VERENIGING VAN NEDERLANDSE AUTOLEASEMAATSCHAPPIJEN

European Financial Reporting Advisory Group (EFRAG)
To: The Technical Expert Group
35 Square de Meeûs
B-1000 Brussels

Date : 25 November 2010
Our reference : 397951
Subject : Input for your Comment Letter on the IFRS Exposure Draft Leases

Dear Members of the EFRAG Technical Expert Group,

We would like to avail ourselves of the opportunity you offered to respond to your draft comment letter on the Exposure Draft Leases.

The Association of Dutch Car Leasing Companies (VNA) represents almost 90% of all cars and vans leased in the Netherlands. Its 80 members manage a total fleet of approximately 630,000 vehicles and purchase new cars for almost five billion Euros every year. The Dutch car leasing market has a turnover of almost eight billion Euros; that makes car leasing a significant industry by local standards.

The VNA recognizes the objections of the IASB to the present IAS17 accounting standard, these being:
1. Many lease contracts include rights and obligations that meet the definition of an asset. For that reason, the assets arising from the lease contract should go onto the balance sheet of the lessee.
2. There is a lack of comparability, partly because similar contracts are treated differently.
3. There is undue complexity because of the bright line distinction between operating and finance leases.

With the exception of the first point above, the VNA strongly feels that the proposals fail to eliminate these objections. What is more, the VNA finds that the objections mentioned under 2 and 3 are in fact exacerbated in these proposals. Therefore, in our view the proposals in this Exposure Draft do not meet the target. We see an increasing lack of clarity, for example, in the distinction between a service contract and a lease contract and the subjectivity in estimating contingent options.

We would much prefer to see the existing IAS 17 standard c.a. adapted and improved to eliminate all the objections mentioned above.

Otherwise, we share the concerns expressed in your draft comment letter on the Exposure Draft Leases as it stands at the moment. In that context, we would like to bring the following comments to your attention.

- As regards lessee accounting, we argue for a **linked approach**, whereby the valuation of the asset is similar to the valuation of the liability item. The lessee should in our opinion be able to depreciate both the asset and the liability on an annuity basis and only have to carry out a reassessment when it involves significant changes.

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- As regards lessor accounting, we do not support a hybrid model of both the performance obligation model and the derecognition model. Introducing two new models would in our view create similar issues as currently is the case in making the distinction between operating lease and finance lease in IAS 17, precisely the difference the IASB wants to eliminate. For that reason, we argue that lessors should have to apply the (partial) **derecognition model** to all leases including the so-called in substance sales, which are currently out of scope. In addition, lessors should be allowed to accrue the residual value during the term of the contract for the purpose of realizing a constant return over the term of the contract.

- We do not regard the simplification proposed in the Exposure Draft Leases for short-term leases as an appropriate measure. Partly on account of the lack of materiality in many cases, we would like to see leases with a duration of no longer than 12 months excluded completely from the scope.

- As regards the transition to the new standard, the Exposure Draft Leases proposes applying a simplified (retrospective) model. We can understand this approach for long-term contracts. However, for car leasing, a full retrospective approach could provide a better reflection of the economic reality of the lease portfolio. We therefore argue for inclusion of an option for full retrospective application.

- As regards the Derecognition Model we argue to accrue the residual value during the term of the contract. According to the Exposure Draft the initial valuation of the residual value is based on the present value, but is not to be accrued during the term of the contract, whereas the related cost of fund are recognized over the life time of the contract. As a consequence, part of the result on the lease contract is deferred until the derecognition of the underlying asset. Given the fact that residual values are significant in the car lease industry, this will have a significant impact on the net results during the lease term.

- Finally, we would point out that our members expect to need about nine months for implementation since the supporting systems most likely need to be changed up to the level of (automatic) journal entries and the gathering of data required for disclosures. Most likely this will be more cumbersome for the Performance Obligation model as compared to the Derecognition Model.
  Assuming that the European Commission endorses this standard at the end of 2011 at the latest, our members cannot be completely ready to present comparative figures for 2013 before January 2013. Therefore, in our view January 1, 2014 is the earliest possible date for the new standard to come into effect.

We will communicate these comments to the IASB separately.

As far as the questions in your draft comment letter are concerned: we would like to reply to your question 61 in the affirmative. We fully agree with EFRAG's suggestion on the lessee's treatment of a contract that includes non-distinct services.

We trust we have been of service to you with this comment letter. Should there be questions from your side, we would be most happy to provide you with further information.

Yours faithfully,
VNA

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