QUOTED COMPANIES ALLIANCE

Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

T +44 (0)20 7600 3745
F +44 (0)20 7600 8288
mail@theqca.com

www.theqca.com

IFRS Foundation
1st Floor, 30 Cannon Street
London
EC4M 6XH

info@ifrs.org

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Dear Sirs,

IASB – Exposure Draft ED/2013/6 – Leases

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the expert group is at Appendix A.

Response

We have reviewed the Exposure Draft issued in May 2013 on Leases and, whilst we welcome the attempt made by the International Accounting Standards Board ('IASB') to respond to the feedback received following the August 2010 Exposure Draft, we have significant concerns about the proposed changes to lease accounting. In particular, we are concerned that the Exposure Draft does not represent an improvement compared to current lease accounting as set out in IAS 17, and as a consequence the expense of change is not justified by the benefits.

In our opinion the current Exposure Draft is confused in its treatment of leases. There is not an adequate distinction between Type A and Type B leases based on the underlying economic reality of the lease being made; indeed the main distinguishing feature is purely whether the lease is a property lease. Whilst this treatment is inconsistent, treating all leases as Type A leases would, in our opinion, misstate the Income Statement – lease expenses on long term leases, which tend to be property leases, would be front loaded. Additionally we are disappointed that lessor and lessee accounting has not been completely aligned. Given these points, we do not believe the Exposure Draft represents a significant improvement on IAS 17.

Additionally we do not believe that the IASB has properly considered the costs and benefits of the proposed change to lease accounting. Needing to reassess leasing contracts will impose a significant burden on preparers which, due to their more limited availability of resources, will disproportionately impact small and mid-size quoted companies. We are also concerned that the changes will ipact certain key accounting ratios, namely gearing and Earnings Before Interest Tax Depreciation and Amortisation ('EBITDA'). These ratios are often used in banking covenants and there may well be an additional cost to business of having to renegotiate covenants purely due to an accounting change. We would also like to see the IASB undertake further work to consider whether changes in the gearing ratio will impact the cost of debt for companies, which could more than outweigh any reduction in the cost of equity.

Given these problems we believe that the IASB should take the opportunity of reassessing whether the legitimate demands of users for more information about cashflows arising from leasing contracts could be met in another way. In our opinion the most cost effective way would be to retain IAS 17 and include both finance and operating leases within the disclosure on the contractual maturity of financial liabilities required by IFRS 7. This would meet the demands of users without incurring significant costs for preparers. This solution would also reduce the risk of unintended consequences arising due to the change, such as increasing the cost of debt.

Responses to Specific Questions

Question 8: disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Notwithstanding our above comments, we are disappointed that the IASB have not considered the disclosure burden when preparing the current Exposure Draft. If a new standard is considered necessary, we do not believe that financial liabilities arising from leasing contracts require any additional disclosures beyond those currently required by IFRS 7 and the disclosures required on critical accounting estimates and judgements. As noted above we believe specifically including leasing liabilities within the disclosure on contractual maturity required by IFRS 7 would be most relevant to users.

We would recommend that, as the IASB look to reduce the disclosure burden, they consider the language used in standards. We support standards clearly setting out the purpose of disclosures, but consider it inappropriate for them to then set out a detailed list of disclosure requirements which 'shall' be followed. Unfortunately this Exposure Draft adopts this approach and consequently will add to the disclosure burden.

If you would like to discuss any of this in more detail, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	Crowe Clark Whitehill LLP
Anthony Appleton (Deputy Chairman)	BDO LLP
Joseph Archer	Crowe Clark Whitehill LLP
Edward Beale	Western Selection Plc
Anthony Carey	Mazars LLP
Peter Chidgey	BDO LLP
Jack Easton	UHY Hacker Young
Bill Farren/Ian Smith	Deloitte LLP
David Gray	DHG Management
Usman Hamid/Shalini Kashyap	EY
Matthew Howells	Smith & Williamson Limited
Paul Watts/Jonathan Lowe	Baker Tilly
Niraj Patel	Saffery Champness
Nigel Smethers	One Media IP Group plc
Chris Smith	Grant Thornton UK LLP
Nick Winters	RSM Tenon Group PLC