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Le Président

JFL/VC

N°41

Paris, 16 Juillet 2009

IASB
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Dear Madam, Dear Sir,

I am writing on behalf of the CNC to comment on the IASB DP "Leases".

The CNC does not support the single accounting model proposed in the DP that results in the lessee recognising, for all lease contracts, an intangible asset representing its right to use the leased asset for the lease term and a liability for its obligation to pay rentals.

The CNC considers that, in order to provide decision-useful information to users of financial statements, the accounting for lease contracts should reflect the economics of the contracts namely that:

a. certain lease contracts are "in-substance" purchases of the leased asset that the lessee should accounted for as purchases of similar assets (owned assets);

b. while other lease contracts are acquisitions of a right to use the leased asset for which the lessee should recognise an asset representing its right to use the leased asset and a liability to pay rentals over the non-cancellable period;

c. In this regard, the CNC observes that the IASB tentatively decided in June 2009 that a lessee may revalue its right-of-use asset when IAS 16 or IAS 38 permits to do so, using the revaluation model in IAS 16 or in IAS 38 depending on the nature of the leased asset (property, plant or equipment or intangible asset). This tentative decision illustrates the limits of the model proposed by the IASB in the DP, as this model still requires the lessee to refer to the underlying asset while it is supposed to have acquired only a right of use.

In addition, as regards the application of the model proposed in the DP to a lease contract which would be qualified by the CNC as the acquisition of a right to use the leased asset:

a. The CNC considers that the renewal, termination and / or purchase options of such contracts should be accounted for separately. Indeed, the entity has no obligation under these options; it only has a right to exercise these options. Please refer to our answer to question 13;

b. The CNC considers that the obligation to pay rentals over the non-cancellable lease term should be discounted using the interest rate implicit in the lease if this is practicable to determine; if not, at the lessee's incremental borrowing rate. Please refer to our answer to question 6;

c. The CNC considers that the lessee's incremental borrowing rate, when used, should not be reassessed. Please refer to our answer to question 10;

d. The CNC considers that for lease rentals that are not contingent on changes in an index or rate, the obligation to pay rentals over the non-cancellable period should include the most likely estimate of the contingent rentals payable. The estimate of the contingent rentals payable should be reassessed only for changes in facts and circumstances that significantly impact the economics of the contract. Changes in the obligation to pay rentals arising from such reassessment should be recognised as an adjustment to the carrying amount of the right-of-use asset. Please refer to our answer to question 16;

e. The CNC considers that for lease rentals contingent on changes in an index or rate, the lessee would initially measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Changes in the amount payable arising from changes in the indices would be recognised in profit or loss. Please refer to our answer to question 16;

f. The CNC considers that residual value guarantees should be measured under the same approach that the CNC defends for lease rentals that are not contingent on changes in an index or rate (see paragraph d. above). Please refer to our answer to question 21;

Furthermore, the CNC questions the due process of this project and the publication of a DP limited to lessee accounting. How is it possible under such conditions for constituents to appropriately express their views if the proposed model does not address both the accounting by lessees and lessors?

The CNC considers that an incomplete model prevents stakeholders from having an appropriate overview of the project. In addition, the CNC is of the view that it limits the robustness of the overall model, as shown by the Board's tentative decisions at its June 2009 meeting on the accounting for lease contracts by lessors. The CNC considers that it is essential that the IASB publish a DP on the specific subject of lessor accounting as soon as possible.

In this context, the CNC believes that there is not relevant at this point in time to address questions 25 to 29 of this DP.

Moreover, the CNC stresses that the views expressed in this comment letter might have to evolve in the light of the IASB's future decisions when dealing with lessor accounting.

In addition, the CNC has a number of concerns about the IASB's proposed model:

a. The CNC is not convinced that the IASB has appropriately analysed if the proposed model provides users with decision-useful information that meets their needs. Please refer to our general comments in Appendix 1;

b. The CNC is not convinced that the proposed model is effective in responding to opportunities to structure transactions, which has been identified by the IASB as one of the major criticisms of the existing accounting model. The CNC is particularly concerned that the proposed model would, if the IASB does not appropriately address the issue of the distinction between lease contracts and service contracts, simply replace the existing possibility to structure transactions by using the distinction between finance lease contracts and operating lease by the possibility to use the distinction between lease contracts and service contracts. Please refer to our answer to question 1;

