

> A.P. Møller - Mærsk A/S Esplanaden 50 1098 Copenhagen K Denmark

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Date: 13 September 2013

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

Dear Sir / Madam

COMMENT TO LEASES ED/2013/6

We thank you for the opportunity to comment on the revised proposals for lease accounting.

The A.P. Moller – Maersk Group understands the need of users to have comparable financial reports and that IAS 17 is currently not fulfilling those needs. The Group has accommodated the users' needs by disclosing the present value of future operating lease payments - a practical and inexpensive solution. The expected new standard on leases will be an increasing administrative burden and will significantly impact the Group. The transition will be a costly project and the ongoing costs will increase compared to the accounting under IAS 17. Therefore, we suggest the Board to reconsider retaining IAS 17 and only require a few changes to the disclosures.

If the Board is determined to continue with the project, we appreciate that you have made a number of reliefs to the 2010 Exposure Draft, but we would like to also raise a number of issues to the 2013 proposals.

We understand that the definitions of assets and liabilities are discussed as part of the revision of the Conceptual Framework and we are concerned that it may impact the concept of the right-of-use asset and other elements of the lease accounting proposal. Considering this and the significant implementation costs, we think it would be reasonable to postpone the change until the Conceptual Framework is in place.

Further we find it counter-intuitive that bringing the operating leases on the balance should result in increased disclosure requirements. To ensure adequate and informative disclosures we recommend the development of a disclosure framework either in connection with the Conceptual Framework or as a separate framework.

The leased assets in the Group are mainly ships (time charters and bareboat leases), containers, port facilities, buildings, cars, office equipment, etc. The operating lease commitments exist mainly in Maersk Line, APM Terminals and Maersk Tankers. The Group operates to a smaller extent as lessor in time charter contracts, mainly in Maersk Tankers, Maersk Supply Service and SVITZER, and in various property leases.

The total assets and liabilities of the Group amounted to USD 74bn at the end of 2012, of which finance lease assets amounted to USD 2bn. The discounted value of future minimum payments under non-cancellable operating leases amounted to USD 11bn equal to 15% of the total assets and 24% of total property, plant and equipment.



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The main concerns we have on the 2013 proposals are the following:

•	Classification
	of leases

We recommend retaining the classification principles in IAS 17 because the concept is well known and practiced. We do not see either why land and property should be treated differently than other long-lived assets

If the Board decides to retain the classification principles in the ED we recommend that service providers retaining an exposure to variability in returns of the underlying asset during the lease term shall classify the contract as Type B

 Lessee accounting For Type B leases we oppose a progressive amortisation methodology of the right-of-use asset because of the risk of unnecessary impairment losses. We therefore suggest applying the straight-line principle also to the right-of-use asset and the lease liability

 Lessor accounting We find the principles for Type A leases complex and needing an unnecessary large amount of assessments. We suggest an alternative method to calculate profit and measure the residual asset

Profit referable to optional periods should not be recognised until the lessee exercise the options

Lease term

We disagree with the proposal for accounting of options to extend or terminate the lease term. We propose an alternative model whereby the present value of lease payments in optional periods is presented as a separate item within the right-of-use asset (not amortised) and as a provision, when the lessee has a significant economic incentive to extend the lease. An option to terminate a lease should not be recognised until exercised.

The lease liability and the lease receivable should cover the noncancellable period only

Separating components of a contract

We suggest that a lessee uses estimates to separate non-lease components of the contract, if there are no observable stand-alone prices and the non-lease components constitute a material portion of the payments

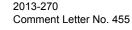
• Variable lease payments

The Board should consider a relief whereby the lease liability (lease receivable) is reassessed only when there is an indication that a change in the index/rate will result in a material adjustment to the recognised amounts

 Identifying a lease We request some clarification on the principles to assess whether an asset and services are distinct and whether a concession arrangement shall be considered as a license agreement or a two component contract

Presentation

We propose that lease receivables are presented either separately or in the same line as other interest-bearing receivables, and that the residual asset is presented separately.





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Question 1 Identifying a lease

We generally support the definition of a lease and the requirements in paragraphs 6-19.

Even though the definition has been carried over from IFRIC 4, we find that the elaboration of the power and benefit criteria is beneficial to distinguish between lease and service contracts. In addition, we find it helpful to align with the Revenue standard in relation to contracts where the delivery of the asset and the service are not distinct.

