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Paris, the 23rd October 2013

Mr Hans HOOGERVORST
Chairman
IASB
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Re : ED/2013/6 Leases

Dear Mr Hoogervorst,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Exposure-Draft. These views result from the ANC's due process which involves meetings with a dedicated working group, followed by an examination by its IFRS Commission and then by its Collège (Board).

I wish to draw your attention to the composition of the dedicated working group which was exceptionally large and diversified in its composition and therefore highly representative of the views of French constituents. In addition, I am very thankful to this working group for its work.

The ANC welcomes this renewed opportunity to comment on the IASB's modified proposals.

The ANC has expressed, in its previous comment letters, its disagreement with a number of fundamental aspects of the IASB's proposals as regards leases.

In this context, the ANC is appreciative of the efforts made by the IASB in attempting to address some of those concerns raised by constituents and the ANC to its proposals in the previous Exposure-Draft amongst which:

- The definition of a lease and how to distinguish it from a service,
- The admission by the IASB that the economics of all leases are not the same,
- The determination of the lease term,
- The determination of the lease payments,
- The exemption from applying the full proposals to short-term leases.

However, major issues have still not been resolved and should still be discussed. Consequently, the ANC reiterates its major concerns:

There is no compelling need to overhaul the current accounting model under IAS 17. Whereas some clarifications to it would be welcome, this model is not flawed:

- The IASB has not provided any convincing analysis of the current weaknesses of IAS 17 to justify their assertion that the existing model does not work well. To be more specific, to date, approximately 2% of the questions addressed to the IFRS IC relate to leases. This low level of queries for such an important item of the financial statements is evidence that the principles in the existing standard are not deficient to the point of warranting a complete overhaul. We also note that ESMA has published no decisions on the subject from its EECS database.

  Moreover, at the time the discussions were initiated, IAS 17, although in use in some countries in Europe, was not widely applied for the IASB to have gathered sufficient evidence of deficiencies in its implementation. Finally, in terms of information provided to users, French users indicate that they are able to work with the information currently provided by financial statements although they would welcome some additional disclosures.

The revised Exposure Draft does not bring a solution to users that will satisfy the variety of their needs:

- Analysts in France and abroad are still not convinced that the proposed model results in an effective improvement over the existing standard regarding financial information. This perception was reiterated by a panel of users during the outreach activities in April 2012 and more recently whilst working on the current proposals: "*no single solution would satisfy all information needs of a majority of users because not all users perform the same calculations and users use different pieces of information to analyse the same company*"[1]. We also understand that the FASB's Investor Advisory Committee has recently expressed dissatisfaction with the project and proposed enhanced disclosures to the current accounting.

The revised Exposure Draft raises conceptual fundamental issues:

- The **right-of-use model** is a totally new, undiscussed and untested conceptual model which marks a new radical step, towards a model where assets would be broken down into various rights, the consequences of which are not known, except that it focuses accounting excessively on a balance sheet approach, to the detriment of the understandability of the performance of companies which is however accounting's first objective and public interest mission.
- **What constitutes a lease and what distinguishes it from other contracts**, such as service contracts or other executory arrangements has not been clearly defined by the IASB. Contrary to the current standards - under which this distinction is not critical as an operating lease contract is accounted for in the same way as a service contract - this new distinction is crucial under the right-of-use model that underpins the IASB's present proposals to account for lease contracts as it results in divergent accounting treatments for respectively service and lease contracts. In addition to giving rise to undesirable implementation and interpretation issues, the lack of clear articulation between the two concepts is conducive to structuring opportunities, which we understand the IASB was seeking to address with its proposals (BC3b).

[1] http://www.ifrs.org/Meetings/Documents/Leases0512b03.pdf

- The model developed by the IASB presumes that all leases consist in **the financing of the use of an asset**. However, many arrangements are entered into by lessees to manage their operations in the most efficient manner possible without the disadvantages linked to ownership of the underlying asset. The ANC considers that a lease which does not transfer substantially all the risks and rewards incidental to ownership *is* an executory contract. Consequently, the lessee should *not* recognise either an asset or a liability in respect of the lease. By contrast, the ANC agrees that for lease contracts which transfer substantially all the risks and rewards incidental to ownership, the lessee should recognise an asset and a liability for its obligation to make lease payments as is *already* required under IAS 17.
- The **dual approach to the classification of leases** proposed in the exposure-draft has no conceptual basis. Indeed, this distinction is based on whether the underlying asset is property or not, a rule which has no conceptual justification and on two out of the five existing criteria in IAS 17. Further, depending on whether the underlying asset is property or not, the way the criteria are formulated differs ("major part / substantially all" for property versus "more than insignificant" for other assets) with no conceptual justification. If anything, this asymmetry is counterintuitive and adding to complexity as stated by a number of constituents.
- While the ANC acknowledges that the Board has listened to comments made from constituents on its first Exposure Draft in that it recognises that not all leases are of the same nature by developing the "single lease expense" (SLE) model for preparers which retains a straight-line lease expense in the profit and loss statement, the **proposed model for type B leases** lacks a robust conceptual basis for the following reasons: (i) the subsequent measurement of the right-of-use asset for Type B leases is not consistent with the right-of-use model, (ii) this model leads to recognising a lease liability while no interest charge is accounted for as well as to an asset that is "depreciated" with no depreciation charge, (iii) the balance sheet presentation is not consistent with the purpose of the SLE accounting treatment – otherwise balance sheet amounts would have been netted against each other, and (iv) the accounting model for Type B leases is not symmetrical between lessees and lessors without a clear conceptual basis.

This and the previous remarks show the disconnect between the business models existing in the economy and translated into legitimate lease contracts – hence no structuring contracts but operational approaches justified by actual legal *business practice* - on the one hand, and the proposed requirements, on the other hand. Beyond such disconnect being undesirable, it would also provide structuring opportunities, which we understand the IASB sought to address.

As a result, preparers will likely be faced with significant application issues, requiring for many of them significant changes of their information systems:

- While the IASB has achieved considerable improvement and simplification in many areas of the proposed standard as compared with the initial Exposure Draft (as described above), the accounting models that are being proposed remain overly complex. **The ANC strongly disagrees with the IASB's assessment that the benefits of the proposals would outweigh the costs**. Indeed, beyond the considerable level and frequency of judgments that will have to be made, the requirements of the Exposure Draft will certainly necessitate *considerable investment* in robust accounting systems and reporting processes developments in order to collect and calculate the information required to comply with the proposed models, while benefits for users still remain uncertain as explained above. This appears to be a critical element that field tests performed on a European basis are also highlighting.

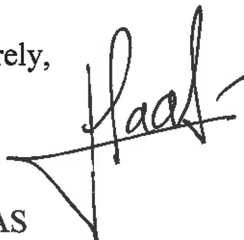
- The proposed model for lessors for Type A leases involves judgements that would be based on very long term assessments and significant judgements especially in the case of a lease contract of an asset (that is not a property) with a long economic life which is repeatedly leased during its economic life for short periods (each of them not considered to be an insignificant part of the total economic life of the underlying asset). Beyond the fact that the outcome of such assessments and judgements may vary significantly based on the assumptions made by the lessor, the impact on information system developments is major.
- *No extended field-testing has been conducted by the IASB*. The outreach process that the IASB has performed in April 2012 may have addressed some concerns, but it is noteworthy that the proposed model for Type B leases did not form part of the 2012 outreach process, as it had not been envisaged and formulated at that point in time. Outreach, even if it had covered the proposed model, is no replacement for a detailed examination of all requirements of the proposed model via thorough and transparent field testing.

In view of the lack of compelling need for an overhaul of the current standard, of its assessment that the current standards work well in practice as well as for all of the above reasons, the ANC therefore disagrees with the IASB pursuing these proposals further. The ANC stands ready to discuss with you possible limited clarifications to the current adequate standards which could be helpful for practitioners.

Our detailed comments are set out in the attached Appendices as follows:

- in Appendix 1 as regards the questions specifically asked by the IASB;
- in Appendix 2 as regards additional comments the ANC wishes to address on other aspects of the ED;
- in Appendix 3 as regards an example of lessor accounting to illustrate our concerns on the measurement of the gross residual asset and of the profit relating to the lease;

Yours sincerely,



Jérôme HAAS

Appendix 1 – Questions asked by the IASB

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

Question 1: Identifying a lease

The revised Exposure Draft defines a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". An entity would determine whether a contract contains a lease by assessing whether:

(a) fulfilment of the contract depends on the use of an identified asset; and

(b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6-19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

Identification of a lease (§§ 6-19)

While the ANC agrees that the Exposure Draft brings some clarifications compared to the current applicable principles for determining whether an arrangement is, or contains, a lease under IFRIC 4, the ANC considers that what constitutes a lease and what distinguishes it from other contracts, such as service contracts or other executory arrangements has not been clearly defined by the IASB. This distinction is not as critical under the current standard as this bright line between an operating lease contract and a service contract does not lead to a different accounting treatment.

The ANC notes that the Exposure Draft deals with some of the practical difficulties encountered upon application of IFRIC 4, such as for capacity-type contracts, the assessment of the ability to direct the use of an asset and the clarification of the benefits which must considered in the analysis. As such, the ANC considers that such clarifications could be brought to the existing standards (without proceeding with a complete overhaul of lease accounting). The ANC also notes that the Exposure Draft also aligns the definition of control with the consolidation requirements and the Revenue Recognition proposals.

However, with respect to the proposed requirements in §§ 6-19 for how an entity would determine whether a contract contains a lease, we believe that the following requirements must be clarified:

- *Consideration*

  The Exposure-Draft does not define the term « consideration » and does not explain the change from the definition in IAS 17 which refers to "payments" only. Would this term include also non-cash items as in IFRS 3 (for example a contract in which the lessor gives to the lessee the right to control an asset in exchange of the right to control another non-financial asset owned by the lessee)?

- *The notion of physically distinct portion of an asset*

  Our understanding is that the assumption of the boards is that it means only "distinct from a tangible point of view". This is not always the case: for instance, in a fiber-cable, there can be separable and distinct "wavelengths", which can be operated independently and simultaneously. The example of paragraph 11 raises therefore the following question: if "physically distinct" means "distinct from a tangible point of view", the above example shows the problem of the scope option to apply the proposals to intangible assets (whilst lessors are precluded to apply the proposals to intangible assets), and the question of the conceptual framework. How could a difference between the accounting treatment of an intangible right of use paid upfront and a "capacity right" paid over time (but linked to such an individual and distinct "wavelength") be justified?

- *The supplier's right to substitute an asset*

  The Exposure-Draft states that if a supplier has a substantive right to substitute the underlying asset without requiring the consent of the customer at any time during the term of the contract, the contract does not contain a lease. We consider that the statement "without requiring the consent of the customer" has to be further clarified by the IASB. We understand that a supplier has a substantive right to substitute the underlying asset when he has a contractual right to do it, even though he may need to obtain the **customer's consent** to access to customer's premises to perform the substitution. If so, the IASB should clarify this statement in the Exposure Draft.

  Furthermore, the criterion of barriers that could prevent the supplier from substituting alternative assets could prove to be very subjective, particularly in cases when the **supplier** has a right of substitution but **does not currently hold other assets** than those used to fulfil the respective contract (as in the case described in the example 1C of the Illustrative Examples).

  Finally, clarification is needed in the case of a **right of use asset which has a longer useful life than the underlying asset**, which the lessor would therefore have to substitute (articulation between §§ 10 and 48 of the ED), for example in the case of a 15 year service contract, for which the underlying asset needs to be replaced every 5 years.
  According to § 10, a lease contract will be identified for the first 5 years, as "fulfillment of the contract can depend on the use of an identified asset **until** the date that the right or obligation of substitution becomes effective". The following questions arise upon the date that the right or obligation of substitution becomes effective:

  - Shall a new asset (and a new lease contract) be identified when the asset is replaced? If yes, how shall § 48 be applied in the absence of a purchase option, since the lessee has a right of use of 15 years (as § 48 mentions the useful life of the right of use asset, instead of the useful life of the underlying asset which somehow disconnects the right of use and the asset itself)? In addition if a new lease contract must be identified, there may be situations where the lessee does not have the information (practicability problem).
  - Or shall it be considered that there is no lease after the first 5 years (which would lead to an inconsistent treatment of the different phases of the same contract, and to comparability problems with the companies which would acquire those assets and operate them)?

- *The ability to direct the use of an asset*

The ANC considers that in some cases it could be difficult to assess the ability to direct the use of the asset, especially because there may not be any substantive decisions to be made once the asset is functioning (see (i)) or when different relevant decisions are decided by different parties (see (ii)), or when the producer no longer has any "demand risk" (see (iii)). To illustrate the difficulty encountered in understanding the requirements, the ANC considered, amongst others, the issues and cases below for which there seems to be no clear-cut answer.

