

28 July 2009

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Dear Sir/Madam

Re: IASB/FASB Discussion Paper *Leases*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the IASB/FASB discussion paper *Leases*. This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRS.

Lease contracts are very important sources of financing for entities and the existing accounting standard on lease accounting has been criticised, particularly by users. We are therefore pleased that the IASB has decided to address lease accounting and we support the decision to do the work as a convergence project with the FASB.

Our detailed comments are set out in the appendix to this letter, but to summarise:

- The discussion paper (DP) focuses almost exclusively on lease accounting by lessees; consideration of lessor accounting has been deferred, although the DP does contain a 'high level discussion' chapter on the subject. Even though we understand why this has been done, it does mean that fundamental decisions about the direction and key principles underlying the new lease accounting model have been taken from only one perspective (the lessees'). We are very uncomfortable about this because we believe some of the crucial decisions (including the proposal that a 'right-of-use' approach should be used) might have been different had a more comprehensive analysis of the issues been undertaken, based on both perspectives. We do not see how definitive conclusions can be reached on the future direction of lease accounting unless and until the implications for lessors of the approach proposed have been fully explored and consulted on. We therefore believe it is essential that the IASB takes no final decisions on the approach to lease accounting to be adopted for lessees until the lessor accounting part of the project has progressed significantly.
- We are currently inclined towards supporting the 'right-of-use' approach for all lease arrangements, but would wish to have the opportunity to consider fully the implications of such an approach for lessors before taking a position on the matter. However, putting that aside:

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- we would be concerned about the cost-benefit implications were such an approach to be applied to short-term lease arrangements. We have discussed whether the normal materiality considerations might make it unnecessary in many cases to apply the 'right-of-use' approach to such arrangements, and think it would be helpful if this matter could be addressed specifically at the next stage of the project.
- we believe that applying the 'right-of-use' approach to all leases will make the distinction between leases and service arrangements even more important than it is currently. We think it would be particularly unfortunate if the result of the DP was simply to replace one difficult border—between operating and finance leases—with another—between service arrangements and leases. It will therefore be important to make sure there is a clear, principle-based boundary between the two.
- EFRAG members are divided on the DP's proposal that lessees should recognise a single lease asset and a single lease liability (i.e. that a components approach should not be used to account for options in lease agreements). Some members believe that the approach proposed is pragmatic and makes it possible to propose important improvements in lessee accounting. Some other members believe that the approach proposed will result in amounts being recognised as liabilities that are not liabilities, and that this will reduce the usefulness of the information provided. They favour adoption of the components approach to the extent possible.
- However, if we assume that the single lease asset/single lease liability approach proposed in the DP is appropriate, we would broadly agree with most of what the DP says about the recognition and measurement of leases, although we do not support some of the proposals relating to the reassessment of the obligation to pay rentals, or to some of the proposals relating to contingent rentals. In particular:
 - we do not believe the obligation to pay rentals should be revised for changes in the incremental borrowing rate;
 - we believe it is preferable to adopt a consistent measurement approach to the uncertainty that arises from term options and contingent rental payments. Thus we do not support using a probability-weighted approach for measuring contingent rental payments; and
 - we favour changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments being differentiated between changes resulting from a change in the right-of-use asset (which should be accounted for by adjusting the asset) and other changes (which should be debited or credited to profit and loss).

Finally, we note that the IASB has undertaken to carry out, and issue, impact assessments on all proposed major new standards. We are not sure whether it was the IASB's intention to carry out such an assessment on the proposals in the DP, but we would strongly recommend that it does so because of the fundamental effect the proposals will have for many entities.

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We hope that you find our comments helpful. If you wish to discuss them further, please do not hesitate to contact Aleš Novak, Jeff Waldier or me.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

Appendix

EFRAG's detailed responses to the questions asked in the discussion paper

CHAPTER 2: SCOPE OF LEASE ACCOUNTING STANDARD

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

EFRAG View

- We do not agree with the proposed approach.
- We think (a) the existing IFRS scope exemptions should be revisited (not least to consider the applicability of the revised approach to intangibles), (b) an attempt should be made to align the scope clauses of IFRS and US GAAP, and (c) aspects of IFRIC 4 need to be looked at to ensure that the result of the DP will not be to replace one difficult border (between operating and finance leases) with another (between services arrangements and leasing arrangements).

- 1 EFRAG generally believes that the objective in a major project such as the lease accounting project should be to try to deal with the subject matter in a comprehensive manner. Yet the proposal is that the scope limitations in the existing standard should be carried forward without any attempt being made to eliminate them.¹ We are not aware of any conceptual reason for those scope limitations.
- 2 On the other hand, we are also aware that the criticism by users of the existing lease accounting standards has in the main not been about the scope of the standards. Rather it has been focused on the belief that operating leases give rise to assets and liabilities that should be recorded in the financial statements of the lessee. Furthermore, if the discussion paper (DP) is to result in a new standard by 2011, there is probably not enough time to address the main concerns of users and have an extensive debate about scope.
- 3 On balance, we are of the view that it would be not be appropriate to carry forward to the new lease accounting standard the scope provisions in the existing standard without further analysis.
 - (a) Since this is a joint project with FASB and the objective is to develop a converged standard, it will presumably be necessary to try to eliminate the scope differences that currently exist between IAS 17 *Leases* and SFAS 13 *Accounting for Leases*. So this means that the boards will be carrying out at least some work on scope.

