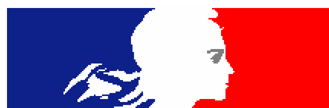

AUTORITE DES NORMES COMPTABLES

3, Boulevard Diderot
75572 PARIS CEDEX 12

Phone **33 1 53 44 52 01**

Fax **33 1 53 44 52 33**

Internet http://www.anc.gouv.fr/

Mel **jerome.haas@anc.gouv.fr**

Chairman

JH

Paris, the 24 December 2010

IASB
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

n° 89

RE : Exposure-Draft "Leases"

Dear Madam or Sir,

I am writing on behalf of the ANC to give you our comments on the above-mentioned Exposure Draft (ED). Our detailed comments are set out in the attached Appendix.

We do not support the accounting model for lessees and lessors proposed in the ED Leases. We consider that the IASB has not made a case for a change for the following reasons:

- the proposed model is considered by the IASB to be "the" appropriate response to users' needs. However, in practice, users today are able to work with – and if needed adjust - financial statements which demonstrates that they have already in the notes the information they need. In addition, we understand that some users retain a whole asset approach, while others prefer contractual minimum lease payments. Therefore, we are not convinced that the ED requirements to recognise all the assets and liabilities under the measurement proposed will properly address these needs. Furthermore, given the above, many if not all users do not ask for any modification of the standard. Finally, if some investors in some countries feel a possible need for more information, such need if precisely documented should lead to disclosure requirements and not to another accounting standard;
- the question of what is a lease and how to distinguish it from a service or executory contract is fundamental in the proposed model as the ED proposes to recognise an asset and a liability for all leases, thus resulting in greater implementation issues related to the scope of the ED. However, the ED does not satisfactorily address this issue, nor even the IFRIC 4 practical application issues already encountered. Therefore, we believe that the ED would result in widespread operational issues. In addition, the proposed model will not offset the possibility of off-balance sheet financing by structuring lease contracts as service contracts;

- the proposed model presumes that all leases consist in the financing of the purchase of an asset. However, in many arrangements, lessees are not acquiring an asset but buying flexibility e.g. to be provided with the asset they need for the period they need and the lessors are providing this flexibility. Therefore, considering that these lease contracts result in the recognition of an asset and a liability would deny the economics of these arrangements;
- the proposed model gives no effective relief for lessees with short-term contracts while lessors with short-term contracts are permitted in practice to maintain accounting similar to existing operating leases;
- the proposed treatment of options and contingent rentals on which the lessee has no effective control over the outcome contradicts the definition of a liability and an asset in the IASB's Conceptual Framework. In addition, the proposed treatment of options is inconsistent with that proposed in the ED Revenue from Contracts with Customers;
- leases of intangible assets are scoped out of the ED without any conceptual reason. Therefore, lessees of intangible assets will be left without accounting guidance while at the same time the ED Revenue from Contracts with Customers proposes for lessors of intangible assets different accounting requirements than those proposed in this ED for the leases of tangible assets;
- neither the obligation performance approach nor the derecognition approach are appropriate for leases of investment properties, as none of these approaches reflects the business model and the economics of these activities. Therefore the proposals made in the ED in this respect should be reconsidered;
- the proposals for lessors are not consistent with those for lessees. In addition, these proposals are not based on well-established principles:
    - indeed, the accounting principle proposed for lessors, based on the principle of significant risks or benefits associated with the underlying asset, is not the same as the accounting principle proposed for lessees, based on the control of the right-of-use asset;
    - more significantly, the performance obligation model proposed for lessors is not justified and not consistent with the right of use model for lessees; if the lessee has bought the right-of-use and therefore has an unconditional obligation to pay for it, it is inconsistent to consider that the lessor still has the continuing obligation to provide the lessee with the underlying asset throughout the lease;
    - the proposed accounting model for sale and leasebacks is not consistent with the premise that assets are a bundle of rights and obligations.

