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DSR – öffentliche SITZUNGSUNTERLAGE

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TOP:	**132_09 – DP Leases**
Thema:	**Stellungnahme an den IASB**
Papier:	**132_09a_Vorbereitung_CL_Leases**

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 17 July 2009

Dear David,

Discussion Paper 'Leases – Preliminary Views'

We appreciate the opportunity to respond to the International Accounting Standards Board's Discussion Paper (DP) 'Leases – Preliminary Views'. This letter represents the view of the German Accounting Standards Board (GASB).

Regarding the Board's proposal, we ….

- believe that fundamentally changing lease accounting should be done in a comprehensive manner by including lessor-accounting issues at the same time as changing lessee accounting (as opposed to the approach followed by the boards to defer consideration of lessor accounting);
- support the right-of-use (RoU) approach since it appears to be the most pragmatic approach of those considered; however, if the RoU approach will be introduced to lease accounting, there should be a commitment by the boards to also introduce this approach to all other areas it may apply to (eg service agreements);
- recommend to adopt a component approach to lease accounting – specifically for options and residual value guarantees;
- recommend considering changes based on contingent rentals once they have substantiated (in contrast to consider them when the expectations about them change);
- have concerns that cross cutting issues are not being dealt with consistently.

For detailed comments we refer to the appendix to this comment letter.

If you want to discuss any aspects of this letter in more detail, please do not hesitate to contact me.

Yours sincerely,

APPENDIX

<u>Chapter 2: Scope of lease accounting standard</u>

> **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.

- agreement with the approach as proposed by the boards,
- US-GAAP vs. IFRS differences in scopes of the lease standards should be eliminated by applying the scope as laid out in IAS 17 / IFRIC 4 / SIC 27 (since this is the wider scope),
- the scope shall not be therefore broadened to include <u>all</u> intangible assets (otherwise inconsistent accounting treatment for substantively identical transactions could be caused on lessor-side: to lease a license to a customer vs. to sell a license for a defined term to a customer).

<u>other views:</u>

- investigation and positive definition of what a lease is – the answer to this question shall be the basis for the scope of the new standard; this view is argued by the fact that the lease accounting will be changed fundamentally, which justifies such an approach.

> **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.

- no, the proposed new standard shall neither exclude non-core asset leases nor short-term leases,
- mainly because applying the materiality principle to the new standard will make it practicable.

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.

- agreement.

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.

- tentatively: support (subject to whether the new approach will be a significant improvement to lease accounting as compared to the current situation),
- if the RoU-approach is implemented for lease accounting to start with, there should be a commitment by the boards to implement this approach in all other, similar accounting areas it should be applied to for conceptual consistency reasons (eg: service contracts).

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?

- a conflict with the proposals as made by the boards in the DP on Revenue Recognition is noted, according to which a 'decomposition' (disaggregation) is required,
- to properly reflect possible multi-arrangements within leases, the component approach should be required.

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.

- the basic approach, to measure the lessee's obligation to pay rentals at the present value of the lease payments, is agreed to,
- however, there are some differing views with regard to the discounting rate which is proposed by the boards to be the lessee's incremental borrowing rate:
  - some members argue that by considering the lessee's incremental borrowing rate the value determined by this approach would be an entity-specific value which will be different from a 'reasonable approximation to fair value'; thus, the interest rate implicit in the lease shall be used, if this is practicable to determine; only if it is not practicable, the lessee's incremental borrowing rate shall be used;
  - others argue that the approach as proposed by the boards will determine a value which would be a reasonable approximation to fair value.

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.

- general agreement with the proposed tentative decision.

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.

- general agreement with the proposed tentative decision.

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.

- no, the standard should not permit a lessee to make that election.

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.

- a revision of the lessee's obligation to pay rentals to reflect changes in its incremental borrowing rate should not be required since this
  - would not be in line with the impairment rules of IAS 39 (the original interest rate is used unchanged as compared to the initial interest rate), and
  - would factually end up in a fair-value measurement (since any changes in the lessee's credit spread would result in revisions of the obligation to pay rentals).

- However – a revision of the obligation to pay rentals should be required for instances where an agreement between the lessee and the lessor has been made to change the contracted cash flows,
- this latter view is consistent with the view the GASB has expressed with regard to the DP on Revenue Recognition (ie: a remeasurement shall be required only in case the underlying CF has changed or the contract has become onerous).

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.

- the alternative approach shall not be agreed to since there currently is different existing guidance for financial liabilities under US-GAAP and IFRS, so that these differences would be introduced to lease accounting if the boards required lessees to account for the obligation to pay rentals in accordance with this existing guidance for financial liabilities.

