



December 15th 2010

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Re: Exposure Draft: Leases

Dear Sir David,

As far as our Group is involved into lease transactions both as lessor and as lessee, we welcome the opportunity to provide our comments on the above Exposure Draft (the "ED"). We are significantly concerned by the proposals of this ED, for both lessee and lessor accounting, and most of our comments are quite negative.

We have summarised our main concerns in this cover-letter while answers to the detailed questions of the invitation for comment are provided in the appendix.

1- We do not share the underlying presumption that all leases are financing arrangements

The proposals of the ED are based on the presumption that all leases are financing of the purchase of an asset. But in many arrangements, lessees do not acquire an asset but are buying flexibility provided by lessors. This flexibility should not be underestimated as it is one of the key reasons why companies choose to lease instead of buying (or leasing with a fixed term) and can be an inherent part of their operational model.

We then consider that the single proposed model for lessees does not reflect the economics of the various lease arrangements and therefore we do not think that all leases should lead to the recognition of a right-of-use asset and a corresponding liability in the statement of financial position of lessees.

2- The boundary between operating lease and financial lease is replaced by the more thinner and difficult boundaries between leases and sales/purchases and between leases and service contracts

At present, on one hand, IAS 17 was mainly criticised about the boundary between operating lease and financial lease and on the other hand, the criteria indicated in IFRIC 4

Comments on the ED : Leases

Determining whether an Arrangement contains a Lease do not provide the necessary robust and operational distinction required to determine whether an arrangement contains a lease.

So we believe that shifting the present criticised boundary into a new boundary which has not yet proved itself is not convincing.

Furthermore, the criteria indicated in the ED to classify a contract as a sale/purchase are inconsistent with the proposals included in the exposure draft *Revenue Recognition*.

3- A symmetrical approach for lessees and lessors shall be adopted to ensure consistency in the global accounting for leases and the hybrid model for lessors shall be rejected

We believe that if the IASB wishes to propose a new standard more useful for users than the current IAS 17, it is necessary to built it on a strong and consistent basis leading to a single symmetrical approach to be applied for lessee accounting on one side and for lessor accounting on the other side.

Although we are not convinced by the conceptual premise that an asset is a bundle of rights, we support a single symmetrical approach both for lessees and lessors. So, if the lessees should apply the right-of-use model, we propose that the lessors apply only the derecognition approach because this approach is much more consistent and symmetrical to the right-of-use model than the performance obligation approach. Indeed, if an asset is a bundle of rights, there are two main rights: a right-of-use and a residual asset. So the lessee should recognise the right-of-use and the lessor should recognise the residual asset. Yet, only the derecognition approach for lessor is proposing this principle in the ED.

4- The proposed model shall not lead to the recognition of assets and liabilities that are not consistent with the Conceptual Framework

The proposed treatment for options and contingent rentals contradicts the definition of an asset and of a liability in the Conceptual Framework.

We do not agree with the proposed approach for accounting for contingent rentals and expected payments under residual guarantees as it implies that lessees would have to recognise obligations they have the entire discretion to avoid and lessors would have to recognise assets they do not control.

Payable/receivable rentals in an extension period do not either meet the definition of a liability/asset based on the Conceptual Framework. The lessee has no unconditional payable obligation and the lessor has no unconditional right to receive payments during an extension period as long as the extend option is not exercised.

We believe that the lease term should be the contractual term of the contract, and we consider that only lease payments required to be made during the initial lease contractual term shall be recognised, whether made by lessee or by third residual value guarantor.

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5- The proposed model is too complex and result in significant operational issues for preparers

The proposed model requires significant initial and continuous estimates of lease term, contingent rentals and residual guarantees based on internal statistical assumptions which will never be symmetrical between the lessee side and the lessor side even for a same lease.

We have strong concerns about the complexity and the reliability of the outcome provided by such proposed model. It will also lead to huge implementation costs related to the update of information systems for both measurement and disclosure purposes, and for training and internal control processes as well.

Furthermore, we question whether such a complex model will really contribute to increase comparability and transparency which were key objectives of the Board's project.

6- Scope exclusions

We believe that there is no conceptual basis for excluding intangible assets from the scope of the proposals (refers to BC 36). A lease contract for intangible assets has similar economic substance as lease contract for tangible asset.

