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AISBL

L-1110-226-AW

IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Brussels, 6 December 2010

Dear Sirs,

Re: Exposure Draft “Leases”

HOTREC¹ thanks the International Accounting Standards Board for giving the possibility to comment the Exposure Draft “Leases” ED/2010/9.

We would like, in particular, to raise the concerns of the European Hospitality industry regarding some of the changes in lease accounting that are proposed by the IASB. In particular, HOTREC considers that the proposed abolition of the distinction between “*finance lease*” and “*operating lease*” would have severe consequences for the hotel industry.

The proposed change would negatively affect the balance sheet and financial ratios of major hotel companies for the following reasons:

- Currently, only finance leases must be reported in the lessee’s balance sheets. The removal of the distinction between finance and operating leases would oblige the lessee to report in the balance sheet the assets and corresponding liabilities of all lease contracts.
- The “*right of use*” linked to the management of hotel properties will have to be included on the lessee’s balance sheet for an amount corresponding to its updated market value, and separately from the corresponding liabilities (the lease instalments).
- The consequence is that lease figures would now be interpreted as interest and redemption payments, instead of rent costs. Such a situation would impair ratios reflecting finance, capital structure and profitability. Debt ratio would increase while liquidity ratios would be reduced significantly.

¹ HOTREC represents the hotel, restaurant and café industry at European level. It counts 1.7 million businesses, with almost 92% of them being micro enterprises employing less than 10 people. The micro and small enterprises (having less than 50 employees) represent more than 99,5% of businesses and make up some 62% of value added. The industry provides some 9,5 million jobs in the EU alone. HOTREC brings together 40 National Associations representing the interest of the industry in 24 different European countries.

Moreover, such a reform would lead to increased accounting costs and to an important volatility in the results and balance sheets of hotel companies using leasing contracts for the following reasons:

- The estimation of the fair value of the “right of use” to be recorded in the balance sheet would raise concrete difficulties, and the calculation would need to be re-done before each end-of-year balance.
- As such a valuation would need to be re-assessed every year, this would make extremely difficult the comparison of the financial positions within one enterprise, and even more between two enterprises.

For the above reasons, the envisaged removal of the distinction between operating and finance leases, combined with the de-linked approach for the “right of use” would lead to increased opacity and would only be detrimental to hotel operating enterprises and their borrowing capacities.

As it would be contrary to the conclusions of the London G20 Summit of April 2009, which were calling for less complex international accounting standards and for reduced uncertainties in the valuation of assets and liabilities in enterprises’ balance sheets, we respectfully invite you to re-consider the envisaged reform.

Yours sincerely,



Anna Torres
CEO of HOTREC