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 amortization or depreciation in the income statement. Would you support this approach? If so, for which leases? Please explain your reasons.

- this question is not clear to the GASB since based on the term ‘should be described’ it clearly appears to be a presentation issue.

Chapter 6: Leases with options

Question 13:

The boards tentatively decided that the lessee should recognise an obligation to pay rentals for a specified lease term, ie in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

- The approach as proposed by the boards raises a few issues as follows:
  - the approach does not correctly reflect the economic substance and the value of a non-financial option (instead of considering the value of the option, the approach as suggested by the boards considers either one of two or more possible lease terms under the most likely approach),
  - in case it is most likely at the inception of the lease that the lessee will exercise a term option in the future, the liability to pay rentals will reflect this assessment about the future, although currently there is no 'present obligation' based on a 'past event', so that the liability would not be in line with the current IFRS-principles (only in rare circumstances would this approach be acceptable if it is considered 'virtually certain' that the option will be exercised by the lessee since factually there is no other economic alternative for the lessee).
- With reference to the proposal as made by the boards, the following should additionally be mentioned:
  - the factors to be considered in determining the lease term (please refer to para. 6.38 – 6.41 of the DP) according to the board's views shall not include the lessee's intention and past practice – this proposal is considered by the GASB not to be realistic and also not practicable since there is no clear dividing line between the factors which should be considered and those which should not; if the boards intend to avoid misuse by proposing this approach, they should come up with specific principles to address this misuse-issue,
  - in case a leasing contract with a term option is prolonged since the lessee exercises the option, the accounting treatment would be different, based on whether

    a) one lease contract is considered to be ceased and a new, different contract will be entered into, or

    b) the one existing lease contract is considered to be continued,

    although in both instances the economical content is the same; therefore, criteria would need to be established to clarify when one or the other applies,

Considering all these issues, the GASB prefers to account for options separately and measure them based on their fair value.

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.

- since it is our view to consider <u>agreed</u> changes to the lease term for measurement only, this is not an issue.

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.

- the GASB rather prefers to apply a component approach (basic lease contract and term options / purchase options) and to measure all components separately,
- the difficult measurement issues appear not be an issue in the view of the boards (please refer to the DP on Revenue Recognition, according to which reporting entities shall be able to determine estimated sales prices),
- with regard to the models to be used to measure the options – currently the GASB does not have an answer,
- reassessments shall be required based on cost / benefit considerations.

Chapter 7: Contingent rentals and residual value guarantees

Contingent rentals

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?

- it is generally preferred to consider contingent rentals in the amounts payable once the contingencies have substantiated;
- and the components approach is generally preferred.

- but the GASB recommended that the Working Group Leases shall further investigate this issue.

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.

- since contingent rentals shall not be considered in the measurement of the lessee's obligation to pay rentals, there is no need to answer this question,
- in the end an alignment with IAS 37 should be strived for.

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.

- full support of this approach as suggested by the FASB,
- this is because we follow the idea of the matching principle,
- as a general rule: changes for the future shall be considered when the index changes, not when the estimate about future changes alter.

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.

- any change in estimate about a future contingency shall not be relevant for remeasurement (since this would cause the expenses not to end up in the appropriate periods [matching principle]),

Question 20

The boards discussed two possible approaches to recognising all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:

(a) recognise any change in the liability in profit or loss
(b) recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Which of these two approaches do you support? Please explain your reasons.

If you support neither approach, please describe any alternative approach you would prefer and why.

- in the light of the matching principle a differentiation will be necessary.

Residual value guarantees

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?

- we note the approach followed by the boards as suggested for options and contingent rents, which is a one-asset approach,
- however, we have identified lots of important issues which increase our concerns that this approach may work.

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?

- not yet discussed by the GASB.

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?

- not yet discussed by the GASB.

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.

- not yet discussed by the GASB.

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.

GASB:

- the GASB thinks a lessor's right to receive rentals under a lease meets the definition of an asset to the extent of the so called minimum leases; this would include lease terms which are optional to the lessee but
  - are rather minor as compared to the contractually agreed lease term, and
  - are optional term prolongations, for which it is 'virtually certain' that the lessee will (factually must) exercise the option,

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.

- view a) is favoured.

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

- the boards should not explore this issue,
- day one gains shall not be allowed,
- also: based on structuring day-one-gains could be generated (by head-lease / sub-lease transactions) – this must be avoided then.
- More generally: the approach should be in line with the approach as it will be introduced generally by the Revenue Recognition project.

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

- there should not be any special / differing rules for any area.

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

- sales-type leases which give rise to manufacturer's or dealer's profit (or loss) to the lessor,
- presentation / classification issues in the income statement / statement of comprehensive income.