2013-230
Comment Letter No. 190

LAFARGE

International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
United Kingdom

Paris, September, 12, 2013

Lafarge's comment letter on Exposure Draft ED/2013/6 "*Leases* "

Dear Mr. Hoogervorst,

Lafarge welcomes the opportunity to comment on the IASB's second Exposure Draft related to "*Leases*" as published on May, 16, 2013. This follows Lafarge's response to the first Exposure Draft in 2010.

In our opinion, the proposals of this second Exposure Draft appear still too complex and in some cases disconnected from economic reality and we unfortunately do not agree with the Board's statement that the proposals will improve financial information.

On the contrary we believe that:

1. The objectives of the lease accounting project are not clearly defined and it is, in our view, not an acceptable objective to redraft significantly a well-known and understood standard just in order to prevent some perceived "balance-sheet management". **As far as we are aware, the vast majority of companies manage their lease contracts not for accounting purposes but in order to optimise their resources**;

2. The evidence of improved financial information has not been convincingly provided, while the costs associated to this proposal are, in our view, likely to exceed the benefits that may be obtained from the proposals. The proposals would significantly impact the reporting process and would require material changes in the accounting/reporting IT systems. The collection of the data and their analysis would require additional high qualified resources. **It is worth noting that, this proposal is not only expensive and time-consuming at the transition date but also on a recurrent basis**;

3. The proposal does not yet sufficiently reflect the differences in economic substance between different contracts. **We do not believe that all leases are economically similar and we do not see it as an improvement to force uniformity of treatment for different economic substances**;

4. The needs of analysts differ depending on whether they are credit (interested in an entity's firm commitments on future payments) or equity analysts (focused more on the value of the asset). For both categories of users, additional information concerning the options to extend or cancel the lease term or to purchase the asset are necessary to help users understand the flexibility provided to the entity by the lease arrangement, whether it has the flexibility to reduce the financial commitment or the flexibility in the renewal of the lease or purchase of the asset. **Users will always restate financial statements according to their own specific requirements and we think that it is preferable to provide detailed information about these options in the notes rather them into balances in the financial statements**.

61, rue des Belles Feuilles B.P. 40 75782 Paris cedex 16
Téléphone : 01 44 34 11 11 Télécopie : 01 44 34 12 00
Phone : 33 1 44 34 11 11 Fax : 33 1 44 34 12 00
S.A. au capital de 1 149 088 236 € 542 105 572 RCS Paris
www.lafarge.com

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Specific comments on the proposals provided in the Exposure Draft

Lafarge acts solely as a lessee, and accordingly, our general comments address only the lessee accounting proposals. Please note that the following comments do not mean that we agree with the whole project as explained above.

1. Identifying a lease: Separate components of a contract

We have some concerns about the proposals to separate components of a contract (lease and non-lease or service components). Actually, although the principle of allocating the whole price between components is well understood, we expect many implementation difficulties. Moreover, in the absence of observable prices, we do not believe that the best solution is to recognise the whole contract as a single lease component, but rather to account for the contract on the basis of the model applicable to the predominant item. The absence of an observable price for an asset should be an indication that the asset is not a lease component.

2. Lessee accounting: Single lease expense model (Type B)

We do not believe that the single lease expense model (Type B) has a strong conceptual basis and will improve financial information:

- The recognition of a financial liability without its corresponding financial expense will not help users obtain a good understanding of the financial statements as a whole. Instead, it is highly likely that they will continue to restate financial reporting in order to maintain consistency between balance sheet and income statement data.

- The carrying amount of the "right of use asset" depends on the interest charge calculated on the lease liability and is in fact a balancing figure which will be very difficult to explain, either internally within the entity or to external users, and entities will need to develop new accounting schemes in their reporting systems in order to achieve the accounting entries. Furthermore, this carrying amount is not consistent with the measurement of tangible and intangible assets according to IAS 16 and IAS 38.

- We do not think that the threshold for lease other than property to pass from the Type A to Type B model is set at an appropriate level: the threshold of an "insignificant" part of the economic life or relative to the fair value of the underlying asset effectively excludes all realistic possibility of the criteria being met. Furthermore, it introduces a judgmental bias which does not facilitate comparability between companies.

3. Measurement: lease term

We do not agree with the proposal to recognise a liability for an option to extend the lease that grants a significant economic incentive. The right to extend the lease term is within the control of the lessee and the related payments do not represent a liability until the right is exercised. Furthermore, a 10-year firm commitment is economically different from a 5-year firm commitment associated with a renewal option for 5 years; these two contracts should not be accounted for in the same way.

4. Disclosures

We note that for lessees the proposals to recognise all leases (other than those covered by specific exemptions) should result in a reduction in the quantity of information required to be disclosed, but have rather had the opposite effect, since the significant number of areas where judgement is required has given rise to the need to explain how judgement has been applied.

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Alternative proposals suggested by Lafarge

We believe that no fundamental change need to be made to the current IAS 17 but that it is rather possible to achieve the objectives of the exposure draft and a high quality standard by making few targeted changes to this standard.

We consider that the existing model (operating/finance lease) is relevant for the business model of industrial companies. However, we support the proposal of the Board to reinforce the information related to operating lease.

<u>In this perspective, we suggest to implement the following approach:</u>

1. no change in respect of the accounting of finance leases;
2. operating leases disclosures shall distinguish between operating leases of core assets and operating leases of non-core assets. This information is relevant for the users of the financial statements to appreciate and compare the business models of the different companies in the same sector of activity;
3. operating leases of core assets shall be disaggregated into classes of assets with extended disclosures related to contingent rentals, option penalties, renewal clauses;
4. operating leases disclosures for non-core assets shall be presented using aggregated figures.

Should you wish any supplementary comments or explanations, please do not hesitate to contact us.

Sincerely yours,

Jean-Jacques Gauthier
Chief Financial Officer & Executive Vice President