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DSR – öffentliche SITZUNGSUNTERLAGE

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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

Discussion Paper 'Leases – Preliminary Views'

Dear David,

We appreciate the opportunity to respond to the International Accounting Standards Board's Discussion Paper (DP) 'Leases – Preliminary Views' (DP/2009/1). We understand that the DP has been prepared as part of a joint project by the IASB and the US Financial Accounting Standards Board (FASB) and sets out the boards' preliminary views.

This letter represents the views of the German Accounting Standards Board (GASB).

Our detailed comments regarding the boards' proposals are set out in the appendix to this document. We would like to highlight a few issues as follows:

- We believe that fundamentally changing lease accounting should be done in a comprehensive manner by including lessor accounting issues at the same time as lessee accounting issues (in contrast to the approach followed by the boards to defer consideration of lessor accounting). We also consider that lessor accounting issues, as provided in chapter 10 of the DP, require much more analysis by the boards, and its outcome should be shared with the constituents before its merits can be determined.
- We generally support the 'right-of-use' (RoU) approach since it appears to be a conceptually consistent approach and preferable compared to the other approaches laid out in Appendix C of the DP. If the RoU approach will be introduced into lease accounting, it should be analysed by the boards to introduce this approach where appropriate to other similar accounting areas (e.g. service agreements) in order to be conceptually consistent.
- However, we are not convinced that, compared to the current situation, the introduction of the 'right-of-use' approach will be a significant improvement with regard to practicability and consistency of accounting. While conceptually the 'right-of-use' approach is preferable, it causes significant practical measurement problems and / or structuring opportunities in conjunction with options and contingent rentals. We think that introducing the 'right-of-use' approach to lease accounting will make

the distinction between leases and service arrangements more important than it currently is – this would be a dividing line difficult to deal with. Additionally, we have identified some practical issues in this context which we are concerned of.

- We do not support the boards' proposal to account for more complex leases by adopting an approach whereby the lessee recognises (1) a single RoU asset that includes rights acquired under options and (2) a single obligation to pay rentals that includes obligations arising from contingent rental arrangements and residual value guarantees. We believe that a components approach should be adopted, since it better provides users with decision-useful information. We acknowledge the practical issues brought forward by the boards in case a components approach will be introduced. We are, however, of the opinion that for options, which we consider to be separate assets, as well as for residual value guarantees, which we consider to be separate liabilities, initial and subsequent measurement should be based on their respective fair values, if determinable reliably.
- Regarding the subsequent measurement of contingent rentals we recommend considering changes based on contingent rentals once they have been substantiated - in contrast to considering them when the estimations have changed.
- We have concerns that some cross-cutting issues are not being dealt with consistently, e.g. we have noted that some proposals made in the DP are not consistent with proposals made in the DP *Preliminary Views on Revenue Recognition in Contracts with Customers*.

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,

Liesel Knorr
President

APPENDIX

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.

We agree with the boards' preliminary view that the scope of the proposed new standard should be based on the scope of the existing lease accounting standards. However, we recommend using the scope as laid out in IAS 17 / IFRIC 4 / SIC 27 as the reference scope for the new lease accounting, especially due to the fact that the corresponding US GAAP standards exclude basically all intangible assets. We also recommend to clarify and to specify the current scope exemption in IAS 17.2 (b), e.g. under consideration of leases of licenses.

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.

The proposed new standard should neither exclude non-core asset leases nor short-term leases since we believe that the general materiality principle as included in the Framework will sufficiently address whether or not such leases will be subject to the new lease accounting standard.

In our understanding, such scope exclusions would lead to unnecessary complexity since non-core assets and short-term lease contracts would need to be defined and further guidance would be necessary. Another issue in this context would be that scoping out short-term leases inevitably would encourage structuring of leases in a way that the term of a lease contract would just be less than the specified threshold.

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.