In addition, the proposed model is unduly complex and will result in significant practical and operational issues for preparers. Resulting uncertainties and imperfections will also affect the quality of reporting overall and therefore all stakeholders' understanding of the accounts. Therefore, we have concerns that the cost of implementing these proposals will outweigh the benefits. Indeed, we would add that:

- the "bright lines" would be even more numerous than in IAS 17: service/lease contracts, purchase/sale/leases; performance obligation/derecognition approach although the Lease project was aiming at developing a less arbitrary and complex accounting model;
- the proposed model requires significant both initial and continuous estimates of lease term, contingent rentals and residual guarantees necessitating statistical approaches. We question whether how such a complexity can contribute to the objective of increased comparability and transparency that the Lease project was aiming at;
- preparers would bear major costs in terms of information systems both for measurement and disclosure purposes, as well as for internal controls and also for training. These costs would not be only initial but also ongoing as recurring estimates would have to be produced over time. In addition, preparers would face impacts on results and key ratios for example, return on capital or debt-to-equity ratios and on other areas depending upon accounting.

We also note that no extended field-testing has been conducted despite the far reaching changes proposed in the ED.

We therefore believe that this ED does not represent as of today an effective improvement over the existing IAS 17. Thus, we consider that this ED should not be issued as a standard.

We urge the IASB to reconsider these significant issues and to draw the relevant conclusions from extended field-tests in a wide number of industries, so as to effectively respond to the objective of high-quality accounting.

On substance, seen from a distance, the IASB standards have already achieved a dramatic change in accounting in Europe with the first application of IAS 17 in 2005. This has gone a very long way in the improvement of practices in the field of leasing, which must be fully recognised.

The proposed changes do neither respond to a clear need, a systemic stake nor implement solid economic concepts or evidence. Therefore, there seems to be much more prospect for possible improvements in this area in a wider discussion about actual implementation issues, possible information gaps without a new change in the accounting principles themselves. This would be a discussion worth having in good faith.

Our detailed comments on the questions posed in the ED are set out in the Appendix to this letter.

We stand ready to provide any further information you might require.

Kind regards,

Jérôme Haas

Appendix

The accounting model

Question 1: Lessees

Do you agree that a lessee should recognise a right-of-use asset and a liability for its obligation to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on its liability for lease payments? Why or why not? If not, what alternative model would you propose and why?

The premise of the right-of-use model is to analyse assets as a bundle of rights and obligations. At this stage, this premise is not conceptually established neither in the ED Leases nor in the other existing IFRS literature. If the IASB was to pursue this project, it is crucial that it develops the rationale for this assumption as it is the starting point of the model.

In addition, we note that the IASB has not yet clearly established the boundary between a lease contract and a service contract (for further details, refer to our response to Question 2).

Therefore, the proposed model lacks a robust conceptual basis and its objective is thus still to be clearly established. As such, it may result in contracts with different economic characteristics being accounted for similarly, therefore denying the economics of these arrangements.

Moreover, the proposed model presumes that all leases consist in the financing of the purchase of an asset. However, in many arrangements, lessees are not acquiring an asset but buying flexibility e.g. to be provided with the asset they need for the period they need while lessors are providing this flexibility. Therefore, considering that these lease contracts result in the recognition of an asset and a liability would deny the economics of these arrangements.

Thus, we do not consider that it is appropriate to consider simply that all "leases" result in a right-of-use asset and a liability that should be recognised in the statement of financial position of the lessee.

In addition, we consider that the proposals made regarding the measurement of the lessees' assets and liabilities are inappropriate as the proposed treatment of options and contingent rentals contradicts the definition of a liability in the IASB's Conceptual Framework.

Subject to these objections, we recognise that for the lease contracts in which it can be demonstrated that a lessee has effectively acquired a right-of-use for an obligation to make lease payments, the lessee should recognise amortisation of the right-of-use asset and interest on its liability for lease payments.

Question 2: Lessors

Do you agree that a lessor should apply the performance obligation approach when the lease exposes the lessor to significant risks and benefits associated with the underlying asset, and a derecognition approach otherwise? Why or why not? If not, what alternative model would you propose and why?

Do you agree with the boards' proposals for recognition of assets and liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

With respect to the proposed accounting approach for lessors, we believe that:

- *the accounting principle proposed for lessors should be consistent with the accounting principle proposed for lessees*: The accounting model proposed in the ED for lessees is based on the principle of control, that of the right-of-use asset by the lessee, while the accounting approach for lessors is based on the principle of significant risks or benefits associated with the underlying asset. We consider that from a conceptual point of view, a single accounting principle should be applied for both lessee and lessor accounting models;

- *the performance obligation model for lessors contradicts the right of use model for lessees:* in the model proposed in the ED Leases, the lessee has bought the right-of-use asset and therefore has an unconditional obligation to pay for it. Therefore, it is inconsistent to consider that the lessor still has the continuing obligation to provide the lessee with the underlying asset throughout the lease; in the same manner, it is inappropriate for the lessor to continue to recognise the asset in its entirety whereas the lessee has acquired part of it;
- *this dual approach results in a new bright line that is a source of complexity:* lessors will have to exercise significant judgment to assess whether they retain exposure to significant risks or benefits associated with the underlying asset and to determine which model to apply. Thus, this proposal retains most of the complexity of the current IAS 17. This contradicts the stated objective of the project that was aiming to simplify lease accounting.