¹ The existing scope limitations relate to: leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

- (b) We think the work described in (a) will involve revisiting to some extent the existing IFRS exemptions and, bearing that in mind, we think it would be sensible to look at them comprehensively because that will ensure that important related issues are addressed. For example, it would mean asking whether there are any intangibles where lease accounting based on a 'right-of-use' approach would not make sense. We think this is an important question to consider before reaching conclusions on the future direction of lease accounting. We also think that addressing this issue is important because it is a big inconsistency in the existing model.
- (c) We are concerned that there is currently some uncertainty as to how and where the boundary should be drawn between service arrangements and lease arrangements. We think the recognition and measurement proposals in the DP might result in this existing grey area becoming even more important, thus putting greater pressure on the existing guidance in IFRIC 4 *Determining whether an Arrangement contains a Lease*. We are not convinced the guidance in IFRIC 4 is robust and clear enough to cope satisfactorily with that additional burden, and it would be a pity if the result of the DP was to replace one difficult border—between operating and finance leases—with another—between services arrangements and leasing arrangements. We therefore believe that, if the IASB is to proceed with a lease accounting standard for lessees, important aspects of IFRIC 4 need to be re-examined.

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

EFRAG View

- We think that there are no conceptual reasons for excluding 'non-core asset' leases or short-term leases from the scope of the proposed new standard.
 - On the other hand, we are concerned that the cost of applying the approach proposed in the DP to short-term arrangements and arrangements involving non-core assets might not exceed the benefits that would arise. We think this is probably a materiality issue, but would like it to receive more attention in the next stage of the project.
- 4 The 'right-of-use' approach requires all lease arrangements, all rental agreements and all hire arrangements to be treated in the same way, however short the lease/rental/hire period and regardless of whether the asset is a core asset. EFRAG is aware that some stakeholders are concerned about this because they doubt that the benefits that would arise from applying the approach to certain arrangements (perhaps short-term arrangements, or arrangements involving non-core assets) justify the costs that would be involved in doing so.
- 5 EFRAG believes that, under the conceptual model proposed in the DP (the 'right-of-use' model); there are no conceptual reasons for any such exclusion. Conceptually, a right-of-use is a right-of-use, regardless of the type of asset involved. Similarly, a right-of-use for one day is still a right-of-use and rental and hire agreements are just other terms for a lease arrangement.
- 6 EFRAG would also be concerned that, if a new standard differentiates between leases of, for example, core and leases of non-core assets, we might be replacing

one 'two model' approach with another 'two model' approach—and having a 'two model' approach is one of the sources of the criticism with the existing lease standards.

- 7 On the other hand, we also recognise that, when users criticise existing lease accounting, the target of their criticism tends to be longer term arrangements that involve core, operating assets. As such, that raises legitimate concerns as to whether the cost of applying the recognition and measurement approach proposed in the DP to short-term arrangements and arrangements involving non-core assets is likely to exceed the benefits that would arise.
- 8 We think this is probably a materiality issue; just as small items of capital expenditure on plant and equipment are not capitalised on materiality grounds, so it ought to be acceptable not to apply the 'rights-of-use' approach to relatively short-term leases on materiality grounds. However, we think this should be addressed at the next stage of the project. In particular, it is clear that some believe that it would not be possible to make judgements about materiality without carrying out most of the work necessary to apply a 'right-of-use' approach to such leases (thus largely defeating the objective of making a cost/benefit assessment). It would be helpful if the boards could provide some guidance on the subject, perhaps including suggestions as to possible short-cut methods that could be used.

CHAPTER 3: APPROACH TO LESSEE ACCOUNTING

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

EFrag View

- We broadly agree with the boards' analysis to date of the rights and obligations—and therefore assets and liabilities—arising in a simple lease contract. However:
 - we think it is important to consider the issue from a lessor's perspective before taking any final decisions;
 - we are concerned that the DP seems to have simply extended that conclusion reached on analysing a simple lease to more complex leases without asking whether the conclusion applies more widely; and
 - we are concerned about the apparent inconsistencies in the thinking here compared to the thinking underlying the ED *Derecognition*.
- 9 The identification of the rights and obligations—and therefore assets and liabilities—arising in a simple lease contract depends on one's perception of what is being transferred in a leasing transaction. The 'right-of-use' notion is based on the view that ownership of a physical asset gives the owner a series of rights and those rights can be transferred individually by means of, for example, a lease arrangement. If this is one's view of what an asset and a lease arrangement involves, one would generally agree with the boards' view as to the rights and obligations and assets and liabilities arising under a simple lease. However, as explained in appendix C of the DP, there are other ways of viewing these issues. For example, some might argue that a physical asset is indivisible, and that a lease agreement involves transferring the whole, indivisible asset.

- 10 We broadly agree with the boards' analysis to date of the rights and obligations—and therefore assets and liabilities—arising in a simple lease contract.
- 11 Having said that, we have three concerns about this part of the paper:
- (a) To date the issue has been analysed only from the lessee's perspective (because the project as a whole has so far considered lessee accounting only). This concerns us because we think it is important also to consider the implications of any possible new approach for lessors before taking any final decisions on the approach to be adopted.
 - (b) It seems to us that, having analysed a simple lease and reached a conclusion as to the assets and liabilities involved, the DP has simply extended that conclusion to more complex leases without asking whether the conclusion applies more widely. We question whether this is appropriate.
 - (c) We are concerned that the tests used in the DP to establish whether there has been a derecognition event are fundamentally different from those proposed in the recent IASB Exposure Draft (ED) *Derecognition*. For example, in this DP (and in the Revenue Recognition DP), a transfer is in itself a derecognition event; but it is not in itself a derecognition event in the *Derecognition* ED where the focus is more on control. This DP seems to assume that an entity that transfers a right-of-use has given up control of that right and an entity that acquires a right-of-use has control of it. This is an important difference in approach—not least because it is common for lessees to need the consent of the lessor to sublease the asset—but it is not a difference we can see any conceptual justification for.

