

**Speech by Massimiliano Moi, Chairman of Leaseurope**

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As Chairman of Leaseurope, an organisation that has eagerly been expecting the publication of the revised Leases exposure draft, I would like to take the opportunity to share a few comments with you on behalf of the European leasing industry.

I'm sure you are all aware of this - but to avoid any doubt, let me recall that under today's IFRS lease accounting standard, a lease that is similar to a loan for the purchase of an asset is always recorded on the clients' books, just like any other liability.

It is ONLY those arrangements for a service solution where the client is effectively outsourcing all its asset-related needs to a provider that are currently not recorded as liabilities.

But - and I CANNOT STRESS THIS ENOUGH - this DOES NOT mean that companies using these arrangements are hiding debt. It just means they are NOT borrowing money to purchase assets. They are simply paying a fee for the provision of a service that involves the use of assets that belong to another party. Economically, this is entirely comparable to when an entity has a contractual commitment to pay a consultant a certain fee per month for a two year project. Why not capitalise these types of arrangements?

The IASB and FASB have been working on this project for almost 7 years now and they have still not managed to explain why those lease contracts that are service contracts should be accounted for in a different way to all other service contracts.

In our view, for the final outcome of this to be defensible, the way forward is either developing a comprehensive approach for accounting for all contractual commitments in a consistent manner OR leaving the well understood, principles-based IAS17 in place.

We recognise that the IASB has attempted to improve their right of use model since the original Exposure Draft in 2010. And while many stakeholders may be content that their specific issues have been addressed (thanks to the IASB staff's technical prowess and drafting skills), the end-result still appears to be a patch-work of fixes to a model that just does not manage to represent economic reality. In combination with the conceptual confusion that surrounds the proposals, we just cannot see how they could bring about a sufficient improvement in financial reporting to warrant the cost and complexity of change.

The confusion is reflected at the level of the Boards themselves. Neither the IASB nor the FASB were unanimous in deciding to publish this re-exposure Draft.

At European level, EFRAG, the body in charge of advising the European Commission on whether or not IFRS standards should be applied in Europe, has been trying to make sense of the proposals for years and has not yet managed to do so, despite their persistent efforts. While EFRAG has yet to issue an official view on the proposals, the group is clearly divided on whether the lease proposals are any good.

And even the IASB itself points out in the effects analysis accompanying the ED that it expects users to continue making adjustments to suit their needs.

It therefore seems entirely legitimate to ask "So what's the point of all this?"

An objective assessment of the situation is that there are different kinds of leases, with different economic effects, and that different types of users have different information requirements.

Failing to recognize these basic differences from the start of the project has lead standard setters down a path that has not resulted in anything better than what we already have today.