



Accounting Standards Board

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Filippo Poli
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29 November 2010

Dear Filippo

EFRAG DCL on the IASB Exposure Draft *Leases*

I am writing on behalf of the UK Accounting Standards Board (ASB), to respond to the European Financial Reporting Advisory Group (EFRAG) Draft Comment Letter (DCL) on the IASB Exposure Draft (ED) *Leases*.

The ASB is still considering the proposals in the IASB's ED and will not finalise its response until a board meeting scheduled for 16 December 2010. That said, the ASB held a discussion on the ED at its meeting on 25 November 2010 and reached the tentative decisions outlined below.

The ASB agrees with EFRAG's preliminary views in a number of areas. In particular, the ASB considers that:

- A single partial derecognition approach should be taken to lessor accounting, not the performance obligation approach and not a 'hybrid' approach (answer to IASB question 2).
- The lease term should be determined to be the minimum lease term in accordance with the current definition in IAS 17 *Leases*, but the IASB should explore further the possibilities for addressing option periods via either enhanced disclosure or separate recognition (answer to IASB question 8).
- Only "unavoidable" contingent payments, as defined in paragraph BC124 of the Basis for Conclusions on Exposure Draft (BCED), should be included in the lease asset and liability, not "avoidable" contingent payments (answer to IASB question 9).

- Contingent payments which are included in the measurement of the lease asset and liability should be measured by choosing the most likely outcome, not the expected amount as proposed in the ED answer to IASB question 9).
- The short-term lease provisions for lessees should go further, to permit such lessees to apply an accounting treatment similar to that set out in IAS 17 for operating leases (answer to IASB question 3).

In a number of other areas, the ASB's view differs from that of EFRAG. In particular, the ASB considers that:

- Purchase options should be accounted for only when they are exercised, except where the purchase option is a bargain purchase option as defined in paragraph B10(b) of the ED (answer to IASB question 7).
- Paragraph 8 of the ED should be amended to state that a contract is a purchase or sale of an underlying asset where it is classified as a purchase or sale under the standard to be finalised following the Exposure Draft *Revenue from Contracts with Customers* (answer to IASB question 4).
- The sale and leaseback accounting treatment should be amended so that the starting point is to determine whether or not the transfer is a purchase or sale of the underlying asset by applying the standard to be finalised following the Exposure Draft *Revenue from Contracts with Customers*, but the IASB should check that such transfers are covered by that Exposure Draft (answer to question 11).

If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail g.chatterton@frc-asb.org.uk, or me.

Yours sincerely



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