(i) Weight of the involvement in the design

The ANC believes that wording of § 15 of the Exposure Draft addressing the ability to direct the use before the commencement date via an involvement in the design of the asset for its use could be controversial: it could be read to conclude that if the customer was involved in the design of the asset it automatically has the ability to direct the use of the respective asset. The ANC believes that the aim of this criterion should be the same as one of the current standard's indicators used to determine the substance of the transaction, i.e. whether "the leased assets are of such a specialised nature that only the lessee can use them without major modifications". In the current standard, this situation is analysed in combination with other indicators. Further, involvement in the purpose and design in the lease standard should be aligned with how such an involvement is considered as part of IFRS 10 since in both cases one tries to assess control.

(ii) Time charters in the shipping industry

A time charterer enters into a time charter contract with a ship-owner for transportation of cargo services on a named ship for five years. Under this contract, the charterer pays a daily fee for the use of the ship and navigation and cargo management services (including the use of the ship's captain, crew and equipment such as the ship's cranes and loading gear). The ship-owner remains responsible for the navigation and condition of the ship. The time charterer determines the cargo to be transported, and the timing and location of delivery. In this case, which is the decision that most significantly affects the economic benefits to be derived from use of the ship: the time charterer's decisions (when and where the ship has to go) or the ship-owner's decisions (employment of the captain and the crew, responsibility for navigation, maintenance and repairs)?

(iii) Power purchase agreement

A customer enters into a contract with the owner of a solar plant which produces electricity to purchase all of the power produced by the solar plant for a period of ten years. The customer pays a fixed price per unit of electricity produced. The supplier carries out any maintenance and repairs to ensure that the solar plant operates properly.

While the customer is engaged to purchase all of the output produced by the solar plant for ten years, any decisions which have to be taken about the use of the solar plant are determined by the supplier. In this case, according to the requirements of the Exposure Draft, we understand that the customer does not have the ability to direct the use of the power plant.

However, if the operational risks of the asset are negligible, and if the "demand risk" has been transferred by the operator of the power plant through a take or pay contract, it appears that some read § 18 of the ED combined with the aspects of involvement in § 15, as concluding that a lease should be identified (contrary to our conclusion). This gives rise to the following comments:

- A clarification appears warranted in view of the differing understandings and their significant consequences linked to the right-of-use model

- It may have been considered that an arrangement falls within the scope of IFRIC 12 only when the services were provided to users. Therefore, a production plant with a take or pay contract (the client being an state-owned entity having for example a purchase option at the end of the contract, and the plant dealing with resources such as energy, water…) can have been treated in the scope of IFRIC 4, resulting in the same accounting treatment. Depending on the answer to the previous issue, a different accounting result could be obtained within the 2 standards (IFRIC 12 and the Exposure Draft). It would therefore appear useful to justify such inconsistency and clarify the respective scopes.

  Note: the same question could be raised in other industries with take or pay contracts: for example the case of a specific tool necessary for a supplier to provide some products to the client, and the purchase contract is a take or pay contract which guarantees a return on the tool (minimum products to be purchased, price decrease after the minimum is reached, purchase option if the supplier defaults…). The supplier operates the tool, and therefore, it could be considered (subject to the clarifications required) that no lease is identified. Would this "properly reflect the economics of the transaction"?

- Some additional guidance would be necessary in order to conclude in some more complex situations: for example, in a transformation plant, where the input is provided by the main client, is there automatically a lease, or should this be compared to the weight of the other operations of the plant?

- *The ability to derive the benefits from use of an asset*

The ANC has some concerns about the two cumulative criteria included in § 19 for the following reasons:

(i) The ANC supports the principle that when the use of an asset is an inseparable part of the overall services being provided to a customer, the customer receives services over the term of the contract that require the use of the asset. However, the ANC does not agree with the fact that a contract can be accounted for differently depending on whether there is or not a market for additional goods or services at the commencement date. Indeed, the Exposure Draft states that a contract for coffee services can be considered as a service because the coffee consumables are provided only by the supplier (as in example 2 of the Illustrative examples) or as a lease if the coffee consumables could be provided also by other suppliers. Example 3 of the Illustrative Examples confirms this as it specifies that although a contract requires that the customer has to purchase the consumables only from the supplier of medical equipment, the contract gives the right to control the use of this medical equipment because consumables are sold by other suppliers as well. It is however unclear why this would be the case: the customer enters into the contract to obtain a service/lease from an asset regardless of the market of the consumables.

(ii) Paragraph 19 (a) states that the customer can obtain the benefits from the use of the asset only in conjunction with additional goods or services that are provided by the supplier and not sold separately by the supplier or other suppliers. The Exposure Draft does not provide guidance on how to analyse the criterion "sold separately". The ANC considers that the IASB must clarify that this criterion has to be analysed under the requirements in the Revenue Recognition proposal.

(iii) The ANC believes that § 19 (b) of the Exposure-Draft lacks clarity in terms of what is meant by "incidental" in the context of "the asset is incidental to the delivery of services because the asset has been designed to function only with the additional goods or services provided by the supplier" and the distinction between §§ 19 (b) and 19 (a).

- *Reassessment of a contract*

  The ANC notes that the Exposure Draft does not indicate whether a reassessment of a contract that was qualified as a service contract because of the unavailability of the goods on the market at the commencement date should be performed if at a subsequent date such goods become available. In the absence of such indication, we understand that reassessment of a contract in this case is not required. If so, the ANC agrees with this decision because this reassessment would add complexity to the requirements.

Separating components of a contract (§§ 20-24)

The ANC notes that no questions were asked regarding the separation of components within a contract and the allocation of the consideration to such components. Nevertheless, the ANC wishes to express its concerns about the principles stated in the Exposure Draft for the following reasons:

- *Separating lease components within a lease contract*

  While we understand the usefulness of this requirement in enabling the potential classification of each lease component as Type A leases or Type B leases, we consider that it brings complexity in certain situations. We recommend that when the lessor is **engaged contractually to replace one of the lease components** without any additional costs for the lessee, such lease component should not be separated from the other lease components.

  By contrast, the ANC believes that the proposal of **not requiring the separation of the land and building components** of a lease contract should be treated as an option for the preparers. Indeed, this proposal could lead to a decrease in the quality of financial information in situations where only the building element qualifies as finance lease under IAS 17 requirements or in cases where both qualify as finance leases and where the ownership of the land is ultimately transferred.

  Finally, the ANC considers that the criterion "**highly interrelated**" has to be defined. Indeed, no explanations are provided in the Exposure Draft. However, in examples 9 and 10 of the Illustrative Examples, two situations are exposed: (i) one when an asset was constructed and designed specifically to house another specific asset and when the latter is dismantled the first one is also demolished, and (ii) at the extreme opposite, the situation of assets that are not tailored for use only with another specific asset of the same contract. The ANC considers that there may be situations in between these extremes for which guidance on the meaning of this criterion would be useful.

- *Separating lease and non lease components within a lease contract*

The Exposure Draft includes requirements for the allocation of the contract consideration to the various components of the contract. The ANC has some concerns regarding these requirements for the following reasons:

(i) Observable stand-alone prices

First, the ANC considers that some clarifications are necessary.

- It is not clear how this requirement would be applied when there is a range of observable stand-alone prices for one or more components.
- § 24 of the Exposure-Draft states that "a price is observable if it is the price that either the lessor or similar suppliers charge for similar lease, good or service components on a stand-alone basis" and BC 116 (e) specifies that "...observable is not limited to being lessor-specific, and obtaining the price of similar leases, goods or services is sufficient (i.e. observable does not mean that a lessee is required to obtain the stand-alone price of an identical lease, good or service component)". We believe that the IASB has to explain what it considers to be a "similar lease".

In addition, the ANC considers that if there are no observable stand-alone prices for any of the components of a contract (as described in the paragraph 23 (c)) one could presume that the agreement is a service contract. Indeed, the absence of an observable price for an asset should be an indication that the asset is not a lease component.

Finally, we believe that this requirement may be very complex to implement for lessees.

(ii) Treatment of changes in a contract that contains lease and non-lease components

Contrary to the previous Exposure Draft, the ANC notes that this Exposure Draft does not indicate what happens when the payments in a contract with several components change and, if a reallocation is required, how it would be done. In the absence of such requirements, we understand that reassessment of a contract in this case is not required. If so, the ANC agrees with this position because this reassessment would add complexity to the requirements.

Question 2: lessee accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

As mentioned in our response to the previous Exposure Draft, **the right-of-use model presumes that all leases consist in the financing of the purchase of an asset** by putting all leases on the balance sheet. However, the ANC understands that many arrangements are entered into by lessees to manage their operations in the most efficient manner possible, without the disadvantages linked to ownership of the underlying asset: lessees either do not want to use the asset over its useful life and therefore do not see any point in owning it, or they do not have the financial means to acquire the asset, or they want to allocate their financing means to other items, which they consider represents a better usage of such means. Therefore, the ANC considers that a lease which does not transfer substantially all the risks and rewards incidental to ownership is an executory contract. Consequently, considering that these lease contracts result in the recognition of an asset and a liability contradicts the economics of these arrangements.

In this respect, the ANC appreciates the IASB's effort in attempting to address the concerns expressed by constituents, and especially by recognising that the economics of all leases are not the same. However, the ANC considers that **the proposed model for Type B leases lacks a robust conceptual basis**:

- The subsequent measurement and the single lease expense in the income statement of the right-of-use asset for Type B leases are not consistent with the right-of-use model. Indeed, under the proposed approach, the amortisation in each period is a balancing figure to achieve a straight-line expense in profit and loss, as it is determined as the difference between the periodic lease cost and the periodic unwinding of the discount on the lease liability. Consequently, the subsequent measurement of the right-of-use asset is not consistent with other non-financial assets measured on a cost basis, and to achieve consistency between the income statement and the balance sheet, the balance sheet amounts would have to be netted against each other;
- In addition, a lessee would recognise a lease liability while no interest charge would be accounted for as well as an asset which is "depreciated" with no depreciation charge;
- Furthermore, the accounting model for Type B leases is not symmetrical between lessees and lessors without clear conceptual basis,

The question however remains as to the **scope of the leases that fall under Type B**, which is more explicitly dealt with in our response to question 4.

Regarding **the presentation of lease payments in the statement of profit and loss**, the ANC questions whether the proposed requirements would contribute to improving the understanding of users on an entity's leasing activities for the following reasons:

- First, most of (if not all) the lease contracts of equipments which are currently classified as operating leases and for which lease payments are recognised as an operating expense, will be classified as Type A leases. This new classification leads to presenting the lease payments of these contracts as an amortisation charge and as an interest charge.
- Furthermore, variable lease payments for Type A contracts will be presented as operating expenses, which means that the information regarding the lease payments for those types of contracts will have to be sought by users in different places in the statement of profit and loss, thus adding complexity to their analysis.

The ANC notes that the requirements for the presentation of lease payments in the statement of cash flows are consistent with those in the statement of profit and loss. Our concerns as regards the latter equally apply to the requirements in terms of the statement of cash flows.

As mentioned in our response to the previous Exposure Draft, the ANC considers that **preparers would bear major costs to implement the proposed model**, especially:

- For each new contract : (i) collection of more information than previously in order to compute the right of use and the lease liability and, (ii) more judgements are necessary for accounting for a new contract.
- The requirements of reassessment (at least at the end of the reporting period and at any time if there is a change in the lease term or in the factors used to determine whether the lessee has a significant economic incentive to exercise an option to purchase the asset or to renew the lease) leads to monitoring several indicators and implementing information systems capable of calculating the impact of the reassessments of the lease liability recognised for each lease contract.

The ANC is aware that the increased amount of judgments required result in very extensive levels of decision making and is concerned that, as a result, comparability will be impaired as compared to the current standard.

Our detailed comments on this point are set out in the Appendix 2 to this letter.

Question 3: lessor accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

The ANC is concerned about the accounting model proposed for Type A leases for the following reasons, in particular in the case of long term assets which are subject to repeated leases:

- *Measurement of the gross residual asset*

  At lease inception, the gross residual asset should be measured at the present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term, discounted using the rate the lessor charges the lessee (for example the rate implicit in the lease). This requirement involves judgements and we are concerned that these judgements would be based on very long term assessments. For example, in the case of a lease contract of an asset (that is not a property) with a long economic life which is repeatedly leased during its economic life for short periods (each of them not considered to be an insignificant part of the total economic life of the underlying asset), the assessment of the gross residual asset requires making cash flow projections over a very long period (i.e. period subsequent after the lease being assessed) and its amount consequently could vary significantly based on the assumptions made by the lessor, thus impairing comparability in the case of similar contracts.

- *Measurement of the profit relating to the lease*

  The calculation of the discount rate (being the rate implicit in the lease) depends on lease payments and also on the amount of the gross residual asset. This discount rate is decisive to assess the profit relating to the lease, which therefore may vary according to assumptions taken to measure the gross residual asset. Especially in the case mentioned previously of long-life assets leased several times during their economic life, the ANC considers that having a profit relating to the first period of lease which could differ according to long or medium term assumptions is complex, may not be reliable and is economically inconsistent.