We agree with the boards' analysis of the rights and obligations and the assets and liabilities arising in a simple lease contract.

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.

In general we favour the 'right-of-use' approach for conceptual reasons.

However, we are not convinced that, compared to the current situation, the introduction of the 'right-of-use' approach will be a significant improvement with regard to practicability and consistency of accounting. While conceptually the 'right-of-use' approach is preferable, it causes significant practical measurement problems and / or structuring opportunities in conjunction with options and contingent rentals. We think that introducing the 'right-of-use' approach to lease accounting will make the distinction between leases and service arrangements more important than it currently is. Therefore, it would be unfortunate if the outcome of the DP - simply speaking - would be the replacement of one difficult border (operating vs. finance leases) with another border (leases vs. service arrangements).

There are some further concerns with regard to practical issues as follows:

- The way the 'right-of-use' approach currently is designed by the boards appears to be conceptually problematic considering the proposed accounting for leases including options (please refer to our comments with respect to the questions on chapter 6 and question 5 below). In this respect we recommend the boards to implement a components approach.

- Further, the disadvantages of the existing accounting model (mainly not recognising the assets and liabilities arising from a lease contract in the financial statements of lessees) may be addressed by the proposed 'right-of-use' approach, but the advantages of such an achievement would be reduced or even offset by the challenging measurement and reassessment issues in the light of cost-benefit analyses caused by leases with options, contingent rentals and residual value guarantees.

In any case, when the boards decide to implement the 'right-of-use' approach to lease accounting, we recommend the boards to implement this approach for consistency reasons where appropriate to other similar accounting issues. Namely, the 'right-of-use' approach should also be considered for service contracts to the extent the rights and obligations that arise in such contracts give rise to assets and liabilities that can be recognised in the financial statements.

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?

We do not support the proposed approach since we consider it to cause conceptual problems and inconsistencies because in other areas of IFRS accounting a components approach is generally adopted. We believe that the adoption of the approach as tentatively preferred by the boards could lead to obligations to pay rentals that do not meet the definition of a liability (because the lessee does not have a present obligation). Therefore, we recommend the boards to implement the components approach since we consider it to be necessary to properly reflect multi-element arrangements within lease contracts in the financial statements - specifically to identify and measure separately options to extend a lease, or obligations to make payments under residual value guarantees. This is because we consider the separate recognition and measurement of options and other arrangements to be critical for providing users of financial statements with decision-useful information.

We understand that the boards identified problems associated with requiring a lessee to recognise the components of a lease separately and tentatively decided not to adopt a components approach to accounting for complex lease contracts. However, we do have concerns to be concessive on conceptually essential elements of accounting under IFRS purely based on practical constraints.

Further, in our understanding, the tentative decision as taken by the boards is not in line with the proposals made by the boards in the DP *Preliminary Views on Revenue Recognition in Contracts with Customers*. Although we understand that the DP on leases does not deal with revenue recognition issues, we consider that the proposal should not implement a one-asset / one-liability approach as laid out above that is not in line with the proposals made in the DP on revenue recognition.

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.

We disagree with the boards' tentative decision since we believe that the interest rate implicit in the lease and charged by the lessor is specific to the liability being measured and should therefore be the basis of its initial measurement. Regarding the practical concerns mentioned by the boards (in many instances the lessee will not know or be able to determine the implicit rate) we do not consider them strong enough to give up on the interest rate implicit in the lease as the primary basis to discount the relevant cash flows. Therefore, we recommend keeping the rule as it is currently stated in IAS 17.20 in case it will be impracticable for a lessee to determine the interest rate implicit in the lease - as a fallback position - the lessee's incremental borrowing rate shall be used.

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.

We agree with this 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.

We agree with the tentative decision of the boards.

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.

A new lease accounting standard should not permit a lessee to elect to measure its obligation to pay rentals at fair value mainly because this would be inconsistent with the boards' tentative decision to require measurement at cost on initial recognition. We also consider it preferable not to provide alternative measurements in accounting standards.

