

LEASINGLIFE

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leasing accounted for 13.4 per cent of all fixed investment in plant and machinery in Denmark in 2005. Lars Bang of Nordea comments: "Leasing penetration has not been too high in the past, partly because of customers' ready access to bank lending, but it could well increase in the future."

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The main leasing market players comprise a mixture of national and Scandinavian banking groups, manufacturer captives, and global or pan-European third party vendor leasing specialists. On one estimate just over 50 per cent of all leasing business is introduced at the point of sale of the equipment. The big-ticket leasing sector is not highly developed in Denmark, although it fluctuates from year to year and is not always insignificant as in 2004, the last year for which a full

Bringing home the bacon

Leasing in Denmark shows signs of steady growth, with a strengthening of the local economy – and the market has stood up well to changes in the lease accounting rules

Andy Thompson reports

LEASING in Denmark follows similar forms to those seen in the many other national markets. The main contract types are not dissimilar to the corresponding structures in the UK (see Table 1). In terms of the penetration of leasing within the total market for capital equipment finance, some comparisons show Denmark lagging behind other European markets (see Table 3).

The standard Leaseurope comparisons of leasing penetration are, however, affected by the inclusion of the real estate leasing sector. Moreover, all the figures below relate to the 31 member companies of the Danish national leasing association,

which together account for an estimated 80 per cent of total leasing activity. That body itself estimates that equipment

TABLE 1: ASSET FINANCE AGREEMENT TYPES IN DENMARK

	Operating lease	Finance lease	Hire purchase
Main asset types involved	Across all assets, especially vehicles	Across all assets	Mainly cars
On lessee's balance sheet?	No	Yes	Yes
Does title pass to lessee?	No	Not under initial contract	Title passes from Day 1, but lessor reserves repossession right
Who claims fiscal depreciation?	Lessor	Lessor	Lessee
Normally classified as leasing (e.g. in statistics)?	Yes	Yes	No
Closest UK equivalent	Operating lease/contract hire	Finance lease	HP matches tax position, but only bills of sale/chattels mortgages are fully matched

Source: Leaseurope

TABLE 2: OVERALL BUSINESS IN RECENT YEARS * €(MILLIONS)

	2005	2004	% change
New business	4,290	3,085	+3.9
Outstandings	7,490	7,132	+5.0

* includes a small amount of real estate leasing
Source: Leaseurope

TABLE 3: LEASE PENETRATION RATES*

Year	% penetration	
	Denmark	Whole of Europe
2000	10.5	11.7
2001	9.3	12.6
2002	9.6	13.2
2003	9.1	14.6
2004	10.4	14.8

* = Total new leasing business as % of gross fixed investment excluding private dwellings
Source: Leaseurope

statistical breakdown is available (see Table 4).

Various channels

The local commercial banks tend to accept leasing customers through a variety of channels – some through the bank lessors' own vendor partnerships, but mostly in the form of direct business with lessees, coming through either branch banking relationships or the sales forces of the banks' leasing arms. The three major banking sector players are Nordania Leasing, a subsidiary of Danske Bank; Nordea, a multinational Scandinavian group; and Jyske Finans, belonging to Jyske Bank.

The international vendor finance specialists most active in the Danish market include De Lage Landen (DLL), SG Equipment Finance, GE Commercial Equipment Finance, and Key Equipment Finance. Key has around 15 vendor partnerships in Denmark, mainly with significant manufacturers. DLL trades with around seven large manufacturers, and up to 200 small dealers, in sectors ranging from IT equipment to commercial vehicles and trailers, and agricultural machinery.

"Label leasing", where a subsidiary or division of a vendor lessor is devoted to a specific vendor and trades under the name of the vendor rather than that of the lessor, is a widespread practice in Denmark, alongside other models such as joint ventures and true captive operations.

The national ground rules for lessee accounting have recently changed in Denmark, one of the latest countries to require finance leases to be brought on

TABLE 6: BREAKDOWN OF NEW EQUIPMENT LEASING BUSINESS (2004) BY LEASE TERM

Duration of contract	Value of deals € (millions)	% of total
Up to and including 2 years	390	12. 8
Above 2 and up to 5 years	2,111	69.5
Above 5 and up to 10 years	491	16. 2
Above 10 years	44	1.5

Source: Leaseurope

to the balance sheet. The new Danish rules are based essentially on the IAS 17 international standard, but with some discretion left to auditors who may have regard to the nature of the lessee's business, as well as the terms of the lease contract. In practice it seems that auditors are applying the lease classification rules in much the same way as in the UK. Reactions to the new rules among local leasing practitioners will strike familiar chords in countries with longer experience of lessee capitalisation. Frans Janssen of DLL notes that: "The new rules do not seem to have changed customers' attitudes to leasing, except where public sector lessees are concerned."

Residual value risk

Lessees across the Danish market have long seen attractions in operating lease deals, where lessors or vendors assume residual value risk, irrespective of the lessee accounting rules. As in other markets, however, the assumption of RV risk by vendors is beginning to raise financial reporting issues for those manufacturers subject to either IFRS or US GAAP. "It is becoming more difficult now for some vendors to recognise a sale for accounting purposes where they underwrite RVs. This is where lessors like ourselves can help our vendor partners where we are able to take RV positions", says Allan Juhl of Key Equipment Finance.

In nearly all respects, the regulatory regime for leasing in Denmark is favourable. The tax rules remain on the basis of the legal ownership principle, allowing lessors to claim fiscal depreciation on more or less the same basis as owner-users

of comparable equipment. Taxation has not been affected by the recent change in lease accounting rules.

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Likewise the general basis of commercial law in Denmark, including the corporate insolvency rules, is supportive of asset finance. The lessor's retention of title is contractually effective, though in general no regulations in this area have been made specific to leases. Bang comments that "In some respects, particularly where sale and leaseback transactions are concerned, the commercial law regime is more reassuring to the lessor in Denmark than in comparable countries like Sweden."

Convergence

As a small market with a population of some 5.4 million, Denmark must be viewed for some purposes as an integral part of the Nordic region, and also within the context of the wider European market. Although Denmark has not adopted the euro, the exchange rate of the Danish kronor has been pegged to the euro over recent years, and there has been a clear tendency towards economic convergence with the Euro zone.

The trend of national output has returned to relatively strong growth after a period of stagnation around three to five years ago). Most players in the Danish leasing market feel that the current business outlook is positive.

TABLE 4: NEW EQUIPMENT LEASING BUSINESS BY ASSET TYPE, 2004

	€ (millions)	% annual change
Manufacturing and industrial plant	671	+26.7
Computers and business machines	388	-8.7
Commercial vehicles	988	+27.9
Cars	794	+31.3
Ships, aircraft and railway rolling stock	2.1	-91.0
Other equipment	156	+9.1
Total	2,991	+19.7

Source: Leaseurope

TABLE 5: NEW EQUIPMENT LEASING BUSINESS BY CUSTOMER SECTOR, 2004

	€(millions)	% annual change
Manufacturing and construction	844	+48.5
Agriculture, forestry and fishing	252	+65.6
Private sector services	1,370	+46.0
Public sector	1, 900	-21.7

Source: Leaseurope