- *Accounting for the underlying asset at the end of the lease term*

  When at the end of the lease term, the lessor uses the asset for its own use, it will present this former leased-asset among its other own-use assets resulting in presenting together assets that are at "pure" historical amortised cost and others that are on a "partially" revalued amount. The ANC considers that the IASB has to give more consideration to this point.

Our concerns on the variability of amounts due to the long term assumptions that are required are illustrated by a numerical example set out in Appendix 3 of this letter.

Cost of implementing the new standard

As mentioned in our response to question 2, the ANC considers that preparers would bear major costs to implement the proposed model for Type A leases, especially:

- For each new contract : (i) separating the components of the contract, and (ii) performing the analysis necessary to the many judgements underlying the estimate of the gross residual asset and of the expected variable payments included in the rate the lessor charges the lessee
- The requirements of reassessment (at least at the end of the reporting period and at any time if there is a change in the lease term or in the factors used to determine whether the lessee has a significant economic incentive to exercise an option to purchase the asset or to renew the lease) leads to monitoring several indicators and implementing information systems capable of calculating the impact of the reassessments of lease receivable recognised for each lease contract.

Question 4: classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28-34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

As explaining in the beginning of our response to question 2, the ANC believes that lease accounting should adequately reflect the difference in economic substance of the leases. Therefore, we consider that an operating lease and a finance lease are not similar transactions and thus have to be accounted for differently as stated in the current standard IAS 17.

Accordingly, the ANC welcomes the admission by the IASB that the economics of all leases are not the same. However, we do not believe that the new classification based on consumption of the underlying asset as proposed by the IASB is an improvement as compared to the current classification.

First, the classification of leases as described in the Exposure Draft has no conceptual basis:

- *The distinction based on the nature of the underlying asset is a rule*

  We do not agree with the distinction based on the nature of the underlying asset as proposed in §§ 29 and 30 of the ED. Indeed this distinction is not a principle, it is simply a rule. Even the IASB in § 51 of the Basis for Conclusions acknowledges that applying the principle in the manner proposed would not always result in conclusions that are consistent with the principle.

  Assuming that the IASB decides to maintain this proposed distinction, the same classification requirements should be applied regardless of the nature of the underlying asset. Indeed, we do not understand what could justify that contracts for assets which are not properties as defined in the Exposure Draft but that present the same characteristics (long life and repeatedly leased for short periods during their economic lives, for example: locomotives, vessels and rail cars), should be classified as Type A leases.

  To support our view, we note that, contrary to the distinction based on the nature of the underlying asset proposed in §§ 29 and 30 of the ED, §§ 42 of the Basis for Conclusions phrases the principle without referring to the nature of the underlying asset : "a single lease expense would provide better information about leases for which the lessee pays only for the use of the underlying asset and is expected to consume only an insignificant amount of the economic benefits embedded in the underlying asset itself".

- *Distinguishing between leases and purchases*

  As written in § 61 of the Basis for Conclusions, we understand that the new Exposure Draft does not have the same objective as the current standard IAS 17, i.e.: to distinguish between leases that are considered to be economically similar to purchases and those that are not. However the IASB appears to justify the distinction between the two types of leases as being due to the fact that for Type A leases the lease payments incorporate the acquisition of a portion of the underlying asset (§§ 45 and196-197 of the Basis for Conclusions) whereas for Type B leases, the lease payments represent a charge for the use of the asset by the lessee (§§ 44 and 196-197 of the Basis for Conclusions).

- *The economic life and fair value of the underlying asset for the classification of a lease*

  In order to classify the lease, the Exposure-Draft proposes that an entity would assess the lease relative to the economic life and fair value of the underlying asset. The ANC notes that those criteria correspond to two of the five existing criteria in the current standard IAS 17 and that there is no conceptual justification about this choice.

- *Asymmetry of the thresholds for classification depending on the nature of the underlying asset*

  We disagree with the asymmetry of the thresholds proposed in §§ 29 and 30 of the ED : "insignificant" as opposed to "major", and "total" as opposed to "remaining" as regards the economic life ; "insignificant" as opposed to "substantially all" as regards the present value of lease payments. Such asymmetry will generate confusion.

- *The remaining economic life of the underlying asset*

  We note that, for property, the criterion to retain is the remaining economic life of the asset whereas for other assets this is the total economic life of the asset. This principle leads to classifying a leased property as a Type B lease at the beginning of its economic life and as a Type A lease at the end of its economic life whereas this is the same transaction for the lessee. The ANC does not understand the rationale.

Accordingly, the ANC recommends that the IASB retains the criteria defined in the current standard IAS 17 to classify leases. Indeed, for the ANC, those indicators reflect best how a lease should be classified (i.e.: based on whether a lease transfers substantially all the risks and rewards of ownership of the underlying asset to the lessee). Furthermore, we are not aware of significant issues in applying the existing criteria under IFRS.

Question 5: lease term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

We welcome the fact that the IASB has addressed one of the concerns that the ANC had expressed, namely that the lease term should not be determined by estimating the probability of occurrence for each possible outcome, taking into account the effect of any options to extend or terminate the lease.

The new proposal to determine the lease term as the non-cancellable period of the lease, together with (i) periods covered by an option to extend the lease if the lessee has a significant economic incentive to exercise that option, and (ii) periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise that option, leads to a better reflection of 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.

However, the ANC has some concerns about the "significant economic incentive" concept for the following reasons:

- § 140 of the Basis for Conclusions indicates that applying the concept of 'significant economic incentive' would provide a threshold that is similar to the concepts of 'reasonably certain' existing in the current standard IAS 17, which the boards understand work well in practice. We consider that introducing this new wording for a similar concept could lead to thinking that the IASB is suggesting a somewhat different threshold. Therefore, the ANC recommends retaining the current concept of 'reasonably certain' which is familiar to all stakeholders
- An entity should take into account all relevant factors (contractual, asset, entity and market-based factors) when assessing whether a lessee has a significant economic incentive to exercise or not an option. § 26 of the Exposure Draft states that those factors have to be considered together in this assessment. We agree with this principle but we note that example 16 of the Illustrative Examples makes an assessment based on one factor without considering all other factors (not provided in the example). While we recognise that one factor could be sufficient, the ANC recommends that this example is amended to better represent the requirements defined in § 26 of the Exposure Draft.
- § B6 states that "a change in market-based factors (such as market rates to lease a comparable asset) shall not, in isolation, trigger reassessment". In conjunction with the concept of significant economic incentive, the ANC wonders how to account for the cases in which, at the commencement of the contract, the lease was determined without taking into account the option, which in view of market conditions, did not constitute a sufficiently significant economic incentive despite other factors (for example inseparable investments but not significant enough for them alone to warrant taking the option into account) and when subsequently market conditions change (whilst the initial factors as regards investments remain) ?
- The notion of "significant economic incentive" bears a strong link to the notion of "economic compulsion" which is currently being debated within the context of the Discussion Paper on the Conceptual Framework.

