Transforming Finance
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International Accounting Standards Board
30 Cannon Street
London
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Dear Sirs

Comments on Exposure Draft ED/2013/6

I am commenting on the Exposure draft "Leases" issued in May 2013, based on my experience of the implementation of accounting methods and related operational processes at asset finance companies and other lessor organisations, both in the UK and internationally.

I generally welcome the reconsiderations of the IASB and FASB Boards in response to the feedback on the first exposure draft, ED/2010/09. However a number of issues, inconsistencies and unnecessary complexities remain. I summarise my main concerns below.

For Lessee accounting, while I understand and agree with the boards' objectives of greater transparency about leverage and assets used in operations, it appears inconsistent to treat the contract hire of lower value non-core equipment, such as cars or office equipment, in the same complex way as a capital asset essential to a company's operations (for instance an aircraft used by an airline). This could be overcome by extending the short lease term exemption from 12 months to 36 or 40 months. To ensure that there was not a material impact there should be a limit to the total exposure to short term leases as a proportion of total company liabilities, and disclosure as for current operating leases.

For Lessor accounting, I fully support the Boards' long term aims in this and other standards relating to financial instruments to move towards simpler and consistent methods based around fair value principles.

In focussing on disclosure of residual values, however, the proposals appear to be imposing substantial additional complexity and extra cost for lessors to report on only one source of risk to future revenues during the remainder of the lease. If they are to report on the likely future residual values, should not lessors also disclose the risk of lessee default on future rental payments?

While changes to assumptions on future residual values do represent potential future impairments or gains, they remain just that: - a risk on a predictable future date, which the lessor can work to mitigate. They are not a current fair value.

All lessor accounting methods (or at least all that I have encountered) to date have worked from the assumption that the payments for the lease are set by the lease contract, so the lessor can assess all payments at the start of the lease and account for them on the reasonable assumption that they will occur as in the contract. Any changes to lease payments (for instance rental variations for interest changes, charges for excess usage, early settlement fees or the sale of assets) are then accounted for as they happen. These lease proposals represent a significant shift away from these broadly accepted methods by specifying numerous conditions when the lessor has to re-assess the lease receivables. In my view, these changes would:

- Risk introducing volatility into lessors' steady core income.
- Require significant extra processing and operational data collection for no demonstrable greater accuracy or transparency.
- Present significant challenges for the transitional period.

I thank the Boards for the opportunity to comment on the draft. I hope that these comments will be useful and contribute to the further improvement of the draft through the roundtable discussions.

Yours faithfully

Nicholas Evans

Director

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