

**Comments regarding the
Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases**
from the Dutch Association of Car Leasing Companies (VNA)

VNA, the association of Dutch vehicle leasing companies, was founded in 1983. Its members lease and manage fleets of about 700,000 passenger cars and light commercial vehicles (representing some 90% of the Dutch vehicle leasing industry). As such, VNA is the representative of car use for individuals (private lease), SME's and large corporates.

VNA is an active member of the Confederation of Netherlands Industries and Employers (VNO-NCW) and the European umbrella organization Leaseurope. VNA represents its members in many different organisations, ministries and other government bodies and it participates in the early stages of drawing up policies and regulations that may affect the vehicle leasing industry in the future. VNA also works with other Dutch vehicle industry organisations such as BOVAG, the RAI Association, EVO, ANWB, etc.

As the platform for the vehicle leasing industry, VNA responds to EFRAG on its Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases.

General view

VNA is questioning the soundness overall of IFRS 16. The intent of improving IAS 17 was to reduce arbitrary choices, eliminate weak borderlines between finance and operating leases and avoid abuse from multiple interpretation opportunities. It was considered that comparability, reliability and understandability would improve, allowing transparency in, and between, companies with annual reporting on IFRS footing. The starting point was large, sometimes country border overreaching (international), leases for large objects as airplanes, ships and the like.

Below in the appendix, we comment on some of the individual questions. However, our comments should be regarded in the context of what VNA represents: the vehicle leasing industry. As such, we have difficulty in understanding the need to bring on balance sheet items like passenger cars and light commercial vehicles because of their rather immaterial impact on balance sheets of most IFRS reporting companies.

Providing a piece of equipment or a vehicle through a lease, at all times, is far more than just a tangible asset and a finance (liability). The combination of both elements makes it unique, as a company has a related finance to its asset which reduces upon payments for using the asset. Let alone, like in the Netherlands, that the majority of car leases comprises additional service elements

that are the customers' primary reason for engaging into operating leases. It's the convenience in addition to the bare lease that brings relevance to the product.

With increased focus on costs and care for the environment by companies, we have seen an autonomous move towards more and more mobility concepts of which the leased vehicle is just one component. Combinations of bicycle, train and vehicle usage, new usage concepts through sharing electrical vehicles, etc. are becoming increasingly popular. None of these developments is considered while drafting IFRS 16; as such this standard is out of date well before its date of initial application.

If EFRAG is positive regarding the endorsement of IFRS 16, it should consider to make a firm stance for increasing the 'assets with low value'-border above the level of the average car investment at, say € 50,000.

Appendix Questions and Answers to the Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases

Questions

1 A. Do you have any information or evidence on the extent to which leases (that you are party to or otherwise aware of) will be eligible for each of the short-term and low-value assets exceptions identified in paragraph 24? If so, please provide details.

1 B. If you are a preparer, do you expect to use the exceptions? If so, please:

(i) quantify the number and annual lease payments for each category;

(ii) indicate the proportion of your leases (by volume and/or value) you estimate to be covered by each of the exceptions.

The transactions involved in vehicle leasing normally do not fit within the exemptions for low value assets or short-term leases.

The transactions of short-term vehicle renting (think of providers like Hertz, AVIS, etc.) are not regarded leases by the vehicle leasing industry or in common language, though. The exemption for a short-term car rental is fitting the rental industry's objectives; in fact the exemption was created to appease this rental industry.

From a lessees perspective, short-term car rental has little if any resemblance to regular leasing contracts. The reporting burden of disclosing short-term rental costs, even further exempt for transactions of less than one month, requires extra attention and recording from preparers. This disclosure requirement will impose an undue burden on the reporting and should therefore be deleted.

2 If you are a preparer, which approach to transition do you expect to take? Please explain your reasons for this decision.

3 Are you aware of:

(i) any contracts that you consider to be leases that would not be classified as leases under IFRS 16; or

(ii) any contracts that you consider to be service contracts (or other non-lease contracts) that would be classified as leases under IFRS 16?

If so, please provide details of these contracts and why you consider that the classification would not be appropriate.

Like now, not the wording on top of the contract, but the actual text of the contract gives rise to the classification. The definition of a lease creates new borders, thus interpretations and applications in line therewith. The border has shifted from finance-operating to operating-service. It is expected that contracts with large services components will be documented in such a way that the contracts will become service contracts completely and regardless of the wording on top of the contract. This behavior is well within the context of IFRS 16, but will not contribute to the sought after understandability and comparability. This is another reason why IFRS 16 is not providing solutions as originally intended.