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

EFRAG View

- On the basis of the analysis to date, we are inclined to support the 'right-of-use' approach. However:
 - we would not support final decisions being taken as to the approach to adopt for lessees until the lessor accounting part of the project has progressed significantly;
 - we think it is very important that the distinction between leases and service arrangements is highlighted more fully in the next stage of the project.

The existing approach

- 12 It is widely argued that the existing IASB and FASB standards—which require each lease to be categorised as either an operating lease or finance lease and for each category to be accounted for differently—are broken. Certainly the existing IASB standard is much criticised by users, and EFRAG agrees with much of the

criticism. For that reason, EFRAG agrees with the boards' decision not to base the new lease accounting standard on the existing approach.

- 13 Having said that, it is easy to forget that most leases are categorised without difficulty under the existing approach and that many of the leases that are categorised as operating leases are the leases that many are arguing do not really need to be capitalised. In particular:
- (a) As we mentioned in our response to question 2, many stakeholders are arguing that the 'right-of-use' approach should not be applied to leases of non-core assets and/or to short-term leases.
 - (b) We mention below those users we have spoken to are quite attracted to the 'whole asset' approach. Our understanding is however that they would not wish the 'whole asset' approach to be applied to short-term contracts, particularly of non-core assets.
 - (c) We understand that some stakeholders are arguing that the 'right-of-use' approach should be applied only to those lease arrangements that are financing arrangements; and they argue that many of the shorter-term lease arrangements, particularly those involving non-core assets, are not financing arrangements.
 - (d) Similarly, some stakeholders are arguing that, other than 'in-substance purchases', leases are executory rental agreements and should be accounted for like other executory contracts. Only in this way can the differences in substance that exist be highlighted to users.
- 14 It could therefore perhaps be argued that the approach adopted in existing standards should be seen as an attempt to draw a pragmatic line between leases that people want to see capitalised and need to be capitalised and leases where the demand or need is probably not sufficient to justify the costs involved. Under this way of thinking, the problems with the existing model arise from those leases that are close to the boundary between the categories and from the degree of judgement involved (which seems to result in too many assets appearing on no statement of financial position at all). Bearing that in mind, some would argue that it is wrong to abandon the whole approach; it would be better to try to tackle the specific problems involved. However, that is not our inclination²—our tentative view is that the 'right-of-use' approach should be applied to all leases—although we would be less supportive of the 'right-of-use' approach if it proved necessary, in order to make it operational and to take into account cost-benefit considerations, to introduce a new set of bright lines.

A variation on the existing approach

- 15 Another possibility might have been to retain the existing approach for accounting for finance leases and to extend that approach to all other leases. In other words, require all leases to be categorised as finance leases and make no other change to the existing standard.

² As mentioned earlier, we are not able to take a definitive position on the proposal that a 'right-of-use' approach should be adopted until the proposal's implications for lessors have been fully examined.

- 16 One advantage of this approach would be that it would be unnecessary to recognise a liability for items that some believe do not meet the definition of a liability.
- 17 On the other hand, under the existing finance lease approach, the focus is on the minimum lease payments, where the term options and contingent rentals are largely ignored. Some would argue that such an approach does not faithfully represent the substance of the lease contract. EFRAG believes this is a weakness, and therefore favours an approach that takes such options and contingent rentals more fully into account.

The whole asset approach

- 18 Another possible approach is the so called 'whole asset' approach. Under this approach the lessee recognises the whole asset—not merely the right-of-use—and also a liability to return what remains of the asset at the end of the lease.
- 19 We understand that some users have expressed their preference for this approach. They argue that:
 - (a) including the whole asset in the statement of financial position of the lessee makes sense, because the whole asset is utilised to generate the returns to the lessee during the reporting period;
 - (b) the lessee is often economically in the same situation as the owner who has taken out a loan to finance the purchase of the asset;
 - (c) if the service potential inherent in the asset is needed for the entity to be a going concern, the fact that the lessee has to replace the asset is better reflected in the statement of financial position by applying the 'whole asset' approach;
 - (d) it provides more comparable information because it means that an entity's return on capital employed will be unaffected by whether it purchases its assets or leases them. The asset's generate similar returns and use up the same amount of productive capacity, and the financial statements should acknowledge this similarity; and
 - (e) adopting a 'whole asset' approach would simplify the accounting for very complicated lease transactions.

Users have suggested to us that they would exempt short-term leases in order to avoid the problem of having to recognise the whole of an asset that an entity has rented for just one day. This can be criticised for having no apparent conceptual basis, but of course it is an issue that also arises under the DP's favoured 'right-of-use' approach.

- 20 In rejecting the 'whole asset' approach, the DP argues that entities that lease their assets have more flexibility to reduce their capital base than those that purchase their assets—and that therefore the transactions are not identical economically. We think that is true in some cases, especially for leases of shorter duration. However, for longer leases and particularly when 'core' assets are involved, we think the issue is not that clear cut. For example, someone who purchases an asset can also sell it at any time, whereas a lessee will often be restricted from subleasing the asset and heavily penalised if it terminates that lease early. On the

other hand, someone who purchases an asset—and therefore owns it—will have more control over that asset than someone who leases it and will therefore have greater flexibility as to how the asset is used.