If you have any queries regarding our comments, please do not hesitate to contact me at 33 (1) 42 14 55 26 or Pierre-Henri Damotte at 33 (1) 42 14 04 10.

Sincerely,

Marie DOUCET
Group Chief Accountant

Question 1: Lessees

(a) Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

The conceptual assumption behind the right-of-use model proposed in the exposure draft is that an asset is a bundle of rights that can be divided and separately transferred. But we did not find in the Basis for Conclusion a robust rationale to support the right-of-use model.

In our comments on the Discussion Paper, we have still expressed our concerns about the right-of-use model as a single model applicable to both finance leases and operating leases.

The proposals of the ED are based on the presumption that all leases are financing of the purchase of an asset. But in many arrangements, lessees do not acquire an asset but are buying flexibility (e.g. to be provided with the asset they need for the period they need) while lessors are providing this flexibility.

We think that the single proposed model does not reflect the economics of the various lease arrangements and therefore we do not consider that all leases should lead to the recognition of a right-of-use asset and a corresponding liability in the statement of financial position of lessees.

Finally, it is crucial that the definition of a lease be further improved to distinguish clearly leases from services (see our response to question 4 below).

(b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We do not agree with the proposals for subsequent measurement of the right of use asset as they raise significant issues regarding the consistency between the asset and the corresponding liability to make lease payments.

If the right-of-use model is applied to lessees in the definitive standard, we agree with the recognition of interests on the liability to make lease payments but we reject the right-of-use's cost amortisation.

The Board recognises the linked nature of leased assets and liabilities when providing the accounting treatment for their initial recognition and measurement. We consider that under a lease the right-of-use asset and the liability to make lease payments are parts of a single package, originated by a single contract, which is very different from the acquisition of an asset financed by a separate borrowing under a distinct contract. Subsequent measurement of these assets and liabilities arising from lease agreements shall reflect this link.

The liability is similar to a financial liability and must be amortised using the effective interest method. Then, we propose to amortise in a consistent manner the right-of-use asset using a similar mortgage-based amortisation.

Question 2: Lessors

(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

We do not agree with the hybrid model proposed for lessors' accounting.

The current proposals require lessors to use a hybrid model on the basis of whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. But the right-of-use model proposed for lessee is a unique model based on the principle of control.

As far as they are based on different conceptual premises, the two models proposed for lessors on one hand and lessees on the other hand provide inconsistent accounting treatments. We believe that a single accounting principle should be applied to develop the accounting models for both lessors and lessees.

Paragraph BC 25 of the ED states that one approach to lessor accounting would not be appropriate for all leases due to the differences in the economics of the business models for different lessors. We are not convinced by this argument as the same can be said about lessees. Some lessees choose the lease arrangements to finance the acquisition of the underlying asset while in other cases they only intend to obtain the use of an asset for a limited time.

As mentioned in our answer to question 1, the conceptual assumption behind the right-of-use model is that an asset is a bundle of rights. But the performance obligation model does not seem to be consistent with this premise: the lessee has bought the right-of-use asset and therefore has an unconditional obligation to pay for it. Therefore, it is inconsistent to consider that the lessor still has the continuing obligation to provide the lessee with the underlying asset throughout the lease; in the same manner, it is inappropriate for the lessor to continue to recognise the asset in its entirety whereas the lessee has acquired part of it.

Another weakness of the performance obligation approach is that the lessor continues recognising the whole asset but also recognises a lease receivable. The lease receivable embodies part of the future cash flows that the underlying asset will generate for the lessor, therefore recognising it without derecognising part of the underlying in our views in a double counting of the same asset. On the other hand, the accounting of the whole asset and of the lease receivable is inconsistent with the conceptual assumption that an asset is a bundle of rights.

Therefore, if the right-of-use model is applied to lessees in the definitive standard, we support only the derecognition approach for lessors. A comprehensive view of both lessee and lessor sides are the only way to ensure that the future model for lease accounting will be robust and consistent.

We also believe that in the derecognition approach, the risks or benefits retains by the lessor are valued in the residual asset. So it seems not necessary to have two different approaches for lessor accounting.

(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

We do not agree with the Board's proposals for the recognition of assets and liabilities income and expense for the performance obligation approach to lessor accounting. As mentioned in our answer to question 2 a), we consider the derecognition approach as the only approach for lessors that is consistent with the right-of-use model proposed by the Board for lessee.