Vessel charters

We have applied the definition to vessel charter activities. Below an explanation of the charters:

A charterer takes over the vessel for either a certain amount of time (a time charter) or for a certain point-to-point voyage (a voyage charter). There is a subtype of time charter called bareboat charter.

In a time charter, the vessel is hired for a specific period of time. The owner still manages the vessel but the charterer gives orders for the employment of the vessel, and may subcharter the vessel on a time charter or voyage charter basis.

The bareboat charter is a subtype of time charter in which the charterer takes responsibility for the crewing and maintenance of the ship during the time of the charter, assuming the legal responsibilities of the owner and is known as a disponent owner.

In a voyage charter, the charterer hires the vessel for a single voyage, and the vessel's owner (or disponent owner) provides the master, crew, bunkers and supplies.

For time charter contracts we have concluded that the asset and the service are distinct components, because of the available option of the customer to charter a bareboat either from the supplier or from other suppliers. If for some vessels types and terms there is no active market, we believe a customer will be able to find a lessor on demand. In addition, a vessel is not incidental to the delivery of captain/staff, as the skills to operate vessels are general skills.

In this connection, we do not support a criterion that the lack of observable prices should give rise to a rebuttable presumption that the asset is of no use to the client without additional goods or services provided by the supplier or other suppliers. The lack of observable prices is an indicator of how active a market is; it is not a sign that the asset is not available for lease on demand.

A voyage charter is a service because of the criterion in §6 that a lease conveys the right to an asset for a period of time. We agree to this criterion, although in reality it is not relevant because voyage charters would always last for less than 12 months.

Drilling contracts

In our 2010 comment letter we had concerns about the definition in regards to drilling contracts, which under IFRIC 4 are considered lease, because the drilling rig is an identified asset and the control criteria are primarily linked to control of the output. We are pleased that the Board agrees that the ability to specify the output, without any other decision-making rights relating to the use of the asset, gives the customer the same right as any customer purchasing services. However,



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we find a few amendments are needed to make it clear when drilling contracts are service contracts.

Owners of rigs (disponent or legal) are exposed to significant risks. A drilling rig is a very expensive, specialised and complex asset and the management of the economical, technical and environmental risks are critical parameters. The staff's expertise and training are essential and typically the staff need special training in operating a particular rig, which the rig owners control.

In order to accommodate interpretation of §13 we ask the Board to clarify, if the ability of a customer to direct the use of an asset should be viewed theoretically or practically. In our view, the ability to select the operator of the asset should depend on whether the customer at the inception of the contract has an actual possibility to lease a similar asset separately from the operating services.

If it is possible to fund a rig through a lease, the lease term is for the majority of the assets economic life, and substantially all risks and rewards are transferred to the lessee. Such contracts will typically not be combined with a service agreement and is clearly an identified lease. However, for customers who need the utilities of a drilling rig for a term shorter than the assets economic life, it is not possible to lease a rig without the operating services, because no lessor will undertake the risks (technically and economically) of a rig, unless it is also provider of the operating services.

In addition, §19(a) considers whether the underlying asset and the goods/services are distinct deliverables based on whether the goods/services are sold separately by the supplier or other suppliers. Why not also add a criterion for whether the underlying asset can be leased separately? Theoretically, any asset can be leased, however not practically, and therefore, we believe that a rig and operating/managing services are not distinct deliverables.

Finally, there is the question of time. A lease is a contract that conveys the right to use an asset for a period of time. A drilling contract specifies the tasks that the service provider is obliged to execute during the term of the contract. If the tasks are not completed at the end of the term, the drilling services continue until completion of the tasks and the contract is so to speak overdue.

We suggest that the firmness of time for when the contract ends is made an indicator for whether the asset and the service are distinct. If completion of the agreed service tasks overrules the time set in the contract, and it is not practically possible to complete the services without the identified asset, then the asset should not be accounted for separately as a lease.

Concession arrangements

A final comment on the definition of leases concerns the use of assets in concession arrangements, which is relevant in the Group's terminal activities.

For concession arrangements, which are not within the scope of IFRIC 12, we have considered whether the contracts meet the definition of lease for the land and infrastructure available for use by the concessionaire. The payment is typically a combination of an up-front fee and running payments based on the handled volumes. We find that the arrangements should be viewed as license agreements under which the concessionaire is allowed to perform terminal activities within a defined area.