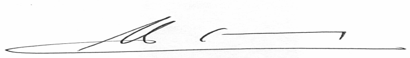
c. The CNC considers that the IASB should clearly justify what the difference between a lease contract and an "executory" service contract is as it is not appropriately addressed in the DP, albeit crucial in the rationale. Executory contracts create reciprocal obligations between the parties and do not generally result in the initial recognition of assets and liabilities. The CNC believes that if this distinction is not clearly established, the model proposed in the DP may result in an extension to other services contracts by way of contamination, extension to which the CNC is opposed. Please refer to our answer to question 1;

d. The CNC is not convinced that the IASB has appropriately considered the costs /benefits ratio of this project and taken full measure of its impacts for preparers, particularly in terms of information systems or internal controls. The CNC requests the IASB to implement a robust testing of these costs for preparers in the light of its expected benefits and to consider in particular the continuous reassessments of the liability required by the proposed model as a result of the continuous reassessment of the discount rate, the most likely term of the contract, the probability weighted approach for contingent rentals and the residual value guarantees. The CNC questions most particularly the model proposed when accounting for certain very short term lease contracts. Please refer to our answer to question 2;

Our detailed answers to the Discussion Paper's questions are set out in the Appendix 1 to this letter.

We hope you will find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jean-François Lepetit

Appendix 1

General comment on the value of information provided to users by this model (GC1)

1. The CNC observes that users' needs have not been thoroughly discussed in the DP and that the comments made in this regard in DP 1.12 (a) are particularly brief.

2. The CNC is not convinced that the IASB has appropriately analysed users' needs.

3. The CNC understands that all users do not necessarily need the same information. Nevertheless, the CNC understands that adjustments made by users are in most cases an attempt to capture the unrecognised "core" assets by using information provided in the notes and that this information consists of payments for the non-cancellable term and that such payments are not discounted. However, the model in the DP proposes to recognise the present value of the obligation to pay rentals for all lease contracts, including the rentals of optional periods.

4. The CNC urges the IASB to thoroughly discuss the following topics with users:

    a. Do users expect the liabilities for all lease contracts to be recognised in the statement of financial position? Or only the liabilities for certain contracts, for example, "core" assets leases? Should the liability represent rentals for the minimum lease term or include rentals for optional periods too? Should the liability be undiscounted or discounted? Are users really interested in a "liability" approach or would they prefer a "whole asset" approach?

    b. What is the level of reliability expected by users from this information? The CNC observes that the model proposed in the DP increases volatility in the statement of financial position and in the income statement. Is this really what users want?

5. The reconsideration of users' needs is essential because it is the only way to validate that the DP meets these needs. It would ensure that users do not require additional information, albeit in a different form for example through non financial information or ratios. In this case, the CNC believes that this would question the relevance of the information provided by the proposed model.

Chapter 2: Scope of lease accounting standard

Question 1
The boards tentatively decided to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards. Do you agree with this proposed approach? If you disagree with the proposed approach, please describe how you would define the scope of the proposed new standard.

General comment

6. The CNC agrees with the IASB’s proposal to base the scope of the proposed new lease accounting project on the scope of the existing IFRS lease accounting standards.

7. However, the CNC considers that the IASB should address a certain number of issues relating to this existing scope before the publication of the future ED "Leases", namely:

    a. The CNC considers that the IASB should justify the difference between a lease contract and a service contract. Indeed, the CNC believes that the provisions of the DP “Leases” would affect the recognition and measurement of other contracts currently considered as executory if the IASB does not clearly set out the "boundaries" between these different contracts. The CNC is opposed to such an extension (please refer to our detailed answer in Q1.1 below);

    b. The CNC considers that it is essential that the IASB addresses the issues arising from the application of IFRIC 4. The CNC believes that, if these clarifications are not provided, the DP would result in replacing the existing issue of the distinction between a finance lease and an operating lease by that of the distinction between a service contract and a lease contract (please refer to our detailed answer in Q1.2 below);

    c. The CNC considers that the IASB should provide additional guidance on how to distinguish payments for services from payments for the right to use an asset. The CNC agrees with the arguments set out by the IASB in DP 2.6 (d);

    d. The CNC believes that the IASB should reconsider the existing scope exclusions of IAS 17, justify them and more particularly clarify the accounting treatment for contracts on intangible assets (please refer to our detailed answer in Q1.3 below);

8. In addition, the CNC is opposed to any change to the existing scope of IAS 17 that may result from an IASB’s unilateral decision to bring IAS 17 into alignment with SFAS 13 (please refer to our detailed answer in Q1.4 below).

Q1.1. The CNC considers that the IASB should clearly justify what the difference between a lease contract and an “executory” service contract is

9. The CNC considers that the DP does not adequately address what the fundamental differences between a service contract and a lease contract are.

10. Indeed, the fundamental question that must be answered is: what distinguishes a lease contract from a service contract? Why does the fact that the lessee controls the right to use the asset differentiate a lease contract from an executory contract such as an employment fixed-term contract, an audit engagement, certain supply contracts or stand-by credit facilities?