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.

The lessee should not be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate because it is inconsistent with the way many non-derivative financial liabilities are subsequently measured (under the amortised cost-based approach, the carrying amount of financial liabilities is not revised for changes in market interest rates). It would also be inconsistent with an amortised cost-based approach to subsequent measurement since it would factually end up in a fair value measurement. This is because any changes in the lessee's credit spread would result in revisions of the obligation to pay rentals; changes in the own credit risk of a lessee should not be reflected in subsequent measurement of the obligation to pay rentals.

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.

We agree with the proposed approach to specify the accounting of the obligation to pay rentals. Since there is different existing guidance for financial liabilities under US GAAP and IFRS, the alternative approach would cause additional problems.

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.

Although this chapter deals with ‘subsequent measurement’, we consider the raised question to be a presentation issue.

However, to be consistent with the chosen ‘right-of-use’ approach, we consider it necessary to describe the decrease in value of the ‘right-of-use’ asset as depreciation.

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, 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.

We do not support the approach tentatively proposed by the boards which is to account for these rights under the “one-asset approach”.

We prefer to account for the option as a separate asset, i.e. as a separate component of the lease contract including a fair value measurement at initial recognition. In our understanding this approach better reflects the economic substance of a non-financial option and makes its value visible to the users of financial statements.

We understand that the boards considered the practicality of measuring these options and decided tentatively in favour of the so-called ‘looking-through-the-option approach’ (for the reasons we refer to DP 3.32: difficulties to apply in practice; components are often interrelated; possibility to structure leases; fair value of options is difficult to measure; may not provide users with complete information about the economic position of the lease). We do not consider these (practical) reasons to be strong enough to outweigh the conceptual concerns mentioned above. Further, the approach as tentatively suggested by the boards would lead to the recognition of a liability although there is no ‘present obligation’ based on a ‘past event’, so that the liability would not be in line with current IFRS-principles. Only in rare circumstances we would agree to this approach: if the lessee was economically compelled to exercise the option - since factually there is no other economic alternative for the lessee.

We realise that because of our requirement to account for options as separate components of the lease contract, the lessee will be required to recognise and measure (at least at initial recognition) options to extend or terminate the lease on a fair value basis. We acknowledge that options of this type are difficult to measure reliably as they are rarely priced separately from the main lease contract. Therefore we propose the following two-step approach:

1) if the fair value of the options can be measured reliably, they need to be accounted for as separate components of the lease contract,

2) if the fair value of the options cannot be measured reliably, the boards may consider to provide alternative approaches (e.g.: to provide detailed information in the notes to the financial statements with respect to existing options).

Considering these issues, we recommend to generally account for options separately and measure them based on their fair values.

Regarding the approach as suggested by the boards, we have some concerns about the factors to be considered in determining the lease term (please refer to para. 6.38 – 6.41 of the DP: contractual; non-contractual financial; business; lessee specific). According to the boards' views the lessee's intention and past practice (= lessee specific factors) shall not be included – as we do not consider this proposal to be 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 the misuse issues.

Moreover, we also would like to bring forward the following concern: in case a lease contract with a term option is

a) either prolonged since the lessee exercises the option,
b) or the option will not be exercised and the original lease contract is considered to be ceased but a new, subsequent lease contract is entered into with identical features as agreed for the optional lease term,

the accounting treatment would be different for the two scenarios although in both instances the economic substance is the same. Therefore, criteria would need to be established to clarify different accounting treatments.

The following questions 14 and 15 on this chapter 'Leases with options' are based on the assumption that the respondent agrees with the basic approach as proposed by the boards (i.e. including the adoption of a non-components approach and looking at the 'most likely' outcome when options are involved). Since we have some concerns to this proposal, we respond to the remaining questions based on the view favoured by us. Therefore, please read our responses to questions 14 and 15 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.

We do not support the underlying approach as proposed by the boards (please refer to our response to question 13).

Based on the approach as favoured by us (see comments as laid out answering question 13), we would require a reassessment of the measurement of the option accounted for as a separate component of the lease contract upon defined triggering events, only.

On the other hand, for subsequent measurement of term options the boards may consider a similar approach as determined in IFRS 2 for equity-settled share-based payment transactions (IFRS 2.23: '... the entity shall make no subsequent adjustment ...').

In this context, it is considered preferable if the boards would provide the approach how to account for changes in the subsequent measurement of the options (e.g.: recognition of measurement changes through profit or loss or directly in equity).

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.

We do not agree with the proposed approach. We prefer to apply a components approach (basic lease contract separated from term options and purchase options) and to measure all components separately. In this context, purchase options should be accounted for in the same way as term options.

However, additional guidance needs to be provided by the boards with regard to the question of how to account once the purchase option has been exercised.

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?

We support the proposed approach because otherwise
- the assets of the lessee would be understated,
- it would be possible, at the start of the lease, to minimise both the 'right-of-use' asset and the obligation to pay rentals by including a significant portion of contingent rentals in the lease contract.

Further, the proposed approach could improve comparability for users because it is consistent with the treatment of other asset acquisitions.

However, we have also identified some concerns to this approach:
- the amounts payable under contingent rental arrangements may not considered to be 'liabilities' as defined in the Framework because there is no obligating event (the lessee can still avoid the future expenditure by future actions, for example by reducing or stopping the use of a leased item in case a usage-based rental has been agreed); this concern may need to be viewed in the different light of the changes to be expected in the course of the amendment of IAS 37, and
- subsequent measurement issues which are discussed in detail below.

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.

For practicability reasons we prefer to measure contingent rentals on the basis of the most likely rental payment. We are aware that this proposal would not be in line with the current development of ED of Proposed Amendments to *IAS 37 Provisions Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. However, since the obligation to pay rentals is considered to be a financial liability, we consider this proposal to be acceptable.

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.

We do not support the approach as suggested by the FASB since we consider the contingency in lease rentals subject to changes in an index or a rate to be the change in the index or the price. This contingency shall be reflected in the lessee's obligation to pay rentals measuring the obligation initially since otherwise the obligation would be measured unrealistically and not be reflecting the economic substance of the obligation ignoring expected future market conditions. Specifically, we suggest basing the measurement of such contingent rentals on expected future trend information (e.g. forward curves), which we consider to be a better basis than to purely base the measurement of the obligation on the index or rate existing at the inception of the lease.

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.

We support the boards' tentative view to require remeasurement. However, any change in estimate about a future contingency shall not be relevant for remeasurement. A remeasurement should be required and considered only in case the lessee's obligation to pay rentals is subject to a substantiated change.

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.

A change in the obligation to pay rentals for certain changes in a contingent rental payment may or may not involve any adjustment to the carrying amount of the 'right-of-use' asset.

We consider it theoretically to be correct to distinguish between the changes affecting the 'right-of-use' asset and those that do not, and to account for the former by adjusting the carrying amount of the asset and for the latter by debiting or crediting profit or loss. On that basis we ask the boards to provide clear guidance on these different accounting treatments.

However, if such an approach introduced too much complexity and practical problems, we would accept a pragmatic approach that treats all changes in the estimated rental obligation in the same way. In such case we would prefer treating all changes in contingent rental payments as an adjustment to the carrying amount of the 'right-of-use' asset. In this context it should be noted that any possible overstatement of the 'right-of-use' asset, which may be caused by such an approach, would be subject to the impairment rules, which the boards consider necessary as indicated in the DP (chapter 5 paragraph 44).

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 do not agree with the proposed approach. We consider the residual value guarantee to be an obligation that should be accounted for as a separate component of the lease contract.