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It would be beneficial if the Boards would provide application guidance as to whether a concession arrangement shall be considered as a two component contract, i.e. a lease component and a license component, or whether a concession arrangement shall be considered as a license agreement with no recognition of the land and infrastructure made available for use.

Our point of view is that the land and infrastructure made available under the contract are of no use to the concessionaire without the concession right and therefore not distinct. We view the concession fee as a consideration for the right to operate, rather than a payment for assets, which is also indicated by the consideration being based on volume.

Question 2 Lessee accounting

We support the Type A model, which is similar to the method applied to finance leases in IAS 17 and therefore is generally accepted and practiced.

For Type B leases we support your proposal to recognise a single lease cost straight-line over the lease term in the income statement, but we find the proposed methodology for amortising the right-of-use asset inappropriate. The progressive amortisation profile of the right-of-use asset does not represent the (normal) consumption pattern and exposes the entity to the risk of unnecessary impairment losses.

We suggest a methodology for Type B whereby the straight-line principle is applied also in the balance sheet, i.e. that the right-of-use asset is amortised straight-line with a corresponding reduction of the lease liability, i.e. that §41 (a) is not applied to Type B leases.

The Board should reconsider what is more relevant and reliable: to amortise an asset in accordance with the consumption of the economic benefits embedded in the asset or to depict the lease liability using an annuity method? The purpose of unwinding the discount on the lease liability is to project the present value to future value. Reducing the lease liability straight-line will in our opinion not materially misstate the liability and is in our opinion preferable to a progressive amortisation of the right-of-use asset where the inherent risk of impairment is significant.

In addition, by amortising the right-of-use asset equally for all leases, and similar to owned assets, fewer changes are needed to ERP systems from the new standard.

An illustration of the preferred model is enclosed in appendix A.

Separating components of a contract

According to §23(c) a lessee shall combine lease and non-lease components of a contract and account for them as a single lease component when there is no observable stand-alone prices for the components.

For time charter contracts it may not always be possible to find observable stand-alone prices for all components. A time charter rate covers the cost of the vessel, staff costs and maintenance costs. About half of the time charter payments in Maersk Line and one-third of the time charter payments in Maersk Tankers relate to operational costs.

Therefore, we suggest that a lessee uses estimates to separate the operating components of the contract, if there are no observable stand-alone prices and the non-lease components constitute a material portion of the payments.



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Question 3 Lessor accounting

In our 2010 comment letter we recommended the de-recognition approach only, as the dual model for lessors created inconsistency in the accounting for lessees and lessors, which in particular is unfavourable for subleases and Group internal leases.

We now acknowledge the Board's justification for retaining a dual model for lessors, i.e. that some lessors are in the business to generate cash flows from the underlying asset on an on-going basis by managing the asset over a period longer than one lease term. A symmetrical approach of de-recognising the underlying asset at the lessor and recognising a right-of-use asset at the lessee may not in any case be relevant information to the users. When substantially all risks and rewards incidental to ownership is retained by the lessor, it is inappropriate to partially derecognise the asset at the lessor even if the lessee has recognised a right-to-use asset.

With other principles for classification, which we outline under question four, we therefore support the dual model for lessors.

Calculation of profit

For Type A leases the principle for calculating profit is carried over from the 2010 ED. We recommend the Board to reconsider this principle taking into account that more leases will be classified as Type A than would qualify for the de-recognition approach in the first ED.

In the 2010 ED the criteria for classification was whether the lessor retained exposure to significant risks or benefits associated with the asset. A profit was recognised at the commencement of the lease when the significant risks and benefits were transferred to the lessee, similar to finance lease accounting under IAS 17.

In the 2013 ED the criteria for classification is whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. If that's the case the lessor recognises a portion of the difference between book value and fair value of the underlying asset at the commencement date. We find this method inconsistent with the cost method in IAS 16 according to which property, plant and equipment shall be carried at cost less accumulated depreciation and impairment losses.

For long-lived assets, e.g. ships, which may be leased numerous times as Type A, any profit between the book value and the fair value at the commencement of a lease term is not relevant information in regards to measuring the return of the investment, unless the asset is carried at fair value. What we find relevant is the return from the lease contract compared to the cost of the investment. Therefore the profit should be calculated as the difference between the present value of lease payments and the depreciation costs of the underlying asset allocated to the lease term.