4 EFRAG is interested in understanding whether leases of intangible assets (other than rights held by a lessee under licensing agreements within the scope of IAS 38) are common. Do you have any information or evidence as to how frequently such leases of intangible assets arise in practice? If so, please provide information about the types of intangible assets that are subject to leases and the significance in operating and monetary terms.

5 Do you have any comments on the comparison of IFRS 16 with IAS 17?

See our various comments about lack of improvements, increased reporting burden and deviating conduct from various parties at other questions.

6 Do you have any views or information on how IFRS 16 can be expected to affect the behavior of investors and/or lenders? If so, do you have any views or information on whether and how IFRS 16 could, for European companies that apply IFRS, positively or negatively affect:

(i) the overall cost of capital;

(ii) access to finance and cost of credit?

Please provide any available evidence.

Generally, the vehicle leasing industry is worried about the conduct of banks and other financiers of leasing transactions, directly or via leasing companies. It is hard to see how financiers will be able to distinguish, in their credit decisions, between large IFRS and other, SME, companies. It therefore is feared that an onerous burden of additional reporting will start, outside the direct atmosphere of the IASB, but directly triggered by its standards. The IASB has considered SMEs not to be affected, which may be the biggest misconception in IFRS 16.

7 Do you have views or information on how IFRS 16 might affect entities' use of leasing? For example, do you expect lessees to:

(i) reduce their use of leases with a corresponding increase in purchases of assets;

(ii) reduce their use of leases without a corresponding increase in purchases of assets;

(iii) seek to change the terms of new or existing leases?

Please provide any available evidence.

8 *Do you have any additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry.*

Please provide any available evidence.

Endorsement will be welcomed by external audit firms that now already propose solutions to their customers. The help of auditors is solution-based and not focused on moving strategies. This lack of focus on strategy and real values in turn makes it difficult to predict behavior from the ultimate lessees. For vehicle leasing, the weight of the services components will make it less likely to reduce leasing. But an autonomous shift towards more mobility driven arrangements, mentioned in the start of our response, may be expedited to avoiding the burden of detailed reporting for rather immaterial elements in the balance sheet.

9 *Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe?*

Please provide any available evidence.

See answer to question 6. Banks/financiers so far have been (too) silent. More worrying: they themselves will have no clue as none of their customers has finished its own in-depth analysis. As such, this questionnaire may proven to be far too early to derive meaningful conclusions about the expected impact for lessees and lessors.

10 *Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe?*

Please provide any available evidence.

11 *What is your view on the relative costs of applying IFRS 16 and US GAAP? Do you have any other views as to the advantages or disadvantages of IFRS 16 compared to US GAAP?*

Please provide any available evidence

12 *What is your view on the one-off and ongoing costs for preparers? (Please indicate whether you are (a) a lessee; (b) a lessor; (c) both a lessee and a lessor or (d) neither a lessee nor a lessor).*

Will preparers that already report finance leases have lower costs than preparers without finance leases?

Please provide any evidence you have on the expected magnitude of the costs.

13 *If you are a user, are you aware of any costs in addition to those identified by EFRAG in paragraphs 116 to 118 of Appendix 3? Please quantify if possible and provide any available evidence.*

14 *If a lessee has to develop new systems to support the accounting for leases, to what extent do you, as a lessee, expect internal benefits from the information provided by the new information? Please quantify to the extent possible.*

Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers?

Please provide any available evidence.

And finally ...

16 *Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG? Please explain your view.*

The VNA believes that IFRS 16 is an unnecessary update to IAS 17. The intent to provide more insight into leasing within the financial statements could better have been served with extensions to existing disclosures. Putting leases on-balance sheet itself is not the question. But suggesting that operating leases are just another type of assets that should be equally applied as PPEs (Property, Plant & Equipment), and another type of liabilities that requires the reporting of an interest amount, negates the true nature of operating leases: providing for the usage of an asset to the benefit of its user.

Clear views on Cash flow and Result effects, sufficiently covered under IAS 17 and main attributes of the leasing product at large, have been sacrificed for incomparable and professional-judgement-dependent Balance sheet presentations.

The VNA does not consider this development to be improvements over IAS 17 and not contributing to the European public good.