The proposed treatment for measurement of the lessor's residual asset under the partial derecognition model raises some issues for the recognition of income, while we agree with the other proposals for the accounting treatment to be applied under this model.

We understand that the residual asset is the difference between the carrying amount of the underlying asset and the amount derecognised, which is the carrying amount of the underlying asset multiplied by the fair value of the right to receive lease payments divided by the fair value of the underlying asset. The lessor's residual asset is then the present value of the expected value of the asset at the end of the lease (excluding a deferred sales profit amount in the case of manufacturer/dealer lessors); consequently, we consider that this discount should be unwound over the term of the lease. If residual asset is frozen as expected in the ED, the accounting will not reflect the lessor's constant contractual yield.

We note that under IAS 17, residuals are effectively accreted over the lease term. The only difference with the finance lease accounting model and the derecognition model is that under a finance lease, the lessor's residual asset is not shown separately from its right to receive rentals whereas derecognition model splits these two amounts into two separate assets, thus providing better information to users of financial statements.

Furthermore, the lessor's residual asset represents its remaining rights to an asset after it has transferred the right to use the asset to a lessee. It is then not directly comparable to the underlying asset itself (the leased equipment). Rather, it represents a future physical asset or the asset the lessor will have once the lease has come to term and when all of the rights associated with the underlying asset (i.e. ownership and usage rights) have been reunited. As the residual asset represents the lessor's rights to control of the underlying asset in the future (i.e. at the end of the lease), we believe that its subsequent measurement should reflect the time value of money through the unwinding of the initial discount.

We also note that the accretion of residual assets is supported by Stephen Cooper in his alternative views to the ED.

Question 3: Short-term leases

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Lessor side

We agree that a lessor should account for short-term leases in the way proposed by the exposure draft (equivalent to operating leases in IAS 17).

While conceptually we believe the derecognition model should be applied to all leases, we acknowledge that the costs involved in derecognising very small portions of the leased assets, initially recognising present value of less than one year rentals and subsequently accruing interest during a so short period would be highly disproportionate to the additional benefit expected for users of financial statements.

Lessee side

We do not view the proposals for the lessee to use undiscounted amount for initially measuring the right-of-use asset and the liability to pay rentals as a real simplification. We consider that the proposals for short-term leases do not go far enough.

Omission of a present value calculation is not a real simplification as lessees would still be required to recognise an asset and a liability for all the short-term leases while the impact of discount is immaterial on a less than one year term. The main burdens for lessees when applying the proposed model to short-term leases are to identify and track a large number of small contracts and then to apply other requirements of the ED such as determining the lease term and the lease payments (especially when contracts includes contingent rentals).

Short-term leases are not inherently different from other leases. However, we note that users mainly criticise the existing model in relation to long-term arrangements that involve core operating assets. In other words, users do not seem to be concerned about short-term leases of non-core assets such as cars or hotels room not being recognised in the statement of financial position.

Otherwise, we think that a lot of short-term leases could be considered as service contracts (like photocopiers...) and are also without the scope of the exposure draft.

We believe that this proposal for simplification should be reconsidered with the objective to provide lessees with a simplification similar to that proposed for lessors, eg applying for short-term leases the current accounting treatment available for operating leases under IAS 17, recognising lease payments over the lease term in profit or loss without recognising neither the right-of-use asset nor the corresponding liability.

Question 4: Definition of a lease

Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We do not believe that the definition of leases provided in the ED (a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration) is appropriate to address the issues raised by the new proposed accounting model.

In practice, there is often uncertainty between what a lease is and what a service or an executory contract is (for instance, how can leases being differentiated from an executory contract such as audit engagements or fixed-term employment contracts?).

Under the new standard, the boundary between leases and services contracts becomes much more significant than the current boundary between an operating lease and a service contract. However, while the criteria indicated in IFRIC 4 *Determining whether an Arrangement contains a Lease* have been, in substance, imported in the ED, they do not provide the necessary robust and operational distinction required to determine which accounting treatment is the most appropriate. The practical difficulties currently raised by IFRIC 4 are then still to be addressed, otherwise the lack of clarity may continue to provide undue structuring opportunities by replacing the current dividing line between operating and finance lease by an unclear dividing line between services/lease contracts.