- 21 EFRAG believes that, although the whole asset approach works well—and for example provides more comparability—for long-term leases that are in-substance purchases, it is fundamentally flawed conceptually for shorter leases because it implies the lessee has assets that it does not have (a right to use the leased item beyond the end of the lease). We also think the comparability of the 'whole asset' approach is overstated, because an entity that leases an asset will often not be in an identical position to an entity that has purchased it.

Right-of-use approach

- 22 On the basis of the analysis to date, we are inclined to support the approach the DP favours: the 'right-of-use' approach. Our tentative view is that it correctly reflects the rights the lessee has acquired and the obligations it has taken on in respect of those rights in a simple lease case. However:

- (a) we are very uncomfortable that some of the fundamental decisions might have been different had a more comprehensive analysis of the issues been undertaken based on both lessee and lessor perspective. For that reason we would not support final decisions being taken as to the approach to lease accounting for lessees to adopt until the lessor accounting part of the project has progressed significantly.
- (b) we also believe that applying the 'right-of-use' approach to all leases will make the distinction between leases and service arrangements even more important than it is currently. We think the boundary between these two types of agreement needs to be considered more fully in the next stage of the project.

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

EFRAG View

- EFRAG members are divided on this issue.
 - Some support the approach proposed in the DP.
 - A similar number support the adoption of a components approach to the extent possible, and where it is not possible a minimum lease payments approach.

- 23 Some members support the proposal in the DP not to adopt a components approach and instead to incorporate estimates of how the options in leases will be used in determining the extent of the right-of-use and the amount of the lease obligations.

- (a) These EFRAG members believe that this approach will result in the most useful information being provided to users because it attempts to reflect the effect that the options could have on the lessee's asset and liability. This, they believe, means that the implications of the options will be more understandable.

For example, assume a lessee enters into a five year lease arrangement that involves the option of leasing for a further three years. Assume also that, at contract inception, it is slightly more likely that the lessee will exercise the option than it will not exercise it. Under the proposals in the DP, the lessee will be required to recognise an eight year right-to-use asset and an obligation to pay eight years of lease payments, even though it has an enforceable obligation only for the first five years of payments.

In effect, the DP requires the lessee to recognise the liability that is thought most likely to arise from the lease contract.

- (b) Most of these EFRAG members also have concerns about the practicability of the alternative approach (the components approach), which would involve recognising each of the options inherent in the lease in the statement of financial position and measuring those options at some sort of current value. These members note that the boards too are of the view that significant implementation issues would arise if this approach were to be required by the new lease accounting standard.

24 However, a similar number of EFRAG members believe a components approach should have been adopted, because they believe the approach proposed in the DP will give rise to a number of fundamental problems and inconsistencies.

- (a) Some of these EFRAG members are concerned about the apparent inconsistency between the proposals in the DP and the way that options and uncertainties are dealt with in other aspects of accounting. They note, for example, that the DP says that the boards think a components approach is conceptually the correct approach and they note that elsewhere in accounting a components approach is generally adopted.
- (b) There is probably more than one way of implementing the non-components approach proposed in the DP, but these EFRAG members believe that the way in which the DP is proposing to implement could result in:
 - (i) the recognition as liabilities of amounts that do not meet the definition of a liability. In their view, this will result in the recognition of liabilities that are neither understandable nor comparable;

Consider the example given in the previous paragraph. A lessee with a five year lease and an option to extend for a further three years has a legally enforceable obligation (liability as defined) for only five years' payments, but would be required by the DP to recognise an obligation to pay eight years of lease payments.

These EFRAG members argue that it is illogical to require a lessee that has such an option and will presumably exercise it only when it is to its advantage to do so to recognise a larger liability than a lessee that does not have an option to extend beyond the five years.

- (ii) a lessee that has the flexibility that an option creates being treated in exactly the same way as a lessee without any flexibility.

For example, in the above example, the DP's proposals require the lessee to account for the lease in exactly the same way as it would account for an eight year lease with no option to end the arrangement after five years.

Similarly, consider a variation on the above example in which it is slightly more likely that the lessee will not exercise the option than it will exercise it. Under the DP's proposals the lessee will account for this lease in exactly the same way as it would account for a five year lease with no option to extend.

In fact, a lease with a renewal or purchase option generally provides the lessee with a greater degree of flexibility at the end of the lease term because it is able to renew the lease or purchase an asset usually at a pre-established lease rate or purchase price. In order to continue its ongoing activities, a lessee without such an option would probably need to enter into a new lease arrangement or to purchase an asset; both of which would involve potentially less favourable terms than a lessee that has a contractual option in the lease arrangement.

- 25 These EFRAG members recognise that the boards believe there are difficulties in applying a components approach in full but believe that, to the extent that it is not possible, a minimum lease payments approach supplemented by disclosure would be preferable to the approach proposed in the DP.

- 26 EFRAG also believes that:

- (a) if the boards decide to continue to propose the DP's approach, it needs to be clearer in the ED about the practical issues that have caused it to adopt this approach;
- (b) it is important that the boards explain, before finalising a lease accounting standard based on this approach, what they believe the consequences of this decision would be for similar issues on other projects, such as insurance; and
- (c) no matter which approach is eventually chosen, EFRAG believes that more detailed disclosures should be required of the components so that users can understand the nature and the amounts of the various lease rights and obligations.

CHAPTER 4: INITIAL MEASUREMENT

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

EFRAG View

- EFRAG supports the proposed approach.

- 27 We support the proposed approach because we agree that using the incremental borrowing rate is both easier to apply and enhances comparability.

28 However, we think more guidance might be needed for entities to determine the incremental borrowing rates.

29 We also think that the boards should consider requiring additional disclosure in lessee's notes to the financial statements of the assumptions and criteria taken into account in determining the incremental borrowing rate.

