



**Response from
the Forum of Private Business (FPB)
and
the Finance and Leasing Association (FLA)**

to

**Discussion Paper
Leases: Preliminary Views**

**by the Financial Accounting Standards
Board (FASB) and the International
Accounting Standards Board (IASB)**

July 2009

What is the FLA?

The Finance and Leasing Association (FLA) is the leading trade association for the asset finance, motor finance and consumer credit sectors in the UK. FLA members provided £28.8 billion to the business sector and UK public services in 2008, representing almost 30% of all UK fixed capital investment, excluding property. FLA members also financed more than 50% of all new car registrations in the UK in 2008.

What is the FPB?

The Forum of Private Business (FPB) is a not-for-profit organisation dedicated to providing its members with the support they need to run successful businesses. The FPB is passionate about the key role private businesses play in the national economy and, as one of the six main business support and lobby groups recognised by government, campaigns on behalf of its members with elected representatives in the UK and Brussels.

Business opinion

All of the FPB's campaigns are based on the views of its members, whom it talks to in various ways, via surveys, by telephone and face-to-face contact. It also also collects data electronically, which enables the organisation to source opinions from hundreds of businesses within a matter of hours.

The FPB works to bring businesses together with their own elected representatives. Members vote in a quarterly *Referendum*, adding comments which the FPB then sends to their MPs, MEPs, MSPs and AMs. *Referendum* is a tool that business owners have been using since 1977 to make their voices heard.

FPB contact information

FPB
Ruskin Chambers
Drury Lane
Knutsford
Cheshire
WA16 6HA

Telephone 01565 634467
Facsimile 0870 241 9570
Email info@fpb.org
Website www.fpb.org

FLA contact information

FLA
2nd Floor
Imperial House
15-19 Kingsway
London
WC2B 6UN

Telephone 020 7836 6511
Facsimile 020 7420 9600
Email info@fla.org.uk
Website www.fla.org.uk

Joint response to the Discussion Paper

In this joint response, the FLA and the FPB wish to respond only to question 24 of the Discussion Paper: *Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.* The FLA's views on other questions in the Discussion Paper are reflected in the response from Leaseurope.

We consider the fact that the cost of the proposals to preparers, particularly to small businesses, is not described in the Discussion Paper to be a serious omission. The European Commission's "Think Small First" principle requires that SMEs' interests be taken into account at the very early stages of policy-making, and the Boards have failed to do this. The impact on SMEs should now be addressed as a matter of priority.

The Boards must not ignore the interests of small businesses. Although the proposed new accounting model may apply initially only to a relatively small number of public interest entities, it is highly likely that it will be applied subsequently to all reporting entities, whether directly by the IASB through IFRS for SMEs, or indirectly by national standard-setters. It is also likely that it will be applied eventually within the public sector.

It would be untenable for the IASB or national standards setters to maintain one accounting model for lease accounting by public interest entities and another for small firms. The regulatory responsibility to take account of SMEs' interests thus sits firmly with the IASB, because the policy it is making now will, in due course, have to be followed by small companies.

Leasing and hire purchase is currently used by around 750,000 UK small businesses, including at least 400,000 companies required by law to prepare financial accounts. While the European Commission's proposals for exempting 'micro-entities' from the requirement to prepare accounts might reduce this number, more than 100,000 companies would still be affected.

Our concerns are not about the principle of whether or not leased equipment should be shown on lessees' balance sheets. In a survey of 728 SMEs last year by the Open University, two-thirds said that not having to show the value of assets in annual accounts was not relevant or not important when deciding on sources of financing for the acquisition of assets. Only 26% rated the balance sheet treatment as having any importance.

Our concern is rather over the work that small businesses would need to carry out to comply with the proposed new rules. Businesses would have to keep more information about their leased equipment, particularly in order to assess – and then reassess, annually – the most likely lease term, contingent rental payments or service components.

Most small businesses will not have the time or skills needed to interpret the proposed new rules or to follow them. According to research published by the Financial Reporting Council, most small firms outsource the preparation of their statutory financial accounts to firms of accountants; only a small proportion have in-house qualified accountants. The new rules would be seen as unnecessary red tape, to be suffered at considerable expense or ignored.

Even for larger SMEs, with in-house accountants, the work involved to collect and assess data on possibly thousands of individual leased assets, often in multiple locations, would be significant and costly.

It is therefore of crucial importance that the Boards quantify these costs and compare them to the likely benefits of the current proposals. A properly researched cost-benefit analysis will enable the IASB to address what would otherwise be a fundamental weakness of the project.

Our strong view is that a simplified approach is needed and that this needs to be built into the project now, rather than left until later. It is not sensible to apply the same procedures to photocopiers in use in a small manufacturing company and to an aircraft used by one of the world's leading airlines. To deal with this, optional simplified procedures should be available for all but the largest leases.