Example:

A vessel with a total economic life of 25 years is leased for 5 years. The remaining useful life is 10 years. The book value is 200,000 and the residual value is estimated to 20,000. The asset is depreciated at a cost of 18,000 per year. The present value of the lease for the five years is 120,000. The profit of the lease contract can then be calculated as 120,000-18,000*5 equal to 30,000.

If the lessor does not expect to be able to recover the remaining investment of 110,000



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2013-270 Comment Letter No. 455

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in the last five years of the asset's useful life an impairment loss shall be recognised.

Contrary to the method proposed in the ED this method may also lead to the recognition of a loss at the commencement of the lease.

Following our proposal the residual asset is measured at the cost of the investment which is expected recovered in the years after the current lease. Thus the residual asset shall not be depreciated during the lease term (and no interests added to the carrying amount).

In addition, the method is easier to apply, as the data used is readily available for the lessor.

Assets in cash-generating units

If the Board decides to retain the principle in the ED, we suggest you to consider how profit shall be calculated for assets forming a cash-generating unit, i.e. whether it is reasonable to calculate profit based on the fair value of an individual asset when the generation of cash flows from the asset is not independent of those from other assets. It is possible for an individual asset to be carried at an amount higher than its fair value because the recoverable amount for the cash-generating unit is higher than the aggregated carrying amount.

Profit referable to optional periods

In our opinion the profit recognised at the commencement of the lease should be referable to the non-cancellable term only, because a lessor does not have a contractual right to lease payments in optional periods. Therefore, we recommend that profit referable to optional periods are deferred until the lessee exercises the options. If you decide not to, it should be clarified how the profit recognised at the commencement and the unearned profit in the residual asset should be treated, when there is a change in the lease term due to reassessments of whether the lessee has, or has not, a significant economic incentive to exercise the option.

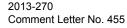
Question 4 Classification of leases

We support a dual model for leases, but we disagree with the proposed classification principles. In our opinion the classification principles in IAS 17 should be retained, i.e. that the annuity model (Type A) is applied when substantially all the risks and rewards incidental to ownership is transferred and that the straight-line-expense model (Type B) is applied when not.

If the Board decides to retain the classification principle in the ED, we need to raise an issue for lessors of time charter vessels in regards to the Type A model.

A lessor of time charter vessels is in the business to provide shipping services and not to provide financing to the customer. In time charters the lessor retains an on-going involvement with the underlying asset. Even though the lessor has secured revenue for the vessel during the term of the contract, it has not secured return of the asset, because the lessor in time charter contracts undertakes the maintenance costs (contrary to bareboat contracts).

For time charters the lessor is exposed to variability in returns and therefore we do not find it appropriate to consider the vessel "disposed" during the lease term, i.e. we do not agree that control (power and benefits) is transferred to the customer. That is, if benefits are to be understood as return and not revenue.





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Regardless whether the term of a time charter contract is for an insignificant part or not of the total economic life of the vessel, we do not find it appropriate to recognise a profit at the commencement of the contract representing a partial disposal. Therefore, we propose that a service provider retaining an exposure to variability in returns of the underlying asset during the lease term shall classify the contract as Type B.

Question 5 Lease term

We agree to the proposal that a lessee shall assess whether it has a significant economic incentive to exercise an option by considering contract-based, asset-based, market-based and entity-based factors.

However, in our opinion a lessor should not recognise a lease receivable for optional periods because:

- 1) the lessor does not have a contractual right to receive payments for the optional periods; and
- 2) the profit recognised at the commencement of the lease should relate only to the non-cancellable period, i.e. any profit for optional periods should not be recognised until the lessee has exercised the option.

In regards to the lessee, we acknowledge that the value of highly likely options shall be recognised to prevent structuring opportunities, but we find it inappropriate to recognise amortisation and interest costs relating to uncommitted future periods.

Therefore, we propose an alternative model for recognising, measuring and presenting options. An illustration of our proposal can be found in appendix B.

We suggest that the right for the underlying asset and the lease liability are measured at the present value of payments in non-cancellable periods. When a lessee has a significant economic incentive to extend the lease term, a separate asset and liability are recognised. The asset is presented within the right-of-use asset as a separate item, similar to assets under construction, and not amortised. The liability is presented as a separate item under provisions.

An option to terminate a lease should not be recognised until exercised, because until then the lessee has a contractual obligation for the non-cancellable term. When the option to terminate is exercised the right-of-use asset and the lease liability should be adjusted.

