THE LINDE GROUP

Sir David Tweedie
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Re: IASB Exposure Draft ED / 2010 / 9 Leases

Comment Letter of The Linde Group

Dear Sir David,

The Linde Group is a world leading gases and engineering company with almost 48,000 employees working in more than 100 countries worldwide. In the 2009 financial year it achieved sales of EUR 11.2 billion. We offