



International Accounting Standards Board
30 Cannon Street
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EC4M 6XH

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Dear Sirs,

Lease Accounting Exposure Draft

1. Please find below the British Vehicle Rental and Leasing Association's comments and observations in relation to the Exposure Draft ED/2013/6 – Leases – as it impacts upon the industry sectors that we represent (both as lessors and lessees) and their customers (as lessees).
2. Established in 1967, the British Vehicle Rental and Leasing Association is the UK trade body for companies engaged in the rental and leasing of cars and commercial vehicles. Its members operate a combined fleet of 2.75 million cars, vans and trucks. BVRLA members buy nearly half of all new vehicles sold in the UK, supporting around 184,000 jobs and contributing more than £14bn to the economy each year. By consulting with government and maintaining industry standards, the BVRLA helps its members deliver safe, sustainable and affordable road transport to millions of consumers and businesses. For more information, visit www.bvrla.co.uk.
3. The BVRLA and its members remain encouraged that the two Boards (IASB and FASB) have acknowledged that leasing is an important source of finance to business and that positive steps have been taken to remove some of the complexities contained in the original Exposure Draft published in 2010.
4. However, we remain concerned that a thorough and robust cost benefit analysis has not been undertaken. Vehicle leasing represents less than 5% of the total value of leased assets by large UK firms with the vast majority being property. As a consequence, the Exposure Draft (ED), as presented, would impose significant additional cost and administrative burdens on businesses while not giving the benefits to “users of accounts” envisaged throughout this long drawn out process. The proposed standard will also have a disproportionate impact on smaller firms, if and when it is adopted by local accounting standard setters.

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5. We are also not convinced that the current standards for accounting for leases is as deficient as is being made out and believe any deficiencies could be addressed by a more robust application of IAS 17 and would less onerous to the proposed changes.
6. By formulating this response to the ED the BVRLA does not give its support to the requirement for a new standard, but if the Boards are minded to continue with this project then our comments and observations are intended to help remove some of the remaining complexities and difficulties that we have identified within the current proposals. Our response is also supportive of the submission made by Leaseurope, as our European Trade Association.

Comments and Observations

The Need for Two Types of Leases:

7. Our comments are set out below. In this context, we also note EFRAG's draft comments that challenge the Boards to refine the right of use asset as part of its conceptual framework activities.

Lessee Accounting

8. We question the need for two types of leases as this does not fit within what we believe to be the original intentions of the project: to achieve transparency, simplification and consistency of approach and to provide clarity to users of accounts.
9. We propose that the Boards should move to only one type of lease (which may be a hybrid of current proposals) the structure and application of which would:
 - Not impose unnecessary administration burden on the lessee, in particular those organisations using both property and general asset leasing
 - Not create any distortional impact on the profit and loss account of the lessee
 - Match the asset to the liability
 - Match the lease profit and loss account to the underlying economics of the lease
 - Not create any new "bright lines" within the accounting process
 - Provide the required transparency of assets and liabilities deployed within the lessee's business to "users" of the accounts
10. The above aspects could all be assessed during the proposed field testing phase.

Lessor Accounting

11. As the "perceived crime" being solved by the introduction of the proposed new standard is to improve transparency of the accounts of a lessee company [for users of accounts] we do not believe this should in anyway require any changes to the way lessors account for leases.
12. Lessors currently provide total transparency in terms of both balance sheet and profit and loss accounts and therefore any changes imposed under a new standard would do nothing more than add cost and complexity to a sector whose current accounting practices have not been found to be deficient and are not part of the problem that is looking to be solved by the introduction of the new standard.

13. We believe that there should be clarity that the right of use asset is not an intangible asset and that a review of the conceptual framework should remove any uncertainty.

Identifying a Lease

14. We would observe that an agreement for the provision of services where the provider has a substantive right to substitute any asset used in the provision of the service, at total discretion of the service provider and without question, should not be considered as a lease but should be classified as a service contract.
15. This should be defined by the strength of the substitution clause within the agreement at inception and should not be subject to retrospective assessment depending upon whether substitution has taken place and the percentage of that substitution relative to the agreement.
16. The contractual ability (substantive right) of substitution totally at the lessors' discretion should be sufficient and that it should not be necessary to prove that substitution has taken place. Nor should the lessee be required to provide evidence that substitution is taking place on frequent basis. We therefore believe that any concerns that substitution would need to be evidenced should be allayed through clear words in the basis of conclusions or guidance.

