impact assessment would ensure that the proposed rules are appropriate and proportional to their purpose. This is of particular interest for lessees, which amongst other, would need to make probability assessments of their various intentions under leasing contracts. They would have to reassess these and make estimates included in the lease. This would increase the volatility in the lessees' accounts.
- It is important to note that the **majority of leases are small ticket transactions** that are in fact very different to the sophisticated, structured big ticket leases that are the focus of standard setters' concern. The ED in its present form makes the supply of financing more difficult and companies instead would prefer other forms of financing. Leasing is also crucial as it is often accessible to businesses, such as SMEs or startups, when other means of financing assets are not available.



- We believe that **exempting leases of non-core assets** from the new standard would go in better direction to achieving a well balanced standard that meets the needs of both the users and prepares of financial statements.
- We don't consider the ED provides a sufficient basis for moving forward. Instead, the necessary improvements should be introduced into the disclosures under current IAS 17.
- As a consequence of requirement to hold more assets on balance sheets, lessees that represent regulated industries (like banks), may be **required to hold additional capital** despite their risk profile remaining unchanged. Particularly considering the overall impact of the whole ongoing financial regulatory package (CRR/CRDIV, financial taxes, crisis resolution etc.), this would have a significant impact on business activities and cost of lending.

2. Comments to the specific questions contained in the ED

Question 1: Identifying a lease

We believe that the proposed division between leases and service is arbitrary and it will be extremely burdensome to identify and separate service and leasing components. Moreover, certain parts of the ED on the definition of a lease are unlikely to be interpreted consistently, resulting in a potential lack of comparability.

We propose to remove the wording on "substation clauses" in BC 105(b) to avoid any confusion. We also believe that division between lease and service contracts should not be depending on who supplies the consumables to be used with the asset. Moreover, the ED §19 referring the "incidental assets" is too restrictive and has not been substantially improved.

Otherwise we refer to the position paper by the Leaseurope.

Question 2: Lessee accounting

We do not agree with the logic behind the proposal. We note that the Board argues that different type of leases have different economic nature but still finds that a right of use model should be applied to both types of leases. Moreover, the proposal seems to consider all equipment leases to be financing transactions which we believe is not the case in reality. The Board also argues that Type B leases are being entered into primarily to obtain the use of an asset (BC42) and, in such a case, that a straight line lease expense represents better information. We think that all leases involve the use of assets and that there are many more contracts where the economics are better represented by the recognition of an operating expense than what is suggested by the current proposals.

As already stated above, we believe that IAS 17 much better reflects, both from a balance sheet and P&L perspective, the real economic difference between lease contracts.

The proposals introduce confusion as to what the nature of Type B leases are (are they financings or not). The P&L and cash flow statement information suggests that they are not. However, the Boards still view all lease liabilities as financial liabilities (BC33) and require disclosure of the interest component on Type B leases in the notes to the accounts.



It is also unclear why assets and liabilities should be recognised at all for Type B leases if they do not represent financing transactions. Type B leases could very well be presented “net” (as the asset value is “plugged” so as to equal the liability), in which case the model would effectively amount to current operating lease accounting.

Lastly, the ED brings no solution on the negative impacts of front-loading lease expenses for Type A lessees. The Boards appear to have not taken such effects into account, and yet they could be equally as important as for Type B leases. This would have detrimental effect, which have been described more precisely in the Leaseurope position paper.

Question 3: Lessor accounting

We believe that the receivable and residual model has improved compared to the first ED, particularly in terms of introduction of accretion for residual assets. However, we find it not justified that when lessor has transferred a valuable right to a lessee, the lessor still retains the entire value of the underlying asset on its books. This is why the accounting for Type B leases from the lessor’s point of view is inconsistent with the Type B lessees recognising an asset.

Since the definition of a lease receivable in the ED is different to that of IAS17, the impairment rules will apply to a different unit of account than they do today. If the lessor under the new standard is not allowed to the same, this will result in a lessor being forced to recognise impairment losses that it actually does not have in cases where the value of the leased asset covers any credit loss. Therefore we are of the opinion that the unit of account for a lessor’s impairment activity be its investment in the lease. This would involve changing ED§ 84 and 85 so that impairment is assessed by comparing the fair value of the underlying asset to the carrying value of the lease assets (or net investment in the lease). Moreover, the scope of either the existing impairment rules in IAS39 or the new impairment standard will need to be revised so as to refer to lease assets (or net investment in the lease) instead of lease receivable. For more detailed comments, we refer the content of the Leaseurope position paper.

Question 4: Classification

We believe that as far as Board wish to maintain a right of use model, classification should not be introduced into standard. The proposed classification goes against the original project objectives, increase complexity and the possibility that similar transactions are accounted for differently.

We also question whether the “consumption of the economic benefits” is necessarily an appropriate classification principle. In this context, we refer to the examples of inconsistencies in the practical expedient described in the Leaseurope’s position paper.

If there is any form of classification, it should be based IAS 17 principles.

Question 5: Lease term

We believe that lessees should recognise only their contractually committed (enforceable) payments, representing their effective liability. This would include any amounts that are required to be paid by the lessee either to obtain the ability to extend the lease term beyond the initial contractual term or to obtain the ability to purchase the asset at the end of the contract in addition to any amounts the lessee is required to pay if the lease contains a renewal or purchase option but where the lessee does not renew the lease or purchase the asset. The maximum amount payable under a residual



value guarantee provided by a lessee to the lessor should also be included in the payments that are recognised. The concepts should be similar from the lessor's point of view.

We find this approach justified, since renewal options in reality either have no intrinsic value, are already priced into the lease payments or will lead to the lessor showing a higher residual exposure. The more detailed reasoning is defined in the Leaseurope's response.

Question 6: Lease payments

We believe that changes in amounts payable arising from variations in an underlying rate or index should only be recognised in P&L in the period in which they occur, as this would be consistent with the treatment of other financial liabilities. The ED's requirement to treat such changes as an adjustment to the carrying amount of the right-of-use asset increases complexity for lessees with no additional benefit, particularly as the proposals also require the adjustment of the discount rate.

Question 7: Transition

We believe that there is a need to consider transitional requirements for sale and lease-back transactions that were previously classified as "operating" lease-backs and would no longer qualify as "sales" under the new proposals.

Question 8: Disclosures

The proposed disclosure requirements are far too burdensome. We see a risk that users will actually not be able to identify useful information amongst these disclosures which is of particular concern given that they will still need to make adjustments to lessee accounts. The objective of the leases project was to avoid precisely this.

The most burdensome requirements are the reconciliation requirements in ED §61 and §64, which effectively attempt to approximate the disclosure requirements for owned assets while being more complex. Given that an entity that leases is not in the same position nor exposed to the same risks as an entity that owns an asset, we feel that such requirements should not be maintained in any final standard.

FEDERATION OF FINNISH FINANCIAL SERVICES

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