Therefore, we conclude that the derecognition approach is the only approach for lessors that is consistent with the right of use model developed by the IASB for lessees. However, we note that the proposals made regarding the measurement of the lessor's assets are inappropriate as the proposed treatment of options and contingent rentals contradicts the definition of an asset in the IASB's Conceptual Framework.

In any case, if the derecognition approach was to be retained, additional research should be conducted in order to reflect correct profitability throughout the period if the time value of money is not reflected in the residual value of the part of the asset kept by the lessee (as mentioned by Mr Cooper).

Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor should apply simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term is twelve months or less:

(a) At the date of inception of a lease a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit and loss over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from short-term leases in the statement of financial position, nor derecognise any portion of the right to use the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit and loss over the lease term (paragraph 65). (See also paragraphs BC41-BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Lessees

We note that the proposal does not provide lessees with any relief in practice as they would still be required to recognise an asset and a liability for their short-term leases while in the majority of cases, the impact of discount is not material on such a short period of time.

We believe that this proposal should be reconsidered, with the objective to provide lessees with a simplification similar to that proposed for lessors, i.e. to recognise lease payments over the lease term in profit or loss i.e. without recognising either the right-of-use or the corresponding liability. This proposal would have the merit of a similar accounting treatment for both lessees and lessors. We do not see any rationale for justifying the two different sets of requirements proposed.

Lessors

We consider that the proposals for lessors with respect to the accounting for short-term leases are appropriate.

Definition of a lease

Question 4

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(c) Do you think that the guidance provided for distinguishing leases from service contracts in paragraphs B1-B4 is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We remain convinced that a comprehensive project on lease accounting necessitates a full reconsideration of what constitutes a lease for the following reasons:

- there is often uncertainty in practice between what a lease is and what a service or an executory contract is. For example, what differentiates a lease from an executory contract such as an employment fixed-term contract, an audit engagement or certain supply contracts? Addressing this issue is critical to establish a relevant conceptual basis for the definition of a lease. In addition, we remain concerned that the lease project may have unintended consequences on the accounting of other executory service contracts and may call into question the existing accounting treatment of these other executory contracts if this distinction is not clearly established;
- we note that, in practice, IFRIC 4 requirements have been merely incorporated in the ED and that the IASB has not provided any decisive clarification. Therefore, the existing IFRIC 4 practical difficulties are still to be addressed, for example, concerning capacity-type leases or the notion of "specified asset". Thus, the boundary between a lease contract and a contract for services is still not better defined. However, this distinction has become crucial due to the substantial impact now resulting from the different accounting for those two categories of transactions as the ED proposes to recognise an asset and a liability for all leases. In addition, we note that this lack of clarity may continue to provide opportunities for off-balance-sheet financing by replacing the existing dividing line between operating/finance leases by a dividing line between service/lease contracts.

Thus, as long as what constitutes a lease and what distinguishes it from other contracts, such as service contracts and other executory arrangements has not been clearly defined, we consider that it will not be possible to establish a robust and workable definition of a lease and thus no clear conceptual basis for lease accounting.

In this respect, we note that the existing IAS 17 definition of a lease has been modified to include the term "specified". However, at this stage, the IASB has not gone far enough. It is still unclear from this definition and the accompanying guidance if for example, "leases" of assets such as photocopiers, routers or laptops eg arrangements in which the lessee is interested in the service provided and not in the asset would be considered to be service contracts or not. We believe that further clarification and illustrative guidance should be provided in this respect, due to the significant implications of the notion of "specified" on the overall proposed model.

(b) Do you agree with the criteria for distinguishing a lease from a purchase or sale in paragraphs B9 and B10? Why or why not? If not, what alternative criteria would you propose and why?