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

EFRAG View

- EFRAG supports the proposed approach.

30 EFRAG agrees with the boards' tentative decision that, on initial recognition, the lease asset—in other words, the lessee's right-of-use asset—should be measured at cost, because that is the general measurement approach required in IFRS. That cost is of course the present value of the consideration paid or in this case the obligation to pay rentals.

CHAPTER 5: SUBSEQUENT MEASUREMENT

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

EFRAG View

- EFRAG supports the proposed approach.

31 EFRAG agrees with the boards' tentative view to subsequently measure both the right-to-use asset and obligation to pay rentals on an amortised cost basis. That is because EFRAG believes that, having recognised a lease asset and a lease liability, the asset should be accounted for in the same way as other assets and the liability should be accounted for in the same way as other liabilities. We do not believe they should be viewed as 'linked items' and measured in a way that reflects that link.

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

EFRAG View

- EFRAG does not believe there should be an option to measure a lease obligation at fair value.

32 We do not believe there should be an option to measure a lease obligation at fair value. Firstly, we are in general opposed to options in accounting standards. Secondly, we think there would be inherent difficulties in measurement due to linked nature of the obligation and right-of-use asset, and the fact that there are contractual and non-contractual factors involved.

Question 10—Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons.

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

EFRAG View

- We believe that the obligation to pay rentals should not be revised for changes in the incremental borrowing rate.

33 We disagree with the IASB's tentative decision; we believe that the obligation to pay rentals should not be revised for changes in the incremental borrowing rate. Our reasoning is set out below.

- (a) Although the DP argues that an advantage of revising the measurement for changes in the incremental borrowing rate is that such an approach would be consistent with the approach required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the DP makes a number of other proposals as to the accounting treatment of the lease liability that are not consistent with IAS 37, thus implying that consistency with IAS 37 is not an objective. Indeed, as discussed more fully in our response to question 11, the lease obligation has some characteristics of an IAS 39 liability and some of an IAS 37 liability.
- (b) Some commentators would probably argue that revising the obligation to pay rentals to reflect changes in the incremental borrowing rate will result in more relevant information being provided to users of financial statements because the amount at which the liability is measured will reflect current information. However, EFRAG notes that, as lease payments generally do not fluctuate with changes in market conditions, they are analogous to fixed rate borrowings and, when accounting for fixed rate borrowings, amounts are not remeasured to reflect changes in the incremental borrowing rate.
- (c) EFRAG is also concerned that revising the obligation to pay rentals to reflect changes in the incremental borrowing rate will result in changes in the lessee's credit worthiness impacting on the amount at which the liability is measured. EFRAG also does not believe changes in the credit risk of the entity should impact the subsequent remeasurement of its liabilities.
- (d) Finally we have concerns about the costs and the complexity for preparers of revising the obligation to reflect changes in its incremental borrowing rate.

34 However, if the IASB decides to retain its current proposal, EFRAG believes that for pragmatic reasons revisions should be made to the obligation to pay rentals to reflect changes in the incremental borrowing rate only when there is a change in estimated cash flows. We think only in those circumstances will there be sufficient benefits to justify the costs involved. Furthermore, limiting the frequency of such changes would also limit the additional complexity for preparers that would otherwise occur.

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

EFRAG View

- EFRAG supports the proposed approach.

35 In our view, a lessee's obligation to pay rentals meets the definition of a financial liability. However, it seems to us that many lease obligations also have characteristics of IAS 37 obligations because of the interrelationship of the lease obligation with the right-of-use asset and terms specific to leases. Therefore, EFRAG supports the board's proposed approach, which is to specify separately the required accounting for the obligation to pay rentals (in other words, to treat them as falling neither within IAS 37 nor IAS 39).

36 We believe the alternative approach (leaving lease accounting to other IFRS) would have caused confusion for both preparers and users and resulted in a less consistent application with respect to the accounting for leases.

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

EFRAG View

- EFRAG believes that the item should be described as depreciation, not rental expense.

37 EFRAG accepts that treating the decrease in value of the right-of-use asset as rental expense may make some sense in certain situations, because it can be seen as the lessor's charge for the use of the leased asset. However, EFRAG thinks reflecting that decrease as depreciation is necessary to achieve consistency with the chosen approach to subsequent measurement of the right-to-use asset (an approach that EFRAG supports).

CHAPTER 6: LEASES WITH OPTIONS

General EFRAG comments

38 The DP discusses at some length leases with options, contingent rentals and other factors that mean that the amount of lease payments made under the lease arrangement is uncertain or the amount at which the obligation to make those lease payments is recognised initially might need to be revised. EFRAG believes that conceptually changes in the expected rental obligations that result from a change in the economic substance of the 'asset' need to be distinguished from other changes in the obligations, because they should in principle be accounted for differently. For example, a revision to the estimated duration of the lease will affect both the asset and the obligation, and the accounting should reflect the fact that the asset has changed. On the other hand, some other changes due to financial factors (indices, rates) affect only the liability. We think that the DP's

analysis of the issues should more clearly have distinguished between the two types of changes, because it would have made it easier to identify the appropriate approach to adopt.

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

EFRAG View

- EFRAG members are divided on how to account for such options.
 - Some support the approach proposed in the paper.
 - A similar number support the adoption of a components approach, under which the lessee would recognise an asset and liability relating to the minimum lease payments and, separately, any options available under the agreement.
- However if the non-component approach is to be adopted, EFRAG would support the boards' tentative decision that the lease term should be the most likely lease term.