Reassessment of a Lease

17. While we recognise the positive progress that has been made within this area, since the issue of the original Exposure Draft in 2010, we are still concerned that the current proposals would, in the absence of clear guidance, impose a significant and unnecessary burden on lessees brought about by small and insignificant market changes which may result in non-material adjustments.
18. To help illustrate the need for guidance, within the automotive full service leasing sector, it is quite common for customers to continue to run leased vehicles for a number of months beyond the formal contract end date whilst awaiting the delivery of a new vehicle. Such arrangements are established through custom and practice, rather than formal enforceable rights.
19. This would be offset on a portfolio basis by vehicles being early terminated due to employees leaving, business changes etc. It is our interpretation that these "informal extensions" are in reality short term leases once entered into and not before, and therefore should not be reflected until they arise but clear guidance will remove any ambiguities.
20. We would propose, therefore, that the Boards review the reassessment aspect of the proposal such that reassessment is only required when there have been significant changes impacting on the total lease portfolio within a lessee or lessor business and we would propose that it should be accepted that options should only be assessed for exercise where they exist through a formal arrangement.
21. To have to re-assess many thousands of leases on an individual basis would present business with a significant operational and practical problem as lessors will not always have the ability to fully assess a lessee's intentions. Therefore reassessment should only be required where there is a significant event in any relevant factors affecting the lease.

Explicit v's Implicit Options

22. In considering whether a lessee has a significant economic incentive to exercise an option, we presume it is only options that are explicitly provided within contracts that need be considered. We assume that options that are implicit and might exist through custom and practice, but are not enforceable, can be ignored.

Observable Stand Alone Prices

23. Within the vehicle full service leasing sector it is common practice for the total monthly payment to include costs for such items as servicing, repairs, tyres, maintenance of additional equipment such as tail lifts etc. which are in fact service contracts.
24. To separate these out at invoicing level would need considerable systems investment in most countries, particularly for SME lessors, and it would also be very difficult and time consuming for the lessee to determine the complex and fragmented market unit pricing for these elements.
25. We would therefore propose that if the lessor is able to provide the fair and reasonable percentage of the lease rental, on a basis consistent with the expected words in the final Revenue standard that applies to these services, then the lessee should only need to account for the lease rental, after deduction of the services element.
26. In the event that it is not practical for the lessor to provide an appropriate breakdown of the lease expense into pure lease and service components then we propose that the lessee should be able to make reasonable estimates based on available market information to determine the service element of a "bundled" arrangement.

Short Term Leases

27. We would compliment the Boards on having taken account of responses to the previous ED resulting in the introduction of the concept of Short Term leases not capable of surviving more than 12 months.
28. This will avoid a significant amount of unnecessary administration and information gathering for limited, if any, overall benefit.
29. The Boards are encouraged to take this concept further by extending the time definition of a Short Term lease out to 36 months to reduce even more the business burden for these short life low value arrangements. Such an extension would substantially reduce the burden upon the industry and its clients and would make the proposals significantly more acceptable.
30. There will be market concern that this could create a route for avoiding the achievement of the objectives of the standard by the writing of many short term leases where previously they would have been significantly longer. We firmly believe this will not be the case as, in reality, market pricing would make this type of arrangement for long life high value assets totally uneconomical.

Impairment for Credit Losses

31. We believe that the way credit loss impairment is written within the Exposure Draft will require lessors to look at a different unit of account than that used today. This would move away from the "net investment in the lease" assessment, where benefits from the underlying asset may

offset credit impairment, to a position where lessors would be forced to recognise impairment losses that it does not have (because the value of the underlying asset covers any credit losses but is not taken into account).

32. In reality this proposal would have no regard for how much of the lessors investment in a lease is in outstanding receivables and how much relates to their interest in the residual value.
33. Any attempt to define a standard of allocation between the two parts of the lease would be purely arbitrary and would not reflect the true lessor interest within the lease. This could, potentially, undermine the credibility of the business by focusing on areas of impairment that do not exist in reality, when taking the “investment in the lease” approach, which we would recommend the Boards adopt. To do anything different would be contrary to the economic reality of the lease arrangement.
34. In practice there is a liquid market for used vehicles and a transparent market for realisable prices for the “investment in the lease” so credit impairment would be offset by repossession and sale proceeds. Risk, therefore, resides in the mark to market residual values and the impairment test needs to look at the investment in the lease as a whole and not view the constituent credit and residual value elements separately.
35. We would also suggest that this approach is how “users of accounts” would expect a lessor company to manage its business and would therefore provide the clarity the standard is looking to achieve.