11. The DP does not answer this question. The CNC observes that the IASB has discussed in the Appendix C6 of the DP, the possibility of an executory contract approach under which all lease contracts would have been accounted for as executory contracts. The argument put forward by proponents of this approach is that the right to use the asset by the lessee is conditional on making payments under the lease and that similarly, the lessee's obligation to make payments is assumed to be conditional on the lessor permitting the lessee to use the asset throughout the lease term.

12. This executory contract approach was rejected by the IASB because "it fails to recognize the assets and liabilities of the lessee" namely because of the value of the information it provides. The CNC notes that no conceptual justification has been put forward by the Board.

13. The CNC believes that the IASB should clearly establish the conceptual reasons justifying why lease contracts are not executory contracts.

14. The CNC is concerned that this project may have unintended consequences on other executory service contracts and may call into question their existing accounting treatment if this distinction is not clearly established.

Q1.2 – Need for clarification of application of IFRIC 4

15. The CNC notes that the IASB intends to clarify the provisions of IFRIC 4 as stated in DP 2.20 (b).

16. The CNC believes that these clarifications are necessary. Indeed, contrary to DP 2.10 (b), the CNC is concerned by the difficulties still encountered by constituents in applying IFRIC 4, particularly regarding the specific asset notion. For example:

    a. What does the concept of fungible assets mean for these contracts?

    b. How to distinguish a right to capacity (service contract?) from a right to use an asset?

    c. Is the use of a portion of an asset a lease contract or a service contract?

17. Furthermore, the CNC notes that the distinction between a service contract and a lease contract will be all the more essential, as the DP proposes to recognize an asset and a liability for all leases. The CNC considers that this will result in a greater pressure on the scope of IAS 17 (and therefore of IFRIC 4).

18. The CNC considers that if the IASB does not address this need for clarification, the DP would probably result in replacing the existing difficulty to distinguish between a finance lease and an operating lease by another difficulty, eg to distinguish between a service contract and a lease contract.

19. In addition, as set out in DP 1.12, the CNC understands that an important objective of this project is to put an end to the opportunities to structure. In this regard, the CNC is not convinced that this topic is as crucial as put forward by the IASB in the DP. Indeed, the CNC believes that structuring usually relates to very specific transactions that are likely to represent a small number of contracts. This topic should thus be reassessed in the light of the volume of the overall leasing activity.

20. However, it should not be excluded, if the principle were to recognize assets and liabilities for all leases, that entities that were motivated to structure operations would continue. Clarifying the distinction between service contracts / lease contracts, would have the merit of limiting the possibilities of resorting to such practices.

Q1.3 - Reconsideration of the existing IAS 17 scope exclusions for the leases for certain intangible rights and to explore for or use natural resources

21. The CNC understands that the IASB intends to reconsider the existing IAS 17 scope exclusions. DP 2.13 illustrates it by giving the example of leases to explore for or use natural resources.

22. The CNC recommends that the IASB should not limit its review of the existing scope to leases related to natural resources and should also consider leases of intangible assets.

23. The CNC notes that certain leases of intangible assets are specifically excluded from the scope of IAS 17 but that the conceptual basis for this exclusion is not discussed. In addition, as confirmed by paragraph B7 of the DP, this exclusion does not apply to all leases of intangible assets.

24. This situation is confusing and raises a certain number of practical issues resulting in inconsistent accounting treatments. In practice, contracts on intangible assets are, depending on their nature, accounted for in accordance with IAS 38 (for example, when these contracts are specifically excluded from IAS 17), in accordance with IAS 17 or as a service contract (when these contracts are not specifically excluded from IAS 17 and provide the lessee with a non-exclusive right to use the underlying intangible asset).

25. The CNC recommends that the IASB reconsiders the reasons for these exclusions, establish their rationale and clarify the accounting treatment of contracts on intangible assets (by nature of underlying intangible assets) during the next step of this project.

26. The CNC is also convinced that this analysis will also result in a constructive assessment of two topics at the heart of this project:

    a. the distinction between control of an intangible asset and control of a right to use this intangible asset (e.g. IAS 38 vs. Future ED “Leases”)

    b. and the distinction between a service contract and a lease contract.

Q1.4 - Reconciliation of the scope of IAS 17/SFAS 13

27. The CNC understands that the IASB is planning to reconcile the scope of the standards applicable to leases in IFRSs and US GAAP.

28. Paragraph 2.3 of the DP states that this approach would result in all contracts that are accounted for at present as lease contracts being accounted for as leases under the proposed new standard.

29. Therefore, the CNC expects such reconciliation process to be limited to an analysis of the differences between IAS 17 and SFAS 13. The CNC agrees with such a reconciliation. On the other hand, the CNC would oppose a process resulting in arbitrary changes in the scope of IAS 17 in order to bring it in line with SFAS 13. Should such changes be made in the absence of a fundamental reconsideration and discussion with constituents of the issues in relation with the scope of the existing IFRSs on leases?

