

Annette Davis
Financial Reporting Council
8th Floor, 125 London Wall
London
EC2Y 5AS

a.davis@frc.org.uk

22 August 2014

Dear Ms Davis,

Revised IASB Exposure Draft Leases – EFRAG / ANC / ASCG / FRC / OIC Additional public consultation

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 welcome the opportunity to respond to this consultation. We believe that the FASB approach will be the least costly and complex to implement, as explained in detail in our response to Questions 3 and 4. We do not consider the IASB's proposal to be an improvement on current accounting standards.

We noted in our response to the IASB's Exposure Draft on Leases in September 2013 that 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. We have enclosed our response to the IASB's consultation in September 2013.

Responses to specific questions

Identification of a lease

Q1 You are invited to provide examples of transactions that would qualify as leases under the proposals, but you consider to be in substance services.

We are unable to provide any examples.

Q2 For these transactions, please specify the following:

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

- (a) Why should this transaction not be treated as a lease and recognised by a lessee?
- (b) What changes could be made to the definition and/or criteria to identify a lease, to exclude this transaction from the scope of the proposals?
- (c) How common in practice is this type of transaction?

We are unable to provide any examples.

Alternative approaches

Q3 Assuming that the Boards confirm the scope of application and the guidance to identify a lease, which of the approaches described above in paragraphs 14 to 21 do you prefer? Please explain the reasons for your views.

Please see response to Q4.

Q4 Based on the description above, which of the two approaches you believe to be less complex and costly to implement? Please explain the reasons for your views.

As mentioned earlier, we prefer the FASB approach. We do not consider the IASB's proposal to be an improvement on current accounting standards.

In our opinion, the FASB approach will be the least costly and complex to implement as it more closely mirrors current accounting in the Income Statement and hence will require less time in the reassessment of leasing contracts. We also believe that the FASB approach, which does not front load the charge on long-term leases, is a better reflection of commercial reality than the IASB approach.

We note that the IASB considers that entities are likely to have a portfolio of leases and that this problem is likely to be evened out across the lease portfolio. Whilst we accept that this might be the case for larger quoted companies, for small and mid-size quoted companies, which might have only one or two significant operating leases, this will not be the case. We believe that this will therefore give rise to greater volatility in reported results. Where the lease agreement fixes the underlying cashflows, we do not consider this appropriate and so prefer FASB's approach.

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

Yours sincerely,



Tim Ward
Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

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