Another new significant boundary in the exposure draft is the distinction between a lease and a sale/purchase. Unfortunately, the definition of a sale/purchase proposed in the ED appears inconsistent with the definition provided by the Revenue Recognition ED. In the Revenue Recognition exposure draft, a sale requires the transfer of control. But in the Leases exposure draft, a sale is described as the transfer of the control of the underlying asset and all but a trivial amount of the risks and benefits associated with the underlying asset. We are concerned that in certain circumstances a transaction would be qualified differently under the proposals of the two ED. Additionally, we note that the Leases ED introduces a new notion, that of “all but a trivial amount” without providing any guidance for applying it other than indicating that leases that automatically transfer title or contain a bargain option will normally meet this criterion, which is far from enough for ensuring a consistent application of this proposal.

We believe that the boundary between a lease and a sale/purchase is not necessary in the approach proposed by the Board for leases. Let us compare the accounting treatments respectively applicable to a sale/purchase and a lease where title to the underlying asset is automatically transferred to the lessee at the end of the contract:

- The lessee recognises a right-of-use whose amount is closed to the purchased price of the underlying asset and a financial liability if the contract is recognised as a lease. If the contract is recognised as a purchase, the purchaser recognised an asset and a financial liability. So the two approaches are very close.
- If the contract is recognised as a lease, the lessor applies the derecognition approach because the lessor does not retain exposure to significant risks and benefits associated to the underlying asset after the expected term of the lease. So, when the lessor recognises the lease, it recognises the right to receive lease payments and derecognises the portion of the carrying amount of the underlying asset that represents the lessee's right to use the underlying asset during the term of the lease. The difference between these two amounts is recognised in profit and loss. This approach seems very close to the recognition of a sale where the seller recognised the purchased price and the cost price of the underlying asset in profit and loss.

So we think that the distinction between leases and sales/purchases is not necessary because it does not significantly improve the information provided to users of financial statements.

Similarly, we disagree with the scope of the proposed IFRS about the exclusion of lease contracts including a bargain option. The existence of a bargain purchase option does not modify the substance of a lease arrangement which merely consists in providing to lessee a right of use of an underlying asset during an contractually agreed period of time before the option can be exercised. Moreover, we note that the bargain option is a criterion which is strongly criticised in IAS 17.

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

We believe that there is no conceptual basis for excluding intangible assets from the scope of the proposals (refers to BC 36). A lease contract for intangible assets has similar economic substance as lease contract for tangible asset.

Sometimes, contracts may include both tangible and intangible assets (for example in the IT industry with contracts for both software and equipment). Applying different requirements to each component creates complexity that does not provide any additional benefit to users.

Question 6: Contracts that contain service components and lease components

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

From the point of view of a lessor, we believe that any service components granted in conjunction with a lease should be separated from the lease as they will quite always represent distinct service components. Therefore, we support the Board's proposal to require separation of services components from lease payments when applying the derecognition model (but we remain against the application of the performance model in any circumstances).

There should not be any difference between approaches applied by lessors and lessees. As it better depicts the economic substance of the arrangement, the non-distinct service component should always be estimated and treatment separately by both lessors and lessees. Nonetheless, we agree that it is often difficult for lessees to estimate the service component when it is not billed separately by lessors. In such cases, we believe that the lessee should be allowed to determine whether the contract is predominantly a contract for services or a lease of an asset, and to account the whole arrangement on the basis of the predominant element. For this purpose, the lessee should develop criteria for distinguishing service contracts from leases based on its own business model and apply them consistently.

We do not support the proposal to apply requirements of the Revenue Recognition ED to lessees as these requirements have been developed and discussed in the context of sales transactions and not in the context of purchase transactions. A transposition to leases needs further analysis to ensure that it would not lead to unintended consequences.

Question 7: Purchase options

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree that a lessee or a lessor should account for purchase options only when they are exercised.

Additionally, we favour a consistent treatment of renewal options (see question 8 below).

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We disagree with the proposals. We believe that the lease term should be the contractual term of the contract.

For lessee

We share the arguments provided by Steve Cooper in his dissenting views to the ED, that is, that options provide a lessee with flexibility and reduce its risk. The entity having acquired an option does not incur any liability beyond the minimum lease payments involved in the first period of the lease.

Payable/receivable rentals in an extension period do not meet the definition of a liability/asset based on the Conceptual Framework. The lessee has no unconditional payable obligation and the lessor has no unconditional right to receive payments during an extension period as long as the extend option is not exercised.