Question 2
Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

30. The CNC does not agree, on a conceptual basis, with a scope exclusion of certain leases based on the criteria of non-core asset leases or short term leases.

31. The CNC considers that such exclusions pose two problems:

    a. The first is conceptual: the CNC observes it would be difficult to develop a principle that would justify the exclusions envisaged;

    b. The second is practical: such a principle, were it to be developed, would require additional criteria to be defined to ensure its consistent application, criteria that would in our opinion be arbitrary

32. However, the CNC is not convinced that the IASB has appropriately considered the cost / benefits ratio for the preparers of the information provided to users for non-renewable very short-term contracts (contracts with an expected term of a few months and that are not renewed in practice through similar contracts).

33. The CNC recommends that the IASB examine how the application of the overall principle of materiality applies to such contracts during the next phase of this project.

Chapter 3: Approach to lessee accounting

Question 3
Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.

34. The CNC does not agree with the IASB's analysis of rights and obligations, and assets and liabilities arising in a "simple" lease contract e.g. that the lessee purchases the right to use the leased asset for a certain period.

35. The CNC considers that, in order to provide decision-useful information to users of financial statements, the accounting for lease contracts should reflect the economics of these contracts namely that:

    a. certain lease contracts are "in-substance" purchases of the leased asset that should be recognized as would the purchase of a similar leased asset be recognized by the lessee with a corresponding interest-bearing financial liability, in compliance with existing IFRSs;

    b. while other lease contracts are acquisitions of a right to use the leased asset. In such cases, the lessee should recognise an intangible asset representing its right to use the leased item with a corresponding interest-bearing liability to pay rentals over the non-cancellable lease term, presented within trade payables (refer to our detailed answers to question 5 and following).

36. The CNC believes that this distinction is crucial. Indeed, from an operational point of view, a lessee who enters a lease with the intention to finance the acquisition of an asset is not in the same situation as a lessee who has decided to acquire a temporary right to use an asset, thus responding to its need for flexibility. However, the proposed model does not allow for this distinction. As a result, information provided to users would be similar in these two completely different situations.

37. The CNC considers that the IASB should develop criteria for distinguishing between these two categories of lease contracts, so that the future lease accounting model would provide decision-useful information reflecting the economics of contracts in all cases.

38. In this regard, the CNC observes that the IASB decided in June 2009 that a lessee may revalue its right-of-use asset when IAS 16 or IAS 38 permits so, using the revaluation model in IAS 16 or in IAS 38 depending on the nature on the leased asset (property, plant or equipment or intangible asset). This decision illustrates the limits of the IASB's proposed model, as this model still needs to refer to the underlying asset while the lessee is supposed to have acquired only a right of use.

39. Furthermore, the CNC also notes that at this stage of the discussion on lessor accounting, the rationale used is quite different, as it is considered that the lessor provides *a service* to the lessee over the lease term. The CNC questions the consistency of these decisions and encourages the IASB to develop as quickly as possible a comprehensive and coherent model of accounting for lease contracts for both lessees and lessors. See for more detail our response to question 25.

Question 4
The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognize:
(a) an asset representing its right to use the leased item for the lease term (the right-of-use asset)
(b) a liability for its obligation to pay rentals.
Appendix C describes some possible accounting approaches that were rejected by the boards.
Do you support the proposed approach? If you support an alternative approach, please describe the approach and explain why you support it.

40. As mentioned in question 3, the CNC does not agree with the proposed approach, and is in favour of a principle of recognition that is based on a distinction between leases that correspond to in-substance purchases of assets and leases that correspond to the acquisition of a right of use.

41. Regarding the other approaches that have been considered by the IASB and not retained, the CNC has the following comments:

    a. The whole asset approach: the CNC notes that some users argue that this approach increases comparability, for example when computing ROCE, as entities that purchase assets and those who lease them recognise the same assets. In addition, the CNC notes that in certain activities, when an entity does not have the same business model as the other entities, for example, by leasing its strategic business assets whereas the other entities purchase them, users restate the financial statements of the former so as to recognise the economic value of the so-considered “missing” assets. However, as discussed before, the CNC is not convinced that a whole asset model is appropriate and provides decision-useful information on the economic nature for all lease contracts, as all leases do not correspond to in-substance purchases of the leased assets;

    b. The executory contract approach: the CNC is not in favour of an approach that would treat all lease contracts as executory, ie contracts that, according to existing practice, would not result in the accounting for an asset and a liability for the unperformed part of the contract (ie for the remaining term of lease); however, as discussed in question 1, the CNC considers that the IASB should clearly expose the criteria establishing the distinction between service contracts (executory) and leases.

c. The approach adopted in IAS 17: the CNC agrees with the IASB that the existing model results in not recognising liabilities for contracts presently classified as operating leases, whereas the entity effectively incurs a liability (for the purchase of the asset or the purchase of the right to use, depending on the nature of the lease).