As discussed in our response to the DP Leases, we consider that it is appropriate to distinguish a lease from a purchase or sale in order to scope out of the lease accounting the sale and purchase arrangements.

However, we consider that it is not consistent to propose a different criterion to assess whether an asset has been sold:

- in the ED Leases (based on the transfer of "all but a trivial amount of the risks and benefits associated with the transferred asset at the end of the contract");
- and in the ED Revenue (based on the transfer of control).

Thus, we urge the IASB to reconsider how this cross-cutting issue should be better addressed.

In addition, we note that the ED Leases introduces a new notion, that of "all but a trivial amount" without providing any guidance for applying it other than indicating that leases that automatically transfer title or contain a bargain option will normally meet this criterion. As such, we believe that this is not sufficient to ensure a consistent application of this proposal.

Scope

Question 5: Scope and scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

Accounting for leases of intangible assets should be treated in the ED Leases

The IASB proposes to exclude leases of intangible assets from the scope of the future ED Leases based on the following rationale: "Although the boards have identified no conceptual reason why a lease accounting standard should exclude intangible assets, the boards decided that they would not include leases of intangible assets within the scope of the proposed IFRS until they had considered the accounting for intangible assets more broadly". (ED Leases BC36).

At the same time, the IASB has requested the views of its constituents in the ED Revenue from Contracts with Customers (hereafter ED Revenue) on the accounting for the granting of intellectual property of the entity. As already stated in our comment letter on the ED Revenue, we disagree with the process followed by the IASB i.e. to propose to scope out all intangible assets of a project aimed at dealing with both lessee and lessor accounting and at the same time to request views on the lease accounting of some intangible assets.

We consider that the accounting by the lessor for contracts relating to both exclusive and non-exclusive licences and rights to use intellectual property of the entity (that are not sales) should be treated in the lease accounting project. We do not consider that timing constraints should prevail on the objective of appropriate accounting requirements. Therefore, we urge the IASB to address the accounting for leases of intangible assets in the ED Leases.

Proposals made for lessor accounting in the ED Revenue are not consistent with the proposals made in the ED Leases

Should the IASB decide to maintain its current decisions on leases of intangible assets, we are concerned that the ED Revenue and the ED Leases are not consistent on the following aspects:

- a sale is assessed on the basis of the "transfer of control of substantially all of the rights" in the ED Revenue and on the basis of the "transfer of control of the underlying asset and all but a trivial amount of the risks and benefits" in the ED Leases;
- the appropriate model for lessors is assessed on the distinction between an exclusive/non exclusive right to use in the ED Revenue and on the basis of the transfer of significant risks and benefits in the ED Leases;
- the accounting for options is based on a separate recognition and measurement in the ED Revenue and on a look-through approach in the ED Leases.

There is no clear rationale in both EDs for these differences at this time. If these differences were to be maintained, this would create confusion and diversity in practice. In this respect, we note that this could be particularly the case for some contracts, such as some outsourcing contracts, that include leases of both tangible and intangible assets.

Investment properties

As discussed in our response to Question 2, we consider that the only model for lessors that is consistent with a right-to-use approach for lessees is the derecognition approach. However, this approach is not appropriate for "leases" of investment properties since it does not reflect the business model of this activity that is properly addressed in the IAS 40 standard.

Indeed, the cost model appears to be the most reliable way to reflect the business model of the lessors, when their main objective is to manage and hold the investments properties in order to collect cash flows and not to firstly realise cash flows through the sale of the assets. Consistently with the objective of collecting contractual cash flows, sales may occur in some circumstances such as when investment properties no longer meet the entity's investment policy; there is then a need for an adjustment of the investment portfolio to reflect change in expected duration or a need to fund capital expenditures. Typically, for instance for insurers, as regards investment properties, the only way to adjust the size and the content of the portfolio to the insurance-related liabilities, is through selling some investment properties (unlike debt securities that have a maturity date).

In addition, there is considerable debate among our constituents on the nature of these contracts as many argue that the economics of these contracts for lessees is to buy flexibility/services and that therefore they should be accounted for as service contracts.

Thus, we urge the IASB to fully reconsider how to account for the "lease" arrangements for investment properties as in our view, the proposals made in the ED Leases at this stage do not provide appropriate accounting for these arrangements.

Other scope exclusions

We do not have any comment on the other proposed exclusions set out in the ED.