The proposal (the longest possible term that is more likely than not to occur) is too complex and not provided necessary symmetrical lease term between the lessee and the lessor. It was intended to solve the difficulty identified by the Board for valuing components of the lease contracts. But we do not believe that recognising items that do not meet the definition of a liability is an appropriate answer and the only alternative to not reliable measurement issue. Then, no supplementary liability should be recognised in our view.

For lessor

We also agree with Steve Cooper alternative view concerning the impact of this approach applied to lessors, because it will underestimate the business risks retained by lessors which grant such options.

Moreover, the approach which requires preparers to make assessments of the likelihood of exercising options at the start of a lease will be very burdensome to apply. Entities choose leases with optional features precisely because they do not know for how long they will need to use an asset. This flexibility should not be underestimated as it is one of the key reasons why companies choose to lease instead of buying (or leasing with a fixed term) and can be an inherent part of their operational model. The use of leases with optional features then reduces their exposure to risk.

Lastly, the proposed approach is likely to reduce comparability between entities with very similar leases but which may end up accounting for very different assets and liabilities depending on their own assumptions and probabilities assigned to the various scenario for exercising the options. This will not help users of financial statements who will also face difficulties in appreciating the underlying assumptions used by preparers and therefore in assessing the reliability of the resulting information provided on the face of the financial statements.

Alternatively, we propose to adopt an approach where only lease payments required to be made during the initial lease term are recognised, whether made by lessee or by third residual value guarantor. This would include any amounts required to be paid by the lessee either to obtain the ability to extend the lease term beyond the initial contractual term or to obtain the ability to purchase the asset at the end of the contract in addition to any amounts the lessee is required to pay if the lease contains a renewal or purchase option but where the lessee does not renew the lease or purchase the asset. The maximum residual value guarantee provided by the lessee or by a third guarantor to the lessor should also be

included in the lease payments that are to be recognised.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

We do not agree with the proposed approach for accounting for contingent rentals and expected payments under residual guarantees as it implies that lessees would have to recognise obligations they have the entire discretion to avoid and lessors assets they do not control.

We support the alternative view expressed by Steve Cooper that contingent rentals agreements that vary upon usage or performance of the asset provide the lessee with additional flexibility and reflecting them in the measure of the lessee's liability does not provide relevant information about the underlying economics of the agreement.

We then propose that:

- Amounts payable under contingent rentals for which the lessee has no effective control over the outcome (such as contingent rentals based on an index or an interest rate) should be included in the measurement of lessee's liability. The measurement should be made at the inception of the lease and the differences between the payable/receivable amount and the initial amount should be recognised in profit and loss.
- Other contingent rentals such as rentals indexed on the profitability of the leased asset should be excluded from initial lessee's liability and lessor's asset since lessee could avoid to pay them by ceasing or reducing its activity
- Residual value guarantees should be included in the measurement of the lessee's liability as the lessee commits itself to pay a difference of value if the value of leased item is below a specified value as per contract (similar to a stand ready obligation). Therefore, the lessee has no other possibility but to pay this amount when the criteria specified in the contract are met. The uncertainty is related to the amount to be paid and not to its existence.
- In the same manner, we consider that residual value guarantees should be included in the measurement of the lessor's asset on a most likely outcome and only if the lessor can measure them reliably. These residual value guarantees should be then taken into consideration event if they are granted by third parties. We question the reason why the Board has not proposed to include third-party residual value guarantees in the measurement of the lessor's receivable and recommend the Board to reconsider this issue.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We do not agree with the proposals regarding reassessments as we view these requirements as a direct consequence of the approach retained by the Board regarding lease term and contingent rentals. Reassessments are required in the ED to compensate the lack of reliability in the initial measurements and they introduce additional and recurrent complexity for both preparers and users.

Based on our responses to questions 8 and 9 above and our alternative proposals regarding lease term (lease term should be determined as the non-cancellable period only) and contingent rentals (lessee's liability and lessor's asset should only include contingent rentals for which the lessee has no effective control over the outcome and residual value guarantees), we do not consider that the proposed requirement for reassessment of lease assets and liabilities should be applicable.

Furthermore, if the Board maintains the definition of lease payments as proposed, we agree with that there should not be a requirement for systematic remeasurement on a periodic basis but that assets and liabilities should be remeasured only when facts or circumstances indicate that there is a significant change to the obligation or receivable since the previous reporting date.