Question 6: variable lease payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

We appreciate the IASB addressing a concern that the ANC had expressed, as the Exposure Draft no longer proposes the probability-weighted estimation approach in which a lessee must include estimated variable lease payments on the measurement of leases liabilities.

The ANC considers that the new proposal leads to more reliable information than in the previous Exposure Draft.

However, the ANC is concerned about the lack of clarification of the concept "in-substance fixed payments". This concept is not defined and there is no principle provided to identify these payments in the Exposure-Draft. While we agree with the rationale described in § 153 of the Basis of Conclusions which states that providing a principle should be sufficient, rather than a list of possible scenarios, we consider that the principle should be clearly defined, and we do not believe that is currently the case.

For example, a lessee enters into a lease of one identified car with payments determined as follows:

- A lease payment of 1.000 CU is required as soon as one kilometre is driven with the rented car. In this case, we believe that the lease payment should be considered as being in-substance fixed payments.
- A lease payment of 1 CU is required per kilometre driven. In this case, we believe that the lease payment should not be considered as being in-substance fixed payments because this variable payment is linked to the lessee's use of the underlying asset.

If our understanding is correct that lease payments which depend on the use of the underlying asset should not be considered as being in-substance fixed payments as in the second case above and are therefore variable payments, we consider that clarification is necessary.

Furthermore, example 17 illustrates the treatment of a minimum payment which is due irrespective of the level of sales and, in our view, would be in fact a fixed payment.

Finally, the IASB decided to include, in the initial measurement of the residual asset, the present value of expected variable lease payments when those payments are reflected in determining the rate that the lessor charges the lessee. It is another element that adds to the complexity of the lessor's accounting model (see our comments to question 3).

Question 7: Transition

Paragraphs C2-C22 state that a lessee and a lessor would recognise and measures leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach? Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the boards should consider? If yes, what are they and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

The ANC appreciates that the IASB proposes a simplified retrospective approach to recognise and measure leases at the beginning of the earliest period presented. Indeed we consider that for leases, a full retrospective approach could be complex to implement and its cost could outweigh the benefits.

However, the ANC recommends that the proposals should be simplified further. In this direction, we propose some additional simplifications:

- For leases previously classified as operating leases, a lessor should be allowed to measure the lease receivable and the residual asset using the discount rate as determined at the transition date and not at the commencement date of the contract.
- An entity should not be required to apply the requirements described in the Exposure Draft to leases terminated before the end of the period in which the new standard is applied for the first-time.

In addition, we note that the Exposure Draft does not discuss transition requirements for contracts that are finance leases under existing standard IAS 17 but would be classified as service arrangements under the Exposure Draft proposals.

Finally, the ANC understands that the IASB will provide three and a half years between the publication date and the effective date of the Revenue Recognition standard because of the significant system and process changes required to implement the new standard. On this basis, the ANC considers that the same time period would be needed for implementing the new Leases standard.

Question 8: Disclosure

Paragraphs 58-67 and 98-109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted leases payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

The ANC agrees with the general objective of §§ 59 and 99 of the Exposure Draft of considering the level of detail necessary to satisfy the disclosure objective. However, the ANC notes that the formulation of these paragraphs ("level of detail" and "how much emphasis on the various requirements") falls short of taking into account materiality considerations as our understanding is that none of the items in the list of disclosures provided subsequently (§§ 60-67 and §§ 100-109) may possibly be omitted. Therefore, we recommend that the list of disclosure requirements should be presented as a suggestion of items that preparers could disclose if they judge that that information could be relevant or material for the users.

As mentioned in its Discussion Paper "Towards a Disclosure Framework"[2] The ANC considers that "disclosure of key assumptions may provide users with information about the economic environment in which the measurement was made and how conservative or otherwise an entity's assumptions are compared with others, without providing all the information necessary to recalculate the measurement using different inputs". For example, the ANC has concerns about some of the disclosures to be provided about the calculation of the right-of-use of assets.

In this respect, the ANC also notes that short term leases are not exempted from the disclosures required. These requirements go way beyond those currently required by IAS 17 for operating leases. Therefore the option not to apply the accounting requirements for such leases is rendered void as in effect, preparers will be required to implement the same type of systems as for the leases under Type A and Type B in order to comply with the disclosure requirements.

The ANC considers the reconciliations mandated by the proposals to be extremely onerous operationally.

The ANC notes that §§ 67 and 106 require the disclosure of a maturity analysis of the lease liability/receivable, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. This requirement departs from the requirement set out in IFRS 7 regarding financial liabilities for which an entity has discretion in determining the appropriate maturity categories. The ANC considers this level of detail to be superfluous and is unconvinced by the argumentation provided in BC207 and 284 : beyond the fact that US GAAP may already requires such disclosure, the boards simply state that comparability of maturities in the cases of leases is more important than for other financial liabilities.

However, as mentioned in our cover letter, the ANC understands that users would welcome additional disclosures under the current standard.

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[2] ANC,/EFRAG/FRC ; July 2012

Question 12: Consequential amendments to IAS 40

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

The following comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the Exposure Draft. They are not intended to express support for the proposed model.

The effect of the proposals to extend the scope of IAS 40 to that of a right of use providing the leased property meets the definition of investment property is to assimilate the right of use to the underlying asset. The ANC has concerns about this on a conceptual basis as the basic model proposed in effect distinguishes the right of use from the underlying asset, contrary to IAS 17 as regards finance leases.

Moreover, the ANC is concerned that right of use contracts are often not tradable and therefore that applying a fair value model to such items is not appropriate.

We also note that discussions around the definition of investment property (lacking the physical attributes of a building) are being held at the IFRS Interpretation Committee.

Appendix 2 – Additional comments

Other comments

As the IASB has asked a limited amount of questions in its re-exposure, the ANC provides in this second Appendix an analysis of additional issues arising from the proposals.

