



**Mr. Didier Millerot**  
Head Financial Reporting and  
Accounting Unit  
DG Internal Market and Services  
European Commission  
Rue de la Loi 200  
BE-1049 Bruxelles

15 May 2014

Dear Mr Millerot,

I write to you regarding the joint IASB/FASB Project on Lease Accounting. BUSINESSEUROPE is in agreement with the objective of the IFRS Foundation which is "to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards, based on clearly articulated principles".

That is why we would like to express our grave concern with the implications of the recent decisions taken by the IASB and the FASB (the boards) on the major aspects of the project on lease accounting.

The decisions of the boards taken at their March meeting fall far short of satisfying the conditions of high quality and comparability which are essential for the replacement of the existing standards. The divergent decisions taken indicate that, despite having worked together on this project for eight years, the boards have not been able to agree on fundamental principles of the future standard, namely, the objective of lease accounting and therefore the appropriate scope.

In adopting the classification principles of IAS 17, the FASB appears to have confirmed that there is a fundamental distinction between the two principal different types of lease contracts and accepted the inherent quality of the existing IAS 17's principles. The IASB, on the other hand, persists with the idea that the most important aspect of lease contracts is the financing element, whether this is a significant factor in the use of a lease or not and therefore makes no distinction between the underlying economic drivers for the transaction. The various simplifications adopted by the boards, whilst admittedly providing welcome and necessary relief for preparers and users, do however indicate that these fundamental questions of objective and scope have not been resolved and that the current draft does not have strong conceptual basis.



BUSINESSEUROPE therefore believes that, in order to achieve a clear improvement over the existing standard, the IASB should continue to work on defining an objective and an appropriate scope for lease accounting. In particular the IASB must:

- Provide a proper distinction between leases, services and other executory contracts, as suggested by EFRAG, in order to ensure that only lease contracts will appear on the balance sheet;
- Recognise the fundamental economic difference between leases which are essentially financed purchases of an asset and contracts which represent the purchase of flexibility for access to an asset or a purchase of services; and
- Ensure that there is a minimum level of consistency between accounting by lessees and lessors.

In our view, these are fundamental pre-requisites for a high-quality, understandable and enforceable standard on leasing.

We are aware that the above steps will take time and we suggest that it would therefore be acceptable as an interim solution for the IASB to improve the disclosures on operating leases currently required by IAS 17 in order to provide users with the information that they say is missing today.

We think that there is now a substantial risk that the short-comings discussed above will lead to increased resistance to the future IFRS standard in Europe, and this would be very detrimental to the status of IFRS. Since this joint project has been under way for a number of years now, and a great deal of time has been spent on it by the boards and constituents alike, without any convincing outcome, we encourage the European Commission to urge the IASB to reconsider its position in this project, and to take the time necessary to ensure that the future standard is of high quality, based on sound concepts, acceptable to users and as little onerous as possible for preparers.

We hope that you share these views and remain at your disposal should you wish to discuss this subject further. We will send a copy of this letter to EFRAG and the IASB.

Yours sincerely,

Jérôme P. Chauvin  
Deputy Director General