Question 6: Contracts that contain both service and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in *Revenue from Contracts with Customers* to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B6-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:

The FASB proposes that the lessee and lessor should apply the lease accounting requirements to the combined contract.

The IASB proposes that (i) a lessee should apply the lease accounting requirements to the combined contract; (ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract; (iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements and the service component in accordance with the proposals in *Revenue from Contracts with Customers.*

Do you agree with either approach to accounting for leases that contain service and lease components appropriate? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

Lessees

We note that the determination of whether an arrangement contains a lease will have significant accounting implications under the proposed model.

We are opposed to the proposal to apply the requirements of the ED Revenue to lessees as these requirements have been developed and discussed in the context of sales transactions and not in the context of purchase transactions. We believe that this proposal may have unintended consequences and therefore should not be considered.

We therefore propose that the lessee identifies and measures the service component of a lease contract on the basis of its best estimate of the cost of this service, and in any case not as required in the ED Revenue.

Lessors

This proposal is applicable for a lessor as the lessor would have access to the necessary information. As mentioned in our response to Question 2, we consider that the only approach that is consistent with the right-to-use model is the derecognition approach.

Question 7: Purchase options

The exposure draft proposes that a contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus a contract is accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraph 8 and BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options when they are exercised? Why or why not? If not, when do you think that a lessee or a lessor should account for a purchase option and why?

We consider that this analysis is appropriate. A purchase option is a means of terminating a lease that should be accounted for only when it is exercised.

Measurement

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

Lessees

As already discussed in our response to the DP "Leases", the proposal to determine the lease term taking into account the effects of any options to extend or terminate the lease is not appropriate as:

- the lessee does not have any obligation as a result of the option but the right to renew or to cancel the initial contract that it may choose to exercise or not. Therefore, the approach does not reflect the flexibility resulting from lease contracts with renewal or cancellation options and how the parties to the contracts have decided to share the economic risks of the contract;
- the relevance and decision-usefulness of the model that will provide users with the same information (on the assumption that the exercise of the option is "most likely") for a three-year lease with a two-year renewal option or a non-cancellable five-year lease are doubtful.

In our view, a lessee that has acquired a "real" right-of-use asset should only recognise a liability that meets the definition of a liability in the IASB's Conceptual Framework and reflects its contractual position. A lessee does not have a present obligation to pay rentals in the optional period until it exercises its option to extend the lease; therefore the lease term should be determined as the non-cancellable period only, e.g. assuming that the lease is terminated on the earliest date that the lessee has the right to do so.

To illustrate:

- for a lease with a term of five years with a renewal option for a further three-year period, the lessee's liability will only include the rentals over the five initial years;
- for a lease with a term of eight years with an option to cancel after five years, the lessee's liability will include the rentals over the five years plus the amount of the cancellation penalties if any.

Concerning the accounting for the renewal options, we consider that it would be appropriate to apply the same accounting requirements that those proposed in the ED Revenue e.g. to recognise the options only if they provide a material advantage to the lessee and by using a similar measurement basis. Therefore, the asset recognised by the lessee will include two components: the first component with respect to the right-of-use and the second component with respect to the option.

Lessors

Consistently, the lessor's receivable recognised in the derecognition approach should meet the definition of an asset based on the Conceptual Framework. The lessor does not have a right to receive rentals in the optional period until the lessee has exercised its option to extend the lease. Therefore, we consider that the lease term should be determined for the lessor on the same basis that we propose for the lessee eg on the non-cancellable period only, eg assuming that the lease is terminated on the earliest date that the lessee has the right to do so. Thus, the lessor's receivable would mirror the lessee's liability.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease contract should be included in the measurement of lease assets and lease liabilities using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors can only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the lease receivable if they can be measured reliably? Why or why not?

Lessees

Please refer to our response to Question 8 concerning option penalties.

Amounts payable under contingent rental arrangements that are not under the control of the lessee should not be included in the measurement of the lessee's liability as this contradicts the definition of a liability provided in the IASB's Conceptual Framework. These contingent rentals should therefore be recognised in profit or loss when incurred.

