



Mr. Stig Enevoldsen
Chairman
European Financial Reporting Advisory Group
35 Square de Meeús
1000 Brussels
Belgium

06 July 2009

RE: EFRAG Draft letter on the IASB Discussion paper on lease accounting

Dear Mr Enevoldsen,

The European Association of Public Banks would like to thank you for the opportunity to comment on the EFRAG draft letter on the *IASB Discussion Paper 2009/1 – Leases Preliminary views* and express our general comments on the issue.

Many financial institutions are lessors as well as lessees and would be strongly affected by the currently discussed changes to IAS 17. We welcome the initiative of the IASB to clarify the accounting of leasing contracts. However, we have certain concerns relative to the Discussion Paper.

General Comments

More generally, we believe the application of the right-of-use approach would lead to the extension of balance sheets and thus negatively affect their clarity. It is also questionable whether the right of use approach will really lead to more relevant, transparent and complete information on leasing business relationships, which is the IASB's main objective in this reform. With respect to the current discussion, the proposed treatment of options, contingent rental payments and residual value guarantees would widen the margin for interpretation so that the accounting figures would only apparently convey more precision.

In any case the additional accounting burden would not be proportionate to the value of the additional information gathered for the user. Additional information about off-balance sheet business could rather be presented through extended disclosure requirements in the annex of the balance sheets.

Moreover, because of the hasty reform procedure an opportunity to achieve a coherent standard could be missed. The splitting of the reform agenda for lessor accounting and lessee accounting could lead to heavy operational difficulties. As a result of the "splitting" financial institutions, being often lessors as well as lessees would have to manage parallel accounting treatments for the same products. Besides, if IAS 17 is reformed without

coordination with other IAS reform projects, it could force the IASB to reopen the file at latter stage and provoke even more confusion.

We understand that the IASB decided that in order to meet a June 2011 deadline, it would be necessary to proceed on the issue of accounting for lessees separately from accounting for lessors and that, in general, no deep changes in accounting standards should be undertaken between 2012 and 2015, following the introduction of IFRS in several countries in 2013, including in the US. While we understand that the IASB wishes to prioritise its areas of work this cannot be done at any cost and we want to stress again that such a course of action will have a disruptive impact on the leasing business. Furthermore, sceptical voices in the US indicate that the adoption of IFRS there could be heavily delayed. Therefore a hasty reform agenda does not seem appropriate and should be abandoned.

Main Concerns

We would like to stress specific points which are of special concern to our member banks:

Firstly, when reforming IAS 17 it is crucial that complexity and unnecessary accounting burden be avoided. In any case it should be assured that any new burdens are proportionate to the value of further information to be conveyed by the lessor. Such requirements should not be defined along the line of what may be demanded by users of balance sheets of highly complexly structured big ticket leases without consideration for the simpler types of every-day-life lease contracts. Complex rules on initial and subsequential measurements based on probability weighted estimates in connection with options, contingent rental payments and residual value guarantees applied to small ticket lease contracts could seriously constrain economic activity.

Secondly, in view of achieving a reasonable balance between accounting burdens and the need for more information, we would support the exemption of certain “plain vanilla” leases from the new requirements and continue applying the existing rules for operating leases. It would be possible to exclude plain vanilla transactions that cover the small to mid ticket markets which are not part of a company’s core business, i.e. assets that are individually immaterial, fungible and are not part of the production or distribution process of the lessee (e.g. photocopier, IT equipment or company car leases).

In addition, we believe it is necessary that the accounting treatment of leasing business relationships should live up to the need of their own structure with a sui-generis solution. This would allow more appropriate reform solutions. In leasing-contracts the right-of-use is inherently linked with the corresponding liabilities (which is not the case in regular credit based acquisitions). Therefore we would reject a de-linked approach, which- in the long run- leads to a divergence of the accounted values of right of use and liabilities.

Finally, the right of use approach has a direct Impact on balance sheet length and regulatory requirements, especially in the heavily regulated credit sector. As the new model will lead to the creation of significant new assets for companies that lease we fear that this will lead to

the need to hold additional capital for these new assets, with a strong impact on capital ratios. Depending on how these new assets are classified, institutions will have to hold additional capital for lease related assets if they are tangible assets or deduct them from own funds if they are intangible assets. If there are no adaptations to prudential rules and given the current economic climate and the fact that capital is in short supply, the impact of the proposed changes on business activities is likely to be negative.

Please do not hesitate to contact us should you have any questions.

Kind regards,

A handwritten signature in black ink, appearing to read 'Schoppmann'.

Henning Schoppmann
EAPB

A handwritten signature in black ink, appearing to read 'Julien Ernoult'.

Julien Ernoult
EAPB

The European Association of Public Banks (EAPB) represents the interests of 34 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.