The alternative model will not remove fluctuations on the balance sheet from reassessments of whether options are expected exercised or not, but the advantages of our proposal are:

- 1) Users are able to understand the uncertainty of cash flows relating to options and the impact of changes in assessment of options on the balance sheet
- 2) No impact on the amortisation cost from the reassessments
- 3) Less front-loading of costs, because the unwinding of the present value related to optional terms has no P/L impact
- 4) There is no P/L impact of the options until they are actually exercised

Question 6 Variable lease payments

We agree to the proposal to include in the lease liability (lease receivable) variable lease payments that depend on an index or a rate; however we ask the Board to consider a relief on reassessments.



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According to §44(d) a lessee shall reassess the lease liability if there is a change in an index or a rate used to determine the lease payments. The lessee shall use the index or rate prevailing at the reporting period. The change relating to future periods shall be adjusted against the right-of-use asset.

This provision will for most contracts with index/rate regulated payments result in a periodic adjustment to the lease liability and the right-of-use asset, which we find is not relevant for users, unless the change is material.

Therefore, we suggest that a lessee (lessor) shall reassess the lease liability (lease receivable) only when there is an indication that a change in the index/rate will result in a material adjustment to the lease liability (lease receivable).

Question 7 Transition

We agree to the proposal with a request of an addendum:

That the balance of the right-of-use asset at the beginning of the earliest comparative period is adjusted for any impairment losses, as if the balance of the right-of-use asset had been tested for impairment and any loss recognised in the year prior to the earliest comparative period.

We are pleased that the disclosures in IAS 8.28(f) are not required. In particular, it is a relief that it is not required to disclose the amount of the adjustment for the current period. We find it impractical for any new application of IFRS's and of no relevance to disclose the amount of adjustment to current period, and would encourage the IASB to consider changing §28(f) in IAS 8 to cover prior periods presented only.

Question 8 Disclosure

We agree that the objective of disclosure requirements is to enable users to understand the amount, timing and uncertainty of cash flows arising from leases. We appreciate that §59 and §99 emphasise that an entity shall consider the level of detail necessary and how much emphasis to place on each of the various requirements.

As an enterprise with a substantial number of lease contracts we face difficulties in disclosing information about terms and conditions of lease contracts. It is not relevant to disclose a large amount of insignificant details and an aggregation of this information has the risk of reflecting general knowledge that is not relevant either. Therefore, we suggest that an entity shall inform about terms and conditions in lease contracts that are not custom in the market place for leases of particular assets and which expose the entity to an unusual risk. For example, it is custom that lease payments for property are adjusted to a price index and such should not be necessary to inform users.

Below comments to the individual paragraphs:

§60 (a)(iii) A lessee shall provide narrative disclosure about the options that are recognised as part of the right-of-use asset and lease liability and those that are not.

We find it more useful to present the value of options separately from the non-cancellable term (which we have proposed in our comment to question five). For the unrecognised options we see no reason to disclose anything, as the options are not commitments.



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§64 A lessee shall disclose a reconciliation of opening and closing balances of the lease liability separately for Type A leases and Type B leases.

> We would like to question whether it is relevant to reconcile the liability for Type A leases separately from Type B leases. We find it sufficient to present a split of the liability in Type A and B and to reconcile the total lease liability.

> If the value of options is separated from the liability, as proposed in our comment to question 5, we do not find a reconciliation of the lease liability relevant. We find that users will benefit more from a reconciliation of the total net interest-bearing debt with lease liability and lease receivables as sub-items.

§65 A lessee shall disclose costs that are recognised in the period relating to variable lease payments not included in the lease liability.

> We recommend that this paragraph is not required for short-term leases as we do not find the relevance of the information exceeding the costs of preparing the disclosure. Payments for short-term leases should not be decomposed, e.g. km charges for car hires should not be separated from the base rent when booking invoices or outlays.

A lessee shall disclose a maturity analysis of the lease liability showing undiscounted cash flows on an annual basis for a minimum of each of the first five years. We find this requirement superfluous when the lease commitments are no longer off-balance items.

> We find it sufficient to disclose a maturity analysis for lease liabilities in line with the maturity analysis of other liabilities as required under IFRS 7.

§101 (a) A lessor shall disclose lease income arising from the unwinding of the discount on (ii) and (iii) the lease receivable and the residual asset separately.