Conversely :

- amounts payable under contingent rentals for which the lessee has no effective control over the outcome (such as for example index or interest rate based) should be included in the measurement of the lessee's liability as they meet the definition of a liability. We do not object to the proposal made to measure these amounts using the readily available forward rates or indices if readily available and if not, using the prevailing rates or indices;
- residual value guarantees should be included in the measurement of the lessee's liability as the lessee commits itself to pay a difference of value if the value of the leased item is below a specified value as per the contract (similar to a stand ready obligation). Therefore, the lessee has no other possibility but to pay this amount when the criteria specified in the contract are met. The uncertainty is related to the amount to be paid and not to its existence.

In both cases, we consider that the lessee should measure these amounts initially and subsequently on the basis of the most likely payment and not on the basis of a probability-weighted estimate. As already stated in our response to other EDs, we consider that the measurement of single liabilities on a most likely basis provides better information to users on the future cash flows than an amount that would not reflect a possible outcome. In addition, a most likely measurement has the merit of reduced complexity for preparers.

Therefore, we agree with the view expressed by Mr. Cooper, that:

- contingent rental agreements varying according to asset usage or performance provide the lessee with additional flexibility, contribute to reduced business risks whereas for the lessor they increase exposure to asset risk;
- and that reflecting them in the measure of the lessee's liability and the lessor's receivable does not provide relevant information about the underlying economics of such leasing arrangements.

Lessors

In the same manner, we consider that contingent rentals on which the lessee has no effective control over the outcome and residual value guarantees should be included in the measurement of the lessor's asset on a most likely outcome and only if the lessor can measure them reliably.

We question the reason why the IASB has not proposed to include third-party residual value guarantees in the measurement of the lessor's receivable. We recommend the IASB to reconsider this topic.

We consider that the principle of a "reliably measured" threshold proposed in the ED Leases to constrain the recognition of revenue by lessors is appropriate. However, we note that the threshold used in the ED Revenue is "reasonably estimated". It is unclear if these requirements are intended to be different and if so, to what extent and with which objective. We urge the IASB to clarify its intentions in this respect.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the obligation or receivable arising from changes in the lease term or contingent payments since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Subject to our views that :

- the lease term should be determined as the non-cancellable period only, i.e. assuming that the lease is terminated on the earliest date that the lessee has the right to do so;
- the lessee's liability / lessor's asset (for the latter, subject to reliable measurement) should only include contingent rentals for which the lessee has no effective control over the outcome (such as for example index or interest rate based) and residual value guarantees;

We agree with the proposals that these assets and liabilities should be remeasured when facts or circumstances indicate that there is a significant change in the obligation or receivable since the previous reporting date. As discussed in our response to the DP Leases, we consider that a remeasurement at each reporting date would have been burdensome for preparers with no decisive benefit in terms of information provided to users.

We consider that the proposals made in the ED Leases for the accounting of the related changes for lessees and lessors applying the derecognition approach are appropriate. As mentioned in our response to Question 2, we consider that the only approach that is consistent with the right-of-use model for lessees is the derecognition approach.

Sale and lease back transactions

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or not? If not, what alternative criteria would you propose and why?

Necessity to develop a model for sale and leaseback transactions that is consistent with the right-of-use model

We consider that the proposed model for sale and leaseback transactions is not consistent with the premise of the right-of-use model that the asset is a bundle of rights and obligations. The only model for sale and leaseback transactions that would be consistent with this premise is to account for sale and leaseback transactions under a ("partial") derecognition approach. We therefore urge the IASB to reconsider its decision to abandon this approach (refer to ED.BC161).

In such an approach, the seller/lessee would derecognise only the bundle of rights and obligations (including the right to use the asset after the end of the leaseback period…) that have been transferred to the buyer/lessor. The lessee would continue to recognise the portion of the asset representing the right to use the asset during the leaseback period. The accounting by the buyer/lessor would mirror the accounting by the seller/lessee.

Concerning the measurement of the corresponding assets and liabilities by the lessees and the lessors in such an approach, refer to our previous comments.

Determining whether the transferred asset has been purchased or sold

We note that the IASB considers that “sale and leaseback conditions may have conditions that generally do not arise in other transactions and may result in the transfer not meeting the conditions for a purchase or sale” (ED.B31). We therefore understand that this category of sales is subject to conditions that are more restrictive than for other sales. We disagree with such a presumption that may be viewed as anti-abuse rules. We consider that whether a sale/purchase (“partial” in our proposal) has taken place in the context of sale and leaseback arrangements should be assessed using the same principle than for any other sale. We do not deny that additional guidance may be useful in this area but it should be provided as a list of indicators and not of “additional conditions”.