2.1 Scope

The ANC does not understand the objective of the option offered to lessees for applying the lease proposals to lease intangible assets: the ANC considers that, in the absence of the standard specifying that the option is available, an entity could anyway chose to apply the standard to leases of intangibles by analogy. There is therefore no reason to explicitly allow an option which would have for consequence reduced comparability. Furthermore the ANC considers that some issues have not been treated in this Exposure Draft, and in particular whether this option has to be applied to all lease contracts of intangible assets or could be applied per category of intangible assets. In addition, the ANC notes that the proposed option is not available to lessors.

The ANC also notes that, beyond the fact that the boards consider that a comprehensive review of intangible assets should be performed before intangibles assets are included within the scope of this exposure-draft, they recognise in the basis for conclusions that there are no conceptual justifications to exclude them.

2.2 Short-term leases

The ANC welcomes the fact that the IASB has agreed that applying the full proposals for short-term leases did not justify the costs. However, the ANC still has concerns about the proposals on this subject. Indeed, the exemption does not seem to provide a real simplification because lease contracts which meet the 12-month requirements defined in this Exposure Draft will be extremely rare if one needs to include the maximum possible lease term in the assessment of the contract duration.

Accordingly, the ANC recommends that the definition of short-term leases should be consistent with the definition of the lease term proposed in the Exposure-Draft.

2.3 Contract modifications

The ANC notes that the exposure draft does not explain what would constitute a "substantive change". Such clarification is essential given the income statement impacts that such contract modifications could have.As lease rights (receivable) and obligations (liabilities) are within the scope of IAS 39 for derecognition purposes, it would be useful for the IASB to clarify whether the meaning of a substantive change is the same as that of "substantial modification" under IAS 39. In addition, further guidance could be useful about whether other substantive changes could fall under § 36 of the exposure-draft, such as additional assets or portions thereof provided under an existing lease for no additional consideration.

2.4 Discount rate

The ANC notes that the Exposure-Draft does not provide application guidance for the determination of the discount rate when considering the use of a group discount rate (i.e. when financing normally occurs above the level of the lessee entity), when there may be a guarantee from the parent entity as opposed to none,. and for the determination of the yield on property even though this could be calculated in a variety of ways (i.e.: annual rent divided by the cost of the property, the yield using the leases in place or the unguaranteed residual value). Accordingly, the ANC recommends including specific guidance on this subject.

2.5 Initial direct costs

The ANC has some concerns about initial direct costs:

- First, the Exposure Draft does not detail which costs could be included as part of initial direct costs: (i) nature of these costs and (ii) how costs are incurred (i.e. only costs incurred on a single lease basis or also costs incurred on a portfolio level). This issue was raised by the IFRS Interpretation Committee in June 2013.
- In addition, the Exposure Draft does not provide specific requirements to identify when an entity has to stop capitalising initial direct costs. For example, in a lease with a purchase option, upon the exercise of the purchase option, fees are due to be paid for the transactions: are these related to the asset or to the settlement of the purchase option? Or, could we consider that they are initial direct costs related to a different asset which is not the right-of-use asset but the underlying asset itself?

2.6 Sale and lease-back transactions – articulation with the Revenue recognition project

Our understanding of the redeliberations relating to the Revenue recognition project is that any call option held by the transferor-lessee in a sale and lease-back would lead to the accounting of the transaction as a financing arrangement.

In effect, according to IG 40 in the revenue project, a call option prevents the sale accounting. Therefore § 115 of the Lease exposure-draft applies.

We understand the rationale except in the situation where the exercice price of the option is the fair value of the assset at the date of the exercise. In this case, the substance of the arrangement is not that of financing as, from a control perspective, due to this exercise price, the "customer" - i.e. the purchaser-lessor- is not prevented from obtaining substantially all of the remaining benefits of the asset)

2.7 Transactions captured by SIC 27

The ANC understands that the proposed exposure-draft would supersede the interpretation SIC 27, Evaluating the substance of transactions involving the legal form of a lease.

It is however unclear whether the proposed exposure-draft would cover all the transactions that were covered by the interpretation.

The ANC therefore considers that the IASB should ensure that the principle of linked transactions as per the interpretation is covered, which would be helpful in dealing with lease-in/lease-out transactions.

2.8 Benefits and costs

As mentioned in our response to the previous Exposure-Draft, the ANC still considers that 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 one-offs and on-going costs to implement and apply the requirements of this Exposure Draft. These costs include costs of:

- Information systems for both measurement and disclosure purposes,
- Salary-intensive analysis and compilation of the information of the contracts,
- Training for accountants and operational services (with different levels of involvement in the accounting for leases process) in order to ensure consistent application of the requirements within an entity,
- Adaptation of the external communication of the entity,
- Adaptation of contracts which includes indicators and/or ratios which could be impacted by a modification of the current standards.

While the costs of information systems would be essentially one-offs costs, others costs would occur over the implementation of the new requirements, and will be on-going.

The IASB justifies the need for a new standard by the fact that users adjust the numbers for their own analyses. However, there is no evidence that the numbers that will be generated by the proposed model will not continue to be adjusted by users of financial statements. The summary of feedback from users of financial statements received during outreach activities indicates that "no single solution would satisfy all information needs of a majority of users because not all users perform the same calculations and users use different pieces of information to analyse the same company"[3]. We also understand that the FASB's Investor Advisory Committee has recently expressed dissatisfaction with the project and proposed enhanced disclosures to the current accounting.

Furthermore, the ANC met French financial analysts to understand what information they need. They confirmed to us that while some information on lessee accounting could be added in the notes of financial statements, they did not ask for an overhaul of the current standard. Furthermore, we noted that sell-side analysts are interested in the amount of the core assets measured under a whole asset approach while credit analysts are interested in the amount of the contractual minimum lease payments.

Finally the ANC notes, as knock-on effect, that complexity will also increase in terms of the audit work to be performed.

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[3] http://www.ifrs.org/Meetings/Documents/Leases0512b03.pdf

Appendix 3 – Lessor Accounting

In our answer to question 3, we express concerns, particularly in the context of long term assets which are subject to repeated leases, as to the significant judgements that need to be made at inception and the related variability such judgements and assumptions entail on the measurement of the gross residual asset as well as on the profit relating to the lease.

The following example on a railcar with an economic life of 32 years which is repeatedly leased during its economic life illustrates those concerns. The assumptions have been made to vary on the change in the amount of the lease payments at each new contract as well as on the rate implicit in the lease.