> We suggest omitting the split of the unwinding of discount in this table because the information can be achieved from the reconciliation tables for the lease receivable and the residual asset.

§101 (d) A lessor shall disclose lease income from short-term leases.

> The Board should consider if this information is relevant. There is no similar requirement to disclose short-term lease expenses. If the requirement is retained we suggest a clause whereby revenue from short-term lease contracts with a service component is excluded from this table and disclosed instead as a component of revenue.

> It will be very costly to separate the service component from the lease component for short-term leases. We are in particular exposed to this issue for time-charter contracts.

§103 A lessor shall disclose a reconciliation of opening and closing balances of the lease receivable.

> As stated in our comment to §64 we find a reconciliation of the change in total net interest-bearing debt more relevant.

§67



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§104 A lessor shall disclose a reconciliation of the opening and closing balances of the

residual asset.

We propose that the reconciliation is presented by class of underlying asset, as a lessor may manage risks of residual assets differently based on asset type.

§105-§106 Lessors shall disclose information related to risks as required in IFRS 7.

We do not find it relevant to disclose a maturity analysis on an annual basis for lease receivables recognised on the balance sheet. What is the purpose of such detailed information?

In addition, these paragraphs will be easier to comply with if the lease receivable and the residual asset are not presented as a sum on the balance sheet as the Board has determined (with reference to the proposed amendment to IAS 1.54). See also our comments to presentation below.

Questions 9-11 for FASB only

No comments.

Presentation

Terms

A lessee shall present either in the balance sheet or in the notes the right-of-use asset and the lease liability separately from other assets and liabilities. In addition a split shall be made of Type A and Type B leases for the asset and for the liability.

We agree to the proposal, but recommend that the Board also defines standards for the terms used to describe the Type A and the Type B leases. We have noticed some referring to the Type B model as the 'Single Lease Expense' approach. In order to prevent various descriptive terms invented for communication purposes we find it beneficial if the standard includes descriptive terms in addition to the Type A and Type B terms or even better if new terms replace these.

Lessor presentation

A lessor shall present lease assets separately from other assets in the balance sheet. Lease assets are the sum of lease receivables and residual assets.

We find this proposal in contradiction with the principle in IAS 1 that items with different character are presented in separate lines. Lease receivables are exposed to different risks than residual assets and their measurement bases differs. This fact is also reflected in the common practice to include the balances in different key figures. E.g. the lease receivable will typically be a component of the net interest-bearing debt key figure and assumable the residual asset will be a component of the invested capital key figure.

Therefore we disagree with the presentation proposal for lessors.

We propose that lease receivables are presented either separately in the balance sheet or in the same line as other interest-bearing receivables, such as loans granted. The residual asset should be presented as a separate line on the balance sheet.



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According to §78(b) a lessor shall recognise re-measurement differences in profit or loss. We suggest that the Board states where to present such income/expenses and to confirm that the adjustments shall not be disclosed in the tabular format as described in §101.

In the statement of cash flows we propose that cash receipts from the repayment of lease receivables are classified as investing activities in accordance with IAS 7.16. The interest component of the payment should be classified in the cash flow similar to other interest received.

We agree to the proposal for presentation of Type B leases for lessors.

Contact information

If you have any questions please contact:

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Yours sincerely

Jesper Cramon

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Alternative Type B model

Assumptions:

Lease term3Annual lease payments10,000Discount rate5%Present value27,232

	Year									
	0	1	2	3	Total					
Right-of-use asset Bank account	27,232	18,155 -10,000	9,077 -10,000	0 -10,000						
Lease liability	27,232	18,155	9,077	0						
Lease expense		-10,000	-10,000	-10,000	-30,000					
Poriod O	Right-of-u	use asset	-	Lease li	iability					

	Right-of-	use asset	Lease liability			
Period 0	27,232				27,232	
Period 1		9,077		9,077		
Period 2		9,077		9,077		
Period 3		9,077		9,077		
	27,232	27,232	_	27,232	27,232	

	Lease	expense	Bank			
Period 0					_	
Period 1	10,000				10,000	
Period 2	10,000				10,000	
Period 3	10,000				10,000	
	30,000	-		-	30,000	