39 As we explained in our response to question 5, EFRAG is divided on the boards' tentative decision that a components approach should not be applied when accounting for leases with options. A key reason for this was a difference of view on the proposal described in this question. To briefly summarise:

- (a) Some members support the proposal in the DP, believing it to result in the most useful information being provided to users because it attempts to reflect the effect that the options could have on the lessee's right-of-use asset and liability. The DP's approach does this by requiring the lessee to recognise the asset and liability thought most likely to arise in practice, regardless of what enforceable lease payment obligations the lessee has.
- (b) Some EFRAG members disagree with the proposal in the DP, believing it requires lessees to recognise as liabilities amounts that are not liabilities (because they are not enforceable obligations) and misrepresents a lessee's financial position (particularly the flexibility inherent in that position). In their view, a components approach should be adopted as far as possible.

40 Having said that, even those EFRAG members who supported the DP's proposal on this issue have some concerns about its possible implications. In particular:

- (a) They wonder whether there may be some unintended consequences in using such a binary approach as the one proposed in the DP. For example, some lease agreements may be structured so that the initial term of the lease is of a short duration and there are options to extend again and again and again. In such a circumstance, focusing on the most likely lease term might not fully reflect the underlying economic position.

For example, assume a lease is structured as a one year lease, with fourteen renewal option periods. Although the renewal options are for different periods, all of them would mean that the lease term would be extended to at least two years. There is a 20% possibility that none of the renewal options will be exercised; in other words, that the lease term will be just one year. Although a lease term of just one year might be the single most likely event, there is an 80% possibility that the lease will last at least two years.

Under the proposals, the lease would be accounted for as a one year lease. Although this is a natural consequence of selecting a 'most likely' approach over, say, a 'probability-weighted' approach, these EFRAG members are nevertheless not completely comfortable with the consequence. We know that some users are also concerned that in practice the most likely lease term could often end up to be the shorter/shortest of the possibilities considered. We would encourage the boards to consider whether there is anything that could be done to make this less of an issue.

- (b) These EFRAG members are not sure what the IASB sees as the wider implications of its decision in this project to focus on the 'most likely' outcome, rather than adopt, say, a 'probability-weighted' approach. For example, is it envisaged that the same approach would be applied in IAS 37? And if that is not the intention, are there conceptual reasons for the difference or is it purely pragmatism? It is not that we are against pragmatism, but we think it is important that these sorts of issues are explained clearly.

- 41 Nevertheless, if the DP's approach to options is to be adopted in the final standard, EFRAG would support the boards' tentative decision that the lease term should be the most likely lease term.

42 Many of the questions that follow are based on the assumption that the respondent agrees with the basic approach being proposed (i.e. the adoption of a non-components approach and focusing on the 'most likely' outcome when options are involved). We are divided on those proposals but, in order to be constructive, have nevertheless tried to respond to the remaining questions as if we did agree with those proposals. Please therefore read our responses to questions 14 onwards in that context.

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

EFRAG View

- EFRAG agrees with the proposed approach.

- 43 We support the proposal that the lease term should be reassessed at each reporting date on the basis of any new facts or circumstances because we think such an approach is likely to provide users with more relevant information. For example, a lease term that is based on assumptions made many years ago needs

to be updated to ensure that assets and liabilities are fairly presented. EFRAG notes that the proposed approach is consistent with the way uncertainties are addressed in reaching the best estimate under paragraph 42 in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.³

- 44 Having said that, we think there needs to be more clarity as to what, if anything, the lessee needs to do if there are no obvious indications that there have been changes.
- 45 Earlier we mentioned that our view was that conceptually changes in the expected rental obligations that result from a change in the economic substance of the 'asset' need to be distinguished from other changes in the obligations, because they should in principle be accounted for differently. That is why we support the proposal that changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognised as an adjustment to the carrying amount of the right-of-use asset. This change in the expected lease obligation has a direct link to the expected value of the leased asset. If a lease obligation is remeasured from a 10 year obligation to a 15 year obligation, the entity has a different right of use to the one it originally thought it had due to the extended period time the entity expects to use the asset.
- 46 As noted in the DP (paragraph 6.52) such an approach is also consistent with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* when the carrying asset is adjusted for changes in a decommissioning liability.

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

EFRAG View

- EFRAG agrees with the proposed approach.

- 47 EFRAG agrees with the boards' reasoning that a purchase option is similar in substance to a renewal option for the remainder of the asset's life. As we think that there should be similar accounting for similar circumstances, we support the boards' proposal.

³ The risk and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision [IAS 37.42].

CHAPTER 7: CONTINGENT RENTALS AND RESIDUAL VALUE GUARANTEES

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

EFRAG View

- EFRAG agrees with the proposed approach, although it does have concerns about the subsequent accounting for certain contingent rentals that are in-substance profit sharing arrangements.

48 EFRAG agrees that excluding the obligation to pay contingent rentals from the measurement of the liability would have the disadvantages the boards have listed in paragraph 7.8 of the DP. For that reason, we support the proposals. In our view, the issue here is more about uncertainty as to the amount of the liability rather than a contingency. In other words, the discussion is not about whether there is a liability, but about the amount of that liability.

49 Having said that, we are concerned about the subsequent accounting for certain contingent rentals that are in-substance profit sharing arrangements. For example, a lease of retail space may have contingent payments based upon turnover. The initial measurement and recognition of the lease obligation and related right-of-use asset may be based on the expectation that turnover will increase significantly in the future. However, since that expectation would be included in the measurement of the right-of-use asset, the initial amortisation costs will, in our view, be disproportionate in the early periods.