Question 11: Sale and Leaseback

The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents the sale of the underlying asset, the leaseback would also meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We do not agree with the proposed model for sale and leaseback transactions.

If we consider that an asset is a bundle of right which can be separately negotiated or exchanged, the lessee/seller transfers to the lessor/purchaser only the residual asset and keeps the right-of-use of the asset. So, in substance, this transaction is consistent with the derecognition approach rather than the performance obligation approach.

When the lessee/seller derecognises the asset, we believe that the lessee/seller must not recognise any excess of sales proceeds over the carrying amount but only the part relative

to the derecognised asset or deferred and amortised any excess of sales over the lease term (as IAS 17 § 59: *If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term*).

Additionally, a sale and leaseback could be defined as a financial agreement: the lessee's objective is to raise funds and the lessor provides financing. So, as proposed in BC 27, the business model consists primarily in providing a financing solution to the lessor and then the derecognition approach should be applied.

Furthermore, we note that there is an inconsistency between the criteria used to distinguish a lease from a sale/purchase and the criteria and examples added in paragraph B31 of conditions that the parties must assess to reach a conclusion on whether the transfer is a sale for the purpose of applying the sale and leaseback provisions. These additional conditions in paragraph B31 of the exposure draft imply that sale and leaseback transactions have to satisfy a higher threshold to qualify as sales than separate lease transaction that are subject to paragraphs B9 and B10.

Question 12: Statement of financial position

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

As a general principle, we think that the primary financial statements should be presented in the way which provides a good balance between relevance and clarity, while facilitating communication with users and comparability between entities. We believe that the individual entity is best placed to make the judgement about how to achieve the best

compromise in the balance between presentation and disclosure in the notes in the light of materiality and its knowledge of the sector it operates in.

Separate presentation of assets and liabilities arising from lease transactions is adequate for providing a useful information about the specific nature of these items compared to others assets and liabilities in the statement of financial position.

For lessees, we think it is crucial that the right-of-use assets are presented separately from assets that are owned outright by the lessee.

For lessors, we would favour a joint presentation of both the residual and the lease receivable on a single line dedicated to lease transactions

Question 13: Statement of comprehensive income

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We support the presentation requirements in the Leases exposure draft for both lessees and lessors.

But we believe that reporting entities should remain free to determine the most appropriate place for providing that information either in the primary statement or in the notes pending on its significance.

Question 14: statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree with the proposals for both lessees and lessors. (Same comments as for question 13 regarding the place where to provide the information).

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

(a) identifies and explains the amounts recognised in the financial statements arising from leases; and

(b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows

(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We believe that the list of disclosure requirements is too extensive and that the IASB should state even more clearly that they should not be regarded as mandatory in all

situations. However, we welcome the requirement in paragraph 71 of the exposure draft that an entity shall consider the level of detail necessary to satisfy the disclosure requirements in paragraphs 73-86 and how much emphasis to place on each of the various requirements.

Question 16: Transition

(a) The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186– BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

Should the revised standard for leases being first applied alone, we agree with the IASB proposals of initial application using a simplified retrospective approach?

But as for as we anticipate a simultaneous first implementation of several major new standards (as IFRS9, consolidation, insurance contracts ...) , we would much prefer in this case to apply the same approach as the one previously used for the 2005 first time application of IFRSs in Europe.

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

A full retrospective approach is too complex and onerous for preparers and does not significantly improve the usefulness of information provided to users.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Question 17: Benefits and costs

Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

In paragraph BC 203 of the exposure draft, the IASB presents the following specific implementation costs for preparers:

- determining an appropriate discount rate for each contrast
- the cost of reassessing contingent rentals and options to extend or terminate a lease on a lease-by-lease,
- changes to management reporting,
- difficulties in gathering and compiling lease information.

We anticipate huge implementation costs mainly related to:

- Initial classification: sale/purchase versus leases, service contracts versus leases, determining both service and lease components...
- Initial measurement: determining the lease term, contingent rentals, penalties...
- upgrades of accounting systems,
- implementation of new processes and controls,

Comments on the ED : Leases

Appendix 1

- Education...

So we expect that the IASB expands its outreach activities and does further work to ensure that the costs of the proposals do not outweigh benefits beyond the publication of a questionnaire for users.

Question 18: Others comments

Do you have any other comments on the proposals?