Alternatives for Accounting of Options - optional periods excluded from 4th year

<u>Assumptions</u>

Asset	Crane
Economic life	12
Non-cancellabel term	5
Optional term	5
Lease payments	10,000
Lessee's incremental borrowing rate	5.6%
Present value of lease payments, initial if 5 years	42,586
Present value of lease payments, initial if 10 years	75,016
Present value of lease payments, end of 3rd year	18,437
Classification	Type A
Significant economic incentives to exercise the	
option, initial assessment	Yes
Significant economic incentives to exercise the	
option, assessment end of 3rd year	No

<u>ED proposal</u>												
	0	1	2	3	4	5	6	7	8	9	10	Total
Initial calculation:												
Right-of-use asset	75,016	67,514	60,013	52,511	45,010	37,508	30,006	22,505	15,003	7,502	-	
Lease liability	75,016	69,217	63,093	56,626	49,797	42,586	34,971	26,929	18,437	9,470	0	
Cash		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Amortisation		7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	75,016
Interest expenses		4,201	3,876	3,533	3,171	2,789	2,385	1,958	1,508	1,032	530	24,984
Total expenses		11,702	11,378	11,035	10,673	10,290	9,886	9,460	9,010	8,534	8,032	100,000
Reassessment end of year 3:												
Right-of-use asset	75,016	67,514	60,013	14,322	7,161	-						
Lease liability	75,016	69,217	63,093	18,437	9,470	0						
Cash		10,000	10,000	10,000	10,000	10,000						
Amortisation		7,502	7,502	7,502	7,161	7,161						36,827
Interest expenses		4,201	3,876	3,533	1,032	530						13,173
Total expenses		11,702	11,378	11,035	8,194	7,691	_	_	_	-	-	50,000

Movements year 3:	Asset	Liab.
Opening	60,013	63,093
Amortisation	- 7,502	-
Unwind of discount	-	3,533
Payment		10,000
Reassessm. adj.	- 38,189 -	38,189
Closing	14,322	18,437

<u>Alternative</u>												
	0	1	2	3	4	5	6	7	8	9	10	Total
Initial calculation:												
Right-of-use asset, cranes	42,586	34,069	25,552	17,034	8,517	-	34,069	25,552	17,034	8,517	-	
Right-of-use asset, value of options	32,430	34,246	36,164	38,189	40,328	42,586	-	-	-	-	_	
Total right-of-use asset	75,016	68,315	61,715	55,223	48,845	42,586	34,069	25,552	17,034	8,517	_	
Lease liability	42,586	34,971	26,929	18,437	9,470	0	34,971	26,929	18,437	9,470	-	
Provisions, value of options	32,430	34,246	36,164	38,189	40,328	42,586		-	-	-	_	
Total liability	75,016	69,217	63,093	56,626	49,797	42,586	34,971	26,929	18,437	9,470	_	
Cash		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
								. - · -				
Amortisation		8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	8,517	85,172
Interest income, unwind of discount		- 1,816 -	- 1,918 -	- 2,025 -	2,139	- 2,258	-	-	-	-		. 0 / . 0 0
Interest expenses, unwind of discount		1,816	1,918	2,025	2,139	2,258	-	-	-	-	-	10,156
Interest expenses, lease liability		2,385	1,958	1,508	1,032	530	2,385	1,958	1,508	1,032	530	14,828
Total expenses		10,902	10,476	10,025	9,550	9,048	10,902	10,476	10,025	9,550	9,048	100,000
Reassessment end of year 3:												
Right-of-use asset, cranes	42,586	34,069	25,552	17,034	8,517	-						
Right-of-use asset, value of options	32,430	34,246	36,164									
Total right-of-use asset	75,016	68,315	61,715	17,034	8,517	-						
Lagas lightlitu	42.50/	24.071	27,020	10 427	0.470							
Lease liability	42,586	34,971	26,929	18,437	9,470	-						
Provisions, value of options	32,430	34,246	36,164	- 10 427	- 0.470							
Total liability	75,016	69,217	63,093	18,437	9,470							
Cash		10,000	10,000	10,000	10,000	10,000						
Gusii		10,000	10,000	10,000	10,000	10,000						
Amortisation		8,517	8,517	8,517	8,517	8,517						42,586
Interest income, unwind of discount		- 1,816 -	- 1,918 -	- 2,025	-	-						- 5,759
Interest expenses, unwind of discount		1,816	1,918	2,025	-	-						5,759
Interest expenses, lease liability		2,385	1,958	1,508	1,032	530						7,414
Total expenses		10,902	10,476	10,025	9,550	9,048	_	_	-	-	-	50,000