In addition, please refer to our comments in Question 3 concerning the principle proposed to distinguish between sale/purchase arrangements and leases.

Presentation

Question 12: Statement of financial position

(a) Do you agree that a lessee should present its liability to make lease payments separately from other financial liabilities and present right-of-use assets as if they were tangible assets within property, plant and equipment, or investment property as appropriate, but separately from other assets that the lessee does not lease (paragraphs 25-27, 42-45, 60-63 and BC142-159)? Why or why not? What alternative presentation do you propose and why?

(b) Do you agree that a lessor applying the performance obligation approach should present its underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease separately (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

(a) (c) and (d) : Subject to our above-mentioned comments, we agree with the proposals.

(b) As mentioned in our response to Question 2, we consider that the only approach that is consistent with the right-of-use model is the derecognition approach.

Question 13: Statement of comprehensive income

Do you think that lessees and lessors should present lease income and expense separately from other income and expenses in the statement of comprehensive income (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Subject to our above-mentioned comments, we agree with the proposals.

Question 14: Statement of cash flows

Do you think that cash flows arising from lease contracts should be presented on the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Subject to our above-mentioned comments, we agree with the proposals.

Disclosures

Question 15

Do you agree that lessee and lessors should disclose quantitative and qualitative information that:

(a) identifies and explains the amounts recognised in the financial statements arising from lease contracts; and

(b) describes how lease contracts may affect the amount, timing, and uncertainty of the entity's future cash flows?

(paragraphs 70-86 and BC168-BC183) Why or why not? If not, how would you amend the objectives and why?

General comment

We are concerned that there is a general current disclosure overload within IFRS. This overload of information is not only burdensome and costly for preparers but also sometimes obscures key information for users. We thus urge the IASB to complete the Disclosure Phase of its Framework project as soon as possible to enable entities to move from a compliance exercise toward a real principles-based disclosure framework focused on key information for users.

Other comments

We note that the ED requires a significantly increased volume of disclosures in comparison to current guidance. Certain requirements, including reconciliation of the opening and closing balances of rights to receive lease payments and residual assets, may necessitate that information not previously captured in the accounting IT systems be tracked on a centralised and lease-by-lease basis which may lead to significant costs for preparers as they will be requested to review and adapt their IT systems. We are currently not in a position to assess if these proposals respond to users' disclosure needs as the ED Leases does not discuss what these needs are. We therefore recommend to the IASB to reconsider these disclosure requirements in the light of the needs that users will express during the users field work in progress and in the light of the concepts of materiality and relevance.

Transition

Question 16

The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88-96 and BC186-BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

Do you think that full retrospective application of lease accounting should be permitted? Why or why not?

Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We consider that lessees and lessors that are in a position to apply a full retrospective approach should not be prevented from applying it, and thus particularly in the light of the comments made by Mr. Cooper in his alternative view (ED.AV9).

We note that the ED Leases does not discuss transition requirements neither for sale and leaseback arrangements nor for contracts that are leases under existing IAS 17 but would be excluded as they would represent sale/purchase arrangements under the ED proposals.

Benefits and costs

Question 17
Paragraphs BC200-BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals outweigh the cost? Why or why not?

The proposed model is complex and will be costly to implement while its potential benefits for users still remain to be clearly established:

- preparers would bear major costs in terms of information systems for both measurement and disclosure purposes, internal controls and training. These costs would not be only initial but also ongoing, as recurring estimates will have to be produced over time. In addition, preparers would face impact on results and key ratios for example, return on capital or debt-to-equity ratios and on other areas depending upon accounting;
- conversely, in practice today are able to work with – and if needed adjust - financial statements of lessees. In addition, we are not aware of any specific request from users concerning lessor accounting. We do not deny that some users may be willing to be provided with more transparent information on lessee accounting. However, we note that some users are interested in the amount of core assets measured under a whole asset approach while others are interested in the amount of contractual minimum lease payments. Therefore, we do not concur with the assumption made by the IASB that the proposed model is the single appropriate response to the needs of users. In any case, we do not share the view that the recognition of assets and liabilities in the balance sheet is always the only adequate response to respond to the needs of users.

Other comments

Question 18
Do you have any other comments on the proposals?

We note that the following topics have not been addressed:

- accounting treatment for lease incentives;
- assessment and accounting for modifications of contracts.