Accounting for Changes in Residual Assets

36. The Exposure Draft as currently written would appear to address the impairment of residual assets well but does not appear to acknowledge that significant proportions of lease portfolios may well realise more than their carrying values and contract residuals on disposal.
37. Under the existing IAS 16 treatment, lessors are able to adjust their estimated realisable values to reflect latest assessments of market movements and adjust, generally, future depreciation profiles. This allows for a more uniform faithful and relevant recognition of total contract income because potentially sizeable end of contract profits can effectively be recognised more evenly over the contract life, reflecting the management of the asset over that period, rather than be realised in a single accounting period when disposal takes place.
38. We therefore recommend that lessors should be able to re-assess residual assets on a regular basis and be permitted to accrete residual assets to these adjusted values, whether they are higher or lower than the original contract residual value set.
39. This would allow lessors to reflect expected contract income more evenly over the contract period and acknowledges the fact that a given lease expense can be arrived at by setting different pricing components, including future residual values, in a number of different ways.

Field Testing

40. It is appreciated that the Boards have embarked upon a series of field tests and information gathering with lessees. We would encourage the Board to use these tests to ensure that disclosure requirements are realistic and relevant and do not overburden either lessees or lessors with information requirements that will not be of any use to the users of the accounts.

41. Also, as mentioned above, we ask the Board to take into consideration that a lessee should not be required to provide the necessary information as to which type of lease arrangement is adopted under the current proposals given the excessive compliance cost this would impose.

Disclosure

42. The proposed disclosures seem to be more comprehensive than those relating to many other items in a typical set of accounts. In general we believe that the more subjective disclosure requirements should be removed or reduced, specifically all the information about significant assumptions and judgements made in applying the [draft] standard.
43. In addition we believe that the reconciliations of lease liabilities (para 64) and lease receivables (para 103) together with the maturity analyses (paras 67 and 106) and the risk mitigation disclosures (para 107) are requiring the provision of far more information than is necessary for a user to gain an overall appreciation of the impact of leases on a set of accounts. We also believe that the objective of enabling a user to understand uncertainty of cash flows arising from leasing is a potentially difficult concept.
44. We believe that the disclosure requirements have moved from perhaps a light touch under IAS 17 to a heavyweight cluttered approach under the ED and some of the analysis will put severe burdens on the preparers of accounts in addition to those already imposed by the computation of the basic balance sheet numbers.
45. In short, we regard the current disclosure required to be excessively granular and we would question whether this is appropriately targeted at users' needs. We have a real concern that there is opportunity for users to be "lost" in the detail and aggregated disclosures may provide more meaningful, relevant information.

Implementation Lead Time

46. While we understand that some observers believe that a number of proprietary system providers have already started development work to accommodate the potential new standard, it must be accepted that not all lessees and lessors in our sector use these proprietary systems with many using "in house" systems built around their core business operations.
47. It must also be accepted that, given the delays and changes experienced to date, organisations are not able, or willing, to commit resource and expenditure to any required systems development until the new standard is fully defined. This is even more relevant at the moment as Europe is still suffering from the impact of a recession that is likely to be biting until well beyond 2015 which is continuing to hit many sectors and means there is insufficient spare capital in the market place for speculative developments.
48. There will also be the requirement for lessees and lessors to start gathering new information to be able to account to the new standard, such as data to determine any service elements of leases, which will take a considerable amount of time and resource which companies will be reluctant to deploy until there is certainty on whether (and when) the new standard will be finalised.
49. Finally, there will be changes to other regulatory and tax frameworks that will be require appropriate time. In light of the above, we would, therefore, propose that the time frame for full implementation is no less than four years from the finalisation and publication of the standard.

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50. We would also request that the Boards consider implementation of all new relevant accounting standards at the same time, rather than a staggered approach, to avoid the situation of inconsistent user information over time, even if by necessity this extends the time frame. We believe that users would benefit from such an approach. Hence the date of implementation of any final Leases standard would be driven by progress on other projects.
51. It is also noted that the illustrative examples within the ED do not provide an example of the Full Retrospective Option and we would ask that the Boards produce these and distribute as an addendum to the ED.

Closing comments

52. We hope you are able to review the Exposure Draft as currently written and incorporate our recommendations above, should you decide to proceed with this project.
53. In closing I would offer the opportunity for me and my team to meet with you at any time should you wish to discuss our proposals in further detail.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Keaney', with a large, sweeping flourish at the end.

Gerry Keaney
Chief Executive