Question 5
The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the board tentatively decided to adopt an approach whereby the lessee recognizes:
(a) a single right-of-use asset that includes rights acquired under options
(b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees.
Do you support this proposed approach? If not, why?

42. ***Preliminary comment** : Our responses to questions 5 to 23 relate to contracts that are acquisitions of the right to use the leased asset. With regard to leases that are in-substance purchases of the leased item, the CNC considers that these contracts should be accounted for under the existing provisions of IFRSs applicable to the acquisition of the leased asset (refer to our response to question 2).*

43. For leases that are acquisitions of the right to use the leased asset, the CNC does not support the so-called “a single asset and a single liability” approach that consists in recognising an asset and a liability including the payments for rentals for optional periods and / or the exercise price for the acquisition of the asset where the exercise of these options is "most likely".

44. For these contracts, the CNC is in favour of a model in which:

   1. the obligation to pay rentals is limited to rentals for the non-cancellable lease period and the renewal, purchase or cancellation options are accounted for separately. For further details, please refer to our response to question 13;

   2. the initial and subsequent obligation to pay rentals includes contingent rentals, except in the case of contingent rentals based on an index or rate. The latter are included only in initial measurement of the obligation on the basis of the index or rate existing at the commencement of the contract. For further details, please refer to our response to question 16;

   3. the initial and subsequent obligations to pay rentals include the residual value guarantees determined on a "most likely” basis. For further detail, please refer to our response to question 21.

Chapter 4: Initial measurement

Question 6
Do you agree with the boards' decision attempt to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate?
If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

45. The CNC agrees with the IASB’s proposal to measure the obligation to pay rentals at the present value of these payments.

46. However, the CNC does not support the IASB’s proposal to discount the obligation to pay rentals using the lessee’s incremental borrowing rate.

47. The CNC believes that the discount rate used to discount these payments should reflect the economy of the transaction e.g. the acquisition of a right to use an asset over a period of time and the fact that a security is provided throughout the leased item. The interest rate implicit in the lease de facto meets this requirement.

48. Therefore, the CNC recommends the existing provisions of IAS 17 for finance leases to be applied, namely the use of the lease’s implicit interest rate to discount the obligation when this is practicable to determine and if not, the use of the lessee’s incremental borrowing rate.

Question 7
Do you agree with the boards’ tentative decision to initially measure the lessee’s right-of-use asset at cost?
If you disagree, please explain why and describe how you would initially measure the lessee’s right-of-use asset.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

49. The CNC agrees with that proposal which appropriately reflects the link between the right to use the leased asset and the liability in such contracts and the principle to measure initially an asset at the fair value of the consideration paid, in this case, the obligation to pay rentals.

Chapter 5: Subsequent measurement

Question 8
The boards tentatively decided to adopt an amortised cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset.
Do you agree with this proposed approach?
If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favour and why.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

Q8 .1 – Subsequent measurement of the obligation to pay rentals on an amortised-cost based approach

50. The CNC agrees with the IASB's proposal to adopt an amortised-cost based approach as defined in paragraph 5.17[1] of the DP, to subsequently measure the obligation to pay rentals.

51. However, this does not mean that the CNC agrees that the obligation to pay rentals should follow all the IFRSs provisions applicable to financial liabilities measured on such a basis.

52. Indeed, the CNC believes that the liability is specific, with regard to its link with the corresponding asset and the nature itself of the contract and that this should be taken into consideration when determining the provisions applicable to this liability. For further details, refer to our responses to question 9 (fair value option) and question 10 (reassessment of the discount rate).

Q8.2 – Subsequent measurement of the right-of-use asset

53. The CNC agrees with the IASB's proposal to adopt an amortised-cost based approach for the right-of-use asset. The CNC considers that such an approach adequately reflects the economics of the transaction, i.e. the acquisition of a right (an intangible asset) by the lessee.

54. The CNC observes that the term "economic life" is used in paragraph 5.40 of the DP in relation to the period of amortisation of the right-of-use asset whereas IAS 17 refers, for finance leases, to the provisions of IAS 16 or IAS 38, which both use the term "useful life". The CNC recommends that the IASB clarify the practical impacts of this change in terminology.