We realise that because of our proposal to account for the residual value guarantee as a separate component of the lease contract, the lessee will be required to recognise and measure (at least at initial recognition) the residual value guarantee. We acknowledge that residual value guarantees are difficult to measure reliably as they are rarely priced separate from the main lease contract. However, by comparing current market prices of the leased items and projecting these prices to the end of the lease term, and comparing these values with the price guaranteed to the lessor, a measurement may generally be possible. Although we are aware of the inherent practical challenges (e.g. difficulties to estimate future market prices; huge numbers of lease contracts; subjectivity and judgement issues involved), we propose the following two-step approach (as done similarly to account for term and purchase options measured at fair value):

1) if residual value guarantees can be measured reliably, they need to be accounted for as separate components of the lease contract and a provision in accordance to IAS 37 should be recognised (in contrast to accounting for them in line with IAS 39 as derivatives),
2) if they cannot be measured reliably, it would be favourable, if the boards could provide alternative approaches (e.g. to provide detailed information in the notes to the financial statements with respect to existing residual value guarantees).

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?

The lessee’s obligation to pay rentals should not be presented separately in the statement of financial position. However, detailed information (including the components of a lease contract accounted for separately, as recommended by us) should be provided in the notes to the financial statements.

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?

We prefer to present the ‘right-of-use’ asset based on the nature of the underlying assets (including the components of a lease contract accounted for separately, as recommended by us) with further details to be provided in the notes to the financial statements.

We support this view mainly because users of financial statements are provided with information about the nature of the leased asset that could be lost if the ‘right-of-use’ asset is presented as an intangible asset. We understand that users are predominantly interested in the productive capacity of a business to assess the ability of the business to generate positive cash flows.

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.

We have identified the following issues that are not described in this DP but should be addressed in this project:

- the accounting for lease contracts which due to immateriality need not to be accounted for under the 'right-of-use' approach;
- whether the boards have ensured to consider all major types of options and rental agreements in the course of initial measurement for the asset and the obligation to pay rentals (e.g.: obligations to incur costs to return the leased item (in a specified condition) to the lessor, obligations to maintain the leased item);
- clear guidance should be provided for 'first-time adoption' and 'transition' issues; we understand that the boards are discussing these issues in their May and June 2009 meetings and intend to continue with these discussions;
- whether guidance should be provided of how to deal with existing lease contracts when the new lease standard becomes effective (transition);
- with respect to chapter 6 (leases with options) – bullet point 2: regarding recognition - term options: further guidance should be provided for long-term leases with options to exit the lease contract on an ongoing basis (e.g. 20-year lease of an office-building with option to cancel the lease on a semi-annual basis).

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.

We consider the lessor's right to receive rentals under a lease to meet the definition of an asset to the extent of so-called minimum leases.

Further guidance should be provided for the accounting of leases with options from a lessor's point of view.

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.

We consider that lessor accounting issues require much more analysis by the boards, and its outcome should be shared with the constituents before its merits can be determined.

For the moment and given the limited analysis to date, we favour view (a) because it reduces the value of the asset to show the extent to which the lessor has lost control of it for the duration of the lease; a view which we consider to be appropriate. This approach avoids double accounting of assets and results in financial information that is more relevant and understandable for users of financial statements.

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.

In general, revenue recognition for lessors should be based on the same principles as they are currently developed within the revenue recognition project by the boards. Specific consideration of revenue recognition issues for dealer's and manufacturer's leases might be necessary.

Question 28:

Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting?

Please explain your reasons.

We are of the opinion that investment properties should be included within the scope of a new standard on lessor accounting since we cannot see any conceptual reasons to scope out investment properties.

Question 29:

Are there any lessor accounting issues not described in this discussion paper that the boards should consider?

Please describe those issues.

As mentioned above (please refer to question 26), we consider that lessor accounting issues require much more analysis by the boards, and its outcome should be shared with the constituents as a first step.