Our simulation provides the following results:

- The gross residual asset amount varies from 53.734 to 55.412 CU, based on the assumptions made by the lessor at lease inception (see our paragraph *Measurement of the gross residual asset* in Question 3),
- The profit relating to the first period of lease varies from 6.147 to 6.567 CU, based on the calculation of the implicit rate (see our paragraph *Measurement of the profit relating to the lease* in Question 3), and
- At the end of the first lease term, the gross residual asset varies from 79.286 to 92.973 CU. This amount has to be compared to the carrying amount of a similar railcar to the one of our example, only used for the own use of the entity which accounts for 70.000 CU (see our paragraph *Accounting for the underlying asset at the end of the lease term* in Question 3).

The ANC is concerned that this variability of outcomes will impair comparability.

Description of the underlying asset :A railcar with an economic life is 32 years. This railcar is repeatedly leased during its economic life for periods of 4 years to different lessees. The wear of the railcar is linear during its economic life.

Assumption 1: Given the inflation / obsolescence of railcars, an increase of 5% of the lease payments at each new contract is expected by the management

Carrying amount of the underlying asset			80 000
Fair value of the underliyng asset at the commencement date			100 000
Difference between the fair value and the carrying amount			20 000
Present value of lease payments (contract 1 to 8)			100 000
Difference			0
Rate implicit in the lease			10%

Contract	Year		Payments	Present value of payments
Contract 1	Year 1*	1	10 000	9 053
	Year 2	2	10 000	8 196
	Year 3	3	10 000	7 420
	Year 4	4	10 000	6 718
Contract 2	Year 5	5	10 500	6 386
	Year 6	6	10 500	5 781
	Year 7	7	10 500	5 234
	Year 8	8	10 500	4 738
Contract 3	Year 9	9	11 025	4 504
	Year 10	10	11 025	4 078
	Year 11	11	11 025	3 692
	Year 12	12	11 025	3 342
Contract 4	Year 13	13	11 576	3 177
	Year 14	14	11 576	2 876
	Year 15	15	11 576	2 604
	Year 16	16	11 576	2 358
Contract 5	Year 17	17	12 155	2 241
	Year 18	18	12 155	2 029
	Year 19	19	12 155	1 837
	Year 20	20	12 155	1 663
Contract 6	Year 21	21	12 763	1 581
	Year 22	22	12 763	1 431
	Year 23	23	12 763	1 296
	Year 24	24	12 763	1 173
Contract 7	Year 25	25	13 401	1 115
	Year 26	26	13 401	1 009
	Year 27	27	13 401	914
	Year 28	28	13 401	827
Contract 8	Year 29	29	14 071	786
	Year 30	30	14 071	712
	Year 31	31	14 071	645
	Year 32	32	14 071	584

Réf ED		Débit	Crédit
	Railcars (property, plant and equipment)		80 000
§ 69 (a)	Lease receivable	31 387	
§ 71	**Residual asset ***	**54 890**	
§ 74	**Profit recognised at the commencement date**		6 277
§ 75	* Including the unearned profit on the residual asset		13 723

Residual asset at the end of the first contract	88 416

Assumption 2 : Given the inflation / obsolescence of rail cars, an increase of 10% of the lease payments at each new contract is expected by the management

Carrying amount of the underlying asset			80 000
Fair value of the underliyng asset at the commencement date			100 000
Difference between the fair value and the carrying amount			20 000
Present value of lease payments (contract 1 to 8)			100 000
Difference			0
Rate implicit in the lease			11%

Year		Payments	Present value of payments
Year 1	1	10 000	8 973
Year 2	2	10 000	8 052
Year 3	3	10 000	7 226
Year 4	4	10 000	6 484
Year 5	5	11 000	6 400
Year 6	6	11 000	5 743
Year 7	7	11 000	5 154
Year 8	8	11 000	4 624
Year 9	9	12 100	4 565
Year 10	10	12 100	4 096
Year 11	11	12 100	3 676
Year 12	12	12 100	3 298
Year 13	13	13 310	3 256
Year 14	14	13 310	2 921
Year 15	15	13 310	2 622
Year 16	16	13 310	2 352
Year 17	17	14 641	2 322
Year 18	18	14 641	2 084
Year 19	19	14 641	1 870
Year 20	20	14 641	1 678
Year 21	21	16 105	1 656
Year 22	22	16 105	1 486
Year 23	23	16 105	1 334
Year 24	24	16 105	1 197
Year 25	25	17 716	1 181
Year 26	26	17 716	1 060
Year 27	27	17 716	951
Year 28	28	17 716	854
Year 29	29	19 487	842
Year 30	30	19 487	756
Year 31	31	19 487	678
Year 32	32	19 487	609

	Débit	Crédit
Railcars (property, plant and equipment)		80 000
Lease receivable	30 735	
Residual asset *	**55 412**	
Profit recognised at the commencement date		6 147
* Including the unearned profit on the residual asset		13 853

Residual asset at the end of the first contract	92 973

Assumption 3 : Given the inflation / obsolescence of rail cars, a decrease of 5% of the lease payments at each new contract is expected by the management

Carrying amount of the underlying asset			80 000
Fair value of the underliyng asset at the commencement date			100 000
Difference between the fair value and the carrying amount			20 000
Present value of lease payments (contract 1 to 8)			100 000
Difference			0
Rate implicit in the lease			8%

Year		Payments	Present value of payments
Year 1	1	10 000	9 226
Year 2	2	10 000	8 511
Year 3	3	10 000	7 852
Year 4	4	10 000	7 244
Year 5	5	9 500	6 349
Year 6	6	9 500	5 857
Year 7	7	9 500	5 404
Year 8	8	9 500	4 985
Year 9	9	9 025	4 369
Year 10	10	9 025	4 031
Year 11	11	9 025	3 719
Year 12	12	9 025	3 431
Year 13	13	8 574	3 007
Year 14	14	8 574	2 774
Year 15	15	8 574	2 559
Year 16	16	8 574	2 361
Year 17	17	8 145	2 069
Year 18	18	8 145	1 909
Year 19	19	8 145	1 761
Year 20	20	8 145	1 625
Year 21	21	7 738	1 424
Year 22	22	7 738	1 314
Year 23	23	7 738	1 212
Year 24	24	7 738	1 118
Year 25	25	7 351	980
Year 26	26	7 351	904
Year 27	27	7 351	834
Year 28	28	7 351	770
Year 29	29	6 983	674
Year 30	30	6 983	622
Year 31	31	6 983	574
Year 32	32	6 983	530

	Débit	Crédit
Railcars (property, plant and equipment)		80 000
Lease receivable	32 833	
Residual asset *	**53 734**	
Profit recognised at the commencement date		6 567
* Including the unearned profit on the residual asset		13 433

Residual asset at the end of the first contract	79 286