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

EFRAG View

- EFRAG favours the approach FASB prefers, where the lessee would measure contingent rentals on the basis of the most likely rental payment.

50 EFRAG believes that the DP has correctly identified the advantages and disadvantages of the two approaches, except that perhaps it does not give enough emphasis to the difficulties that can arise in applying a most likely outcome approach to contingent rentals that are in effect a continuum (rather than a series of discrete outcomes), nor does it discuss the usefulness of a most likely outcome approach in such circumstances.

51 EFRAG believes that these advantages and disadvantages are fairly evenly balanced, although we have a slight preference for the most likely outcome approach—because we think it is more consistent with the general approach

adopted in other aspects of the DPs proposals, which is that the focus should be on what it is expected will happen.

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

EFRAG View

- EFRAG supports the FASB's tentative decision.
- However, we also suggest that it should be acceptable to base initial measurement on an existing forward curve if that provides better information than a spot index rate.

52 EFRAG supports FASB's tentative view which, we understand, is consistent with existing US GAAP. When a contingent rental payment is based on a price or an index then a determination needs to be made to define the contingency. One might view the contingency as the absolute price or index. The alternative view is that the contingency is the change in the price or the index. The first view may result in a hypothetical default measurement of zero being used, which we believe would be an unrealistic measurement approach. We think viewing the contingency as the change in the price or index better reflects the economic substance of the obligation because it represents current market conditions.

53 We would, however, suggest that the initial measurement could be based on an existing forward curve if that provides better information than a spot index rate.

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

EFRAG View

- EFRAG supports the proposed approach in principle. However, for pragmatic reasons we would suggest remeasurement should be required only when there is a substantive change or new evidence rather than in each reporting period.

54 EFRAG supports the boards' tentative decision, mainly on the basis that it is consistent with the tentative decision to require reassessment of the lease term. However, we think that it could be burdensome to continually reassess the lessee's obligation in this way, and therefore suggest that for pragmatic reasons contingent rentals not based on an index should be reassessed only when there is a substantive change or new evidence rather than in each reporting period.

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

EFRAG View

- We think the theoretically correct approach is to differentiate between remeasurements that result from a change in the expected use of the leased item and other remeasurements, with the former being accounted for by adjusting the amount of the asset and the latter by debiting or crediting profit or loss.
- If this approach would create too many practical difficulties, the pragmatic approach that we would favour would be to treat all changes in the estimated contingent rental payments as an adjustment to the carrying amount of the right-of-use asset.
- We think this is an aspect of the proposals that would benefit from further field-testing.

55 As already mentioned, EFRAG believes that there is a substantive difference between a remeasurement that results from a change in the expected use of the leased item and a remeasurement that results because of other changes in estimated contingent rental payments.

- (a) For example, a change in the estimated lease term directly affects the right-of-use asset the lessee has. Rather than say a 5-year right-of-use, it has a 6-year right-of-use or a 4-year right of use. Thus it involves a change in the asset. Similarly, a change in the amount of usage (for example a leased car where the mileage driven has resulted in additional lease payments being due) also involves a change to the asset previously accounted for.
- (b) On the other hand, a change in the estimated lease obligation for certain changes in an estimated contingent rental payment does not involve any change in the right-of-use asset. For example, if a lease obligation is remeasured for contingent rental payments associated with an interest rate increase, the increase in the lease obligation is not indicative of a change in the right-of-use asset or a better measurement of the right-of-use asset. We also note that, if a similar asset were purchased rather than leased, and financed through a variable rate borrowing, the purchased asset would not be remeasured when the interest rate on the loan resets.

56 For those reasons we think the theoretically correct approach would be to distinguish between those changes in the liability that affect the right-of-use asset and those that do not, and to account for the former by adjusting the amount of the asset and the latter by debiting or crediting profit or loss.

57 If such an approach would introduce too much complexity, we recognise that a pragmatic approach would need to be applied instead. In our view that would involve treating all changes in the estimated rental obligation in the same way. Furthermore, our preference would be to treat all changes in the estimated contingent rental payments as an adjustment to the carrying amount of the right-

of-use asset, because such an approach would, for example, be consistent with treatment of changes in obligation due to the change in expected optional periods.

- 58 Having said that, we would be in favour of some field-testing of this aspect of the model before a final decision on the way forward is taken. That is because we think it would be useful to establish whether the practical issues would be so great that the approach we prefer would not be feasible. There are also some concerns that adjusting the change in the liability against the carrying amount of the right-of-use asset (and, as a result, the amortisation/depreciation schedules for the assets involved) might also create practical problems, particularly when the entity has many lease contracts. Such issues may outweigh the benefits of that accounting treatment. On the other hand, the resulting volatility in profit and loss in the alternative approach – due to writing off the adjustments through profit and loss – and its decision-usefulness also needs to be borne in mind.

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

EFRAG View

- EFRAG supports the proposed approach.

- 59 EFRAG agrees with the boards' view that payments under residual value guarantees, like contingent rental payments, are conditional on future events. However, the obligation to make a payment if the specified future events occur is unconditional. As a result, it seems appropriate, as the DP proposes, to treat residual value guarantees in the same way as contingent rental payments in all respects. Therefore, a lessee's obligation should include payments to be made under a residual value guarantee and the residual value guarantee should be included as part of a measurement reassessment.

CHAPTER 8: PRESENTATION

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

EFRAG View

- EFRAG believes that the lease standard should not require separate presentation, but that the existing requirements of IAS 1, paragraph 55 should apply.

