

15 December 2010

COMMENT LETTER – ED/2010/9

International Accounting Standards Board

London

United Kingdom

Financial Accounting Standards Board

Norwalk

United States

Dear members:

We appreciate the opportunity to comment the Exposure Draft ED/2010/9 – Leases. We strongly support the Boards' effort to develop a new accounting standard for leases. We believe that existing accounting standards need to be improved and the proposed model is an important step towards that goal.

Our responses to some questions in the Exposure Draft are below:

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?**

We support the *right to use model* in which the lessee is required to recognize an asset and a liability. We think that the *right to use* is an asset and the obligation to make the lease payments is a liability. However, we disagree with some of the proposals in the Exposure Draft.

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 disagree with the boards' proposal that a lessor should apply two different approaches to lease contracts. Discussion paper "*Leases: Preliminary views*", states:

"The existence of two very different accounting models for leases (the finance lease model and the operating lease model) means that similar transactions can be accounted for very differently. This reduces comparability for users."¹ (...)

"Preparers and auditors have criticised the existing model for its complexity. In particular, it has proved difficult to define the dividing line between finance leases and operating leases in a principled way. Consequently, the standards use a mixture of subjective judgements and 'bright-line' tests that can be difficult to apply."²

We believe that a single accounting model for lessors is the appropriate way to deal with the issues stated above. We support the *derecognition approach* for lessors because it is consistent with the *right to use* model proposed for lessees.

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 this proposal. We believe that options to extend the lease contract at market rates are different for those below market. Options to extend the lease at market rates are similar to purchase options and therefore they should not be included in measurement of assets and liabilities. We question whether that options meet the definition of a liability. Also we believe that this approach results in the overstatement of assets and liabilities.

Question 16

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

¹ Paragraph 1.12

² Paragraph 1.13

We believe that full retrospective application of lease accounting requirements should be permitted. This increases comparability for users and is consistent with other IFRSs transitional provisions.

Sincerely,

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