[1] DP 5.17 states « under this approach, the lessee would accrue interest on the outstanding obligation to pay rentals »

Question 9
Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

55. The CNC does not support a fair value option for the obligation to pay rentals. In addition, the CNC has not identified clearly what the advantages of such an option would be. The CNC recommends that the IASB clarify the reasons for this proposal.

Question 10
Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons.
If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

56. As discussed in question 6, the CNC favours the use of the lease's implicit interest rate for discounting the obligation when this is practicable to determine and if not, the use of the lessee's incremental borrowing rate.

57. Where the lessee's incremental borrowing rate is used, the CNC does not favour a systematic reassessment as proposed in the DP. The CNC shares the views of the FASB on this topic.

58. Indeed, the CNC observes that such a reassessment is not consistent with the provisions applicable when an entity borrows funds at a variable interest rate to purchase an asset. In this situation, the interest rate of the financial liability is not reassessed in case of change. The CNC also notes that such a reassessment is costly and will impose considerable burdens on preparers.

59. In addition, more generally, the CNC is opposed to taking into account the credit risk in the subsequent measurement of financial liabilities.

Question 11
In developing their preliminary views the boards decided to specify the required accounting for the obligation to pay rentals. An alternative approach would have been for the boards to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities.
Do you agree with the proposed approach taken by the boards?
If you disagree, please explain why.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

60. The CNC agrees with the IASB's proposals to specify the required accounting for the obligation to pay rentals in the future standard that would deal with the recognition and measurement of lease contracts.

61. The CNC considers that this approach is appropriate in regard to the link that exists in a lease contract between the obligation to pay rentals and the right-of-use asset and that result in specific features for this liability.

Question 12
Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortisation or depreciation in the income statement.
Would you support this approach? If so, for which leases? Please explain your reasons.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

62. The CNC does not support to describe the decrease in value of the right-of-use asset as rental expense rather than amortisation or depreciation in the income statement.

63. The CNC considers that recognising a rental expense in the income statement would not adequately reflect the fact that the lessee purchased a right-of-use asset, subsequently measured on an amortised-based cost approach.

Chapter 6: Leases with options

Question 13
The boards tentatively decided that the lessee should recognise an obligation to pay rentals for a specified lease term, ie in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term. Do you support the proposed approach?
If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

64. The CNC considers that the lessee should recognise an obligation to pay rentals for the minimal rental term/non cancellable lease term. Renewal, cancellation and /or purchase options should be accounted for separately.

65. Renewal and purchase options should give rise to additional assets and liability when exercised, reflecting the fair value of the additional rights and obligations conveyed to the lessee.

66. When accounting for options conveyed to the lessee, the exercise of the renewal or purchase options should generally not be anticipated : the fair value of the options themselves acquired at the beginning of the lease term will be reflected in the MLP required by the lease.

67. If the value of a renewal or purchase option can be measured at the inception of the contract, the option should be accounted for separately from the right-of-use asset. A portion of the present value of the rental payments would be deemed to relate to the purchase of the option. The difference between the present value of the rental payments and the value of the option would be deemed to relate to the right-of-use asset. The carrying amount of the option is not subsequently reassessed nor amortised. The carrying amount of the option is subject to impairment testing during the period up to the exercise date and, if the option is exercised, the carrying amount at the exercise date would be added to the right-of-use asset for the optional period (renewal option) or to the value of the asset (purchase option) and would be amortised as appropriate.

68. If the value of the option cannot be measured at the inception of the contract, the option would not be accounted for separately. The present value of the future rentals payments would be deemed to relate to the right-of-use asset.

Additional comments

69. Under the "a single asset and liability" approach proposed in DP, the lessee recognizes a liability for the rentals payable in the optional periods and /or for the exercise price when the exercise of these options is most likely. The CNC considers that this approach is conceptually flawed and does not meet the IFRSs requirements for the accounting of an option on a non-financial item.

70. Indeed, the lessee has no contractual obligation with regard to an option to extend or terminate a lease or to purchase the lease item, until the lessee decides to exercise such an option. As a consequence, the lessee's obligation to pay rental during an optional period or to acquire the leased asset under an option does not meet the definition of a liability until the lessee exercises the option. The option conveys a right to the lessee and not an obligation. The lessee should measure this option at its value, i.e. the consideration that the lessee paid for this option and not through the amount of rentals that would be incurred when the option is exercised. The CNC also notes that options do not systematically have a value as for example when the option gives the lessee the right to renew the contract at market conditions.

71. The CNC does not deny that the value of these options may be complex to determine. However, the CNC considers that there is no reason that justifies the rejection of an appropriate accounting treatment because of its complexity while favouring an accounting treatment that is conceptually flawed.

72. The CNC contemplates a possibility to reconcile the separate accounting for options and a pragmatic approach which consists in determining the value of these options by comparing the amount of rentals for a contract including options with the amount of rentals for a contract without such options.