- 60 The DP explains that the lessee's obligations to pay rentals are financial liabilities and should be presented as such in the statement of financial position. However, although there are some differences between these liabilities and other financial liabilities, the IASB thinks that lessee's obligations to pay rentals should not be required to be presented separately from other financial liabilities on the face of the statement of financial position.

- 61 Nevertheless, paragraph 55 of IAS 1 *Presentation of Financial Statements* requires an entity to present additional line items, headings and subtotals in the

statement of financial position when such presentation is relevant to an understanding of the entity's financial position. Therefore either the proposal in the DP is inconsistent with existing IFRS (the DP says that separate presentation is not necessary, whilst IAS 1 says it sometimes will be) or the proposal in the DP is an attempt to interpret IAS 1.55. We think this uncertainty is unfortunate.

- 62 In our view, whilst the DP is probably right in so far as it will not usually be necessary to present the liabilities separately, we think that there may be some circumstances in which it would be relevant to present the lease liabilities separately—such as for example when there are material 'liabilities' relating to unexercised options—and in those circumstances the requirements in paragraph 55 of IAS 1 should apply.

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

EFRAG View

- We agree that right-of-use asset should be presented in the statement of financial position on the basis of the leased item.

- 63 The boards have tentatively decided that the right-of-use asset should be presented in the statement of financial position on the basis of the nature of the leased item. EFRAG agrees with this tentative decision, which would result in a presentation that would ensure that the nature of the leased asset is made clear and would be consistent with the treatment of rights acquired by owning the underlying item.

- 64 Having said that, we notice that the DP tends to talk of leased assets as intangible assets. We think it is questionable whether that label is consistent with the adoption of a 'right-of-use' approach to lease accounting. That is because, if one agrees with the 'right-of-use' approach, one accepts that even for purchased assets what one is recognising on the statement of financial position are the rights-of-use. Thus, although one might wish to distinguish between leased assets and purchased assets, one should not do it by calling purchased assets tangible assets and leased assets intangible assets because they are all just rights of use. On the other hand, it could be argued that, when one purchases an asset one usually has all the rights of ownership rather than just the right-of-use, and this justifies treating purchased assets as tangible assets and leased assets as intangible assets.

CHAPTER 9: OTHER LESSEE ISSUES

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

Service arrangements and leases

- 65 The proposed accounting for leases in the DP will make the distinction between service and lease arrangements much more important than hitherto. We think it will be important in the forthcoming Exposure Draft and standard to ensure that those areas where there are practical difficulties in distinguishing between the two

are addressed. While IFRIC 4 addresses some situations, we understand there are still difficulties with some capacity lease contracts (for example, leasing fibre optic lines or leasing a specific tonnage of ships).

Leases and executory contracts generally

- 66 At the moment when a lease arrangement is entered into, it is—just like any other fully unperformed contract—an executory contract. Then the lessor delivers the property item that is the subject of the lease to the lessee and it is no longer viewed as an executory contract, because the lessor is treated as having fully performed. That ‘enables’ the lessor and lessee to recognise new assets separately from new liabilities.
- 67 However, we are not convinced that the delivery that is widely viewed as having taken place in a lease arrangement is really quite as significant an event as the accounting would suggest. For example, the DP argues that, at the beginning of the contract, when the lessor delivers all the rights inherent in the property item that is the subject of the lease to the lessee, all the rights other than the right-of-use for the lease period are held by the lessee as a custodian for the lessor. However, another way of looking at it is to say that the lessee holds all the rights inherent in the property item as custodian and those rights only become the lessee’s as it pays for them. Under that view, the contract would remain an executory contract to the extent that lease payments have not been made; and would thus be accounted for more like any other service contract.
- 68 This is not to say that EFRAG favours treating lease contracts as executory contracts, because we do not; we think such an approach would not provide useful information to users of financial statements for significant lease contracts. Our concern is that the dividing line between leases and executory contracts generally is based on a very fine distinction that might not be robust enough to cope with the burden it will have to bear under the proposals in the DP.

Other

- 69 We think transition will be an important practical issue for many lessees, and is therefore an issue that needs to be considered carefully during the next stage of the project.

CHAPTER 10: LESSOR ACCOUNTING

Question 25—Do you think that a lessor’s right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.

Question 26—This chapter describes two possible approaches to lessor accounting under a right-of-use model: (a) derecognition of the leased item by the lessor or (b) recognition of a performance obligation by the lessor. Which of these two approaches do you support? Please explain your reasons.

Question 27—Should the boards explore when it would be appropriate for a lessor to recognise income at the inception of the lease? Please explain your reasons.

Question 28—Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons.

Question 29—Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues.

- 70 The DP focuses on lessee accounting and, although there is one short chapter in the DP on lessor accounting, the boards have not yet reached any preliminary views on any of the issues involved. We understand that this approach has been taken because the boards did not believe it would be possible to address lessor accounting as well as lessee accounting in time for a standard to be issued in 2011 and, as there are many more lessees than lessors, the view was taken that lessee accounting should be given priority.
- 71 Although we understand why the board are looking for ways of speeding up this project, we are—as we have already said several times in this letter—very concerned that the boards are proposing to take fundamental decisions about the future direction of lease accounting having considered the subject from only one perspective (the lessees'). We think that, had the subject been considered from both perspectives, some of the proposals in this DP about the future direction of lease accounting might well have been different.
- 72 Bearing all that in mind, we do not think it appropriate to comment on the issues raised in questions 25 to 29 without there being a more thorough analysis of the issues involved beforehand. Indeed, until that more thorough analysis has taken place, we do not think it appropriate to reach definitive conclusions about the lessee accounting.