73. In addition, the CNC questions the value of the information provided by the "a single asset and liability" approach.

74. This approach does not reflect:

    a. The flexibility resulting from lease contracts with renewal or cancellation options. As discussed previously, the lessee does not have any obligation as a result of the option but an asset, the right to renew or to cancel the initial contract, that it may choose to exercise or not;

    b. The fact that the options also reflect how the parties to the contract have decided to share the economic risks of this contract.

75. The CNC questions also the relevance and decision-usefulness of a model that provides users with the same information for (with the assumption that the exercise of the option is “most likely”) :

   a. A three-year lease with a two-year renewal option;

   b. A seven-year lease with a cancellation option after five years;

   c. A non-cancellable five-year lease.

76. The CNC observes that DP 6.23 states that “the Board noted that additional disclosures may be required to enable users to differentiate between leases that include options and leases that do not", which tends to illustrate that the proposed model is not sufficient to provide users with relevant information in the statement of financial position.

77. The CNC believes that disclosures are not sufficient nor adequate to address this issue and that the IASB should reconsider the approach for the measurement of the lease obligation.

Question 14
The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognised as an adjustment to the carrying amount of the right-of-use asset.
Do you support the proposed approach?
If you disagree with the proposed approach, please describe what alternative approach you would support and why.
Would requiring reassessment of the lease term provide users of financial statements with more relevant information? Please explain why.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

78. The CNC considers that the obligation to pay rentals should only be accounted for the non-cancellable period. The renewal, cancellation and / or purchase options should be accounted for separately. For further detail, please refer to our answer to question 13.

Question 15
The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease. Do you agree with the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

79. The CNC agrees with the argument set out in DP 6.56 that purchase options can be viewed as the ultimate renewal option.

80. Thus, with regard to the approach defended by the CNC, the CNC considers that purchase options should be accounted for separately, in the same manner as renewal or cancellation options. For further detail, please refer to our answer to question 13.

Chapter 7: Contingent rentals and residual value guarantees

Question 16
The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Do you support the proposed approach?
If you disagree with the proposed approach, what alternative approach would you recommend and why?

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

Contingent rentals that are not based on a rate or index

81. The CNC considers that:

    a. Initial and subsequent measurement of the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements;

    b. Changes in the lessee's obligation to pay rentals arising from reassessments should be recognised as an adjustment to the carrying amount of the right-of-use asset.

82. The CNC agrees with the IASB that the lessee has an unconditional obligation to pay the additional rentals when the future event requiring the payment occurs (for example when a certain level of sales is exceeded). Thus, the lessee has effectively incurred a liability for an amount that is uncertain and should be estimated. The issue is a measurement issue, not a recognition issue.

83. The CNC also agrees with the IASB that a change in the estimate of contingent rentals should be viewed as a change to the originally estimated cost of the right-of-use asset and thus, should be accounted for under an approach similar to that adopted in IFRIC 1.

84. However, contrary to the IASB, the CNC considers that the lessee should measure initial and subsequent contingent rentals on the basis of the most likely contingent rental payments and not on the basis of a probability-weighted estimate of the rentals payable. The CNC also notes that this view is consistent with the FASB' decision on this topic. In addition, as already stated in our response to question 8 with respect to "ED of proposed amendment to IAS 37"dated October 26, 2005, the CNC favours a "probable outcome" approach for the measurement of single liabilities. In addition, the CNC has not seen more arguments or evidence in this DP, than there were in the ED "IAS 37" that a probability-weighted approach provides a better information for the measurement of a single liability than a most likely approach.

85. In regard to the reassessment of the estimate of the contingent rentals, the CNC considers that it should be required only when the changes in facts and circumstances are such that the economics of the contracts are significantly modified. The CNC believes that this approach would both provide decision-useful information, e.g. information only in the event of significant changes and limit the burden on preparers resulting from systematic reassessment at each reporting date.

Contingent rentals that are based on a rate or index

86. The CNC considers that if lease rentals are contingent on changes in an index or rate, the lessee should initially measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Changes in amounts payable arising from changes in the indices would be recognised in profit or loss. Indeed, the CNC believes that the subsequent changes in the index represent an additional cost for the entity that do not indicate any corresponding increase in the value of the originally assessed cost of the right-of-use asset.

Question 17
The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes.
Which of these approaches to measuring the lessee's obligation to pay rentals do you support? Please explain your reasons.

87. Please refer to our answer to question 16.

Question 18
The FASB tentatively decided that if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Do you support the proposed approach? Please explain your reasons.

88. Please refer to our answer to question 16.

Question 19
The boards tentatively decided to require remeasurement of the lessee’s obligation to pay rentals for changes in estimated contingent rental payments. Do you support the proposed approach? If not, please explain why.

89. Please refer to our answer to question 16.

Question 20
The boards discussed two possible approaches to recognising all changes in the lessee’s obligation to pay rentals arising from changes in estimated contingent rental payments:
(a) recognise any change in the liability in profit or loss
(b) recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset.
Which of these two approaches do you support? Please explain your reasons. If you support neither approach, please describe any alternative approach you would prefer and why.

90. Please refer to our answer to question 16.

Question 21
The boards tentatively decided that the recognition and measurement requirements for contingent rentals and residual value guarantees should be the same. In particular, the boards tentatively decided not to require residual value guarantees to be separated from the lease contract and accounted for as derivatives. Do you agree with the proposed approach? If not, what alternative approach would you recommend and why?

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

91. The CNC considers that residual value guarantees should be accounted for under the same approach that the CNC defends for contingent rentals that are not based on an index or rate, namely:

   a. the initial and subsequent lessee’s obligation to pay rentals should include amounts payable under residual value guarantees estimated on a most likely basis as defended by the FASB and not on a probability-weighted basis as proposed in the DP;

   b. the changes in the lessee’s obligation to pay rentals arising from changes in the contingent rentals should be recognised as an adjustment to the carrying amount of the right-of-use asset as proposed in the DP;

   c. reassessment of the estimate of the contingent rentals should be required only when the changes in facts and circumstances are such that the economics of the contracts are significantly modified and not on a systematic basis as proposed in the DP.

92. The CNC considers that the obligation to pay an amount under the residual value guarantee is unconditional as the lessee commits itself to pay a difference of value if the value of the leased item at the end of the lease is below a specified value as per contract. As a consequence, the lessee has no other possibility but to pay this amount when the criteria specified in the contract are met. The residual value guarantee is in practice one of the components of the cost of the right-of-use asset and as such, should not be accounted for separately from the contract as a derivative.

Chapter 8: Presentation

Question 22
Should the lessee’s obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons. What additional information would separate presentation provide?

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

93. The CNC considers that in such contracts, under which the entity does not, in substance, finance the purchase of the leased asset but purchases only a right-of-use asset, the liability that the entity incurs is not a financial liability but has the nature of a trade payable. Therefore the CNC recommends that the obligation to pay rentals is classified as « trade payable » in the statement of financial position.

Question 23
This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position. How should the right-of-use asset be presented in the statement of financial position?
Please explain your reasons.
What additional disclosures (if any) do you think are necessary under each of the approaches?

Our response to this question relates to a lease contract that corresponds to the acquisition of the right to use the leased asset. For further detail, please refer to our preliminary comment to question 5.

94. The CNC considers that the approach consisting of presenting the right-of-use asset on the basis of the nature of the leased asset but separately from other owned assets is the most reasonable.

95. Indeed, although the right-of-use asset is an intangible asset, this approach reflects that the right-of-use asset is not an owned asset (ie it is not identical to the other assets) even if the leased asset is economically used by the entity during the non-cancellable period as the other owned assets of the same nature.

Chapter 9: Other lessee issues

Question 24
Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.

96. No

Chapter 10: Lessor accounting

General comment

97. The CNC considers that a project dealing with lease accounting can and should only be handled on a comprehensive basis, e.g by analysing the lease contracts and their consequences from both the lessee and the lessor's points of views. Such an approach is the only way to ensure that the future model for lease accounting is robust and consistent.

98. The discussions held on lessor accounting by the Boards are at a starting point. Nevertheless, as discussed in question 3, the CNC observes that the tentative decisions taken during the IASB's board meeting in May seem to consider that the lessor has an obligation to provide a service to the lessee during the lease term which is contradictory with the general principle of the DP under which the lessee purchases a right-of-use asset from the lessor at the inception of the lease.

99. In regard to the next phase of this project, the CNC considers essential that the IASB publishes a separate DP for lessor accounting as soon as possible in order to provide constituents with ample time to properly express their views on this subject.

100. In this context, the CNC believes that there it is no relevant at this point in time to address questions 25 to 29 of this DP.

101. The CNC would also stress that the views expressed in this comment letter might evolve in the light of the decisions that may be taken by the IASB when dealing with lessor accounting.

Question 25

Do you think that a lessor's right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.

Question 26

This chapter describes two possible approaches to lessor accounting under a right-of-use model:
(a) derecognition of the leased item by the lessor or
(b) recognition of a performance obligation by the lessor.
Which of these two approaches do you support? Please explain your reasons.

Question 27

Should the boards explore when it would be appropriate for a lessor to recognise income at the inception of the lease? Please explain your reasons.

Question 28

Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons

Question 29

Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues.

102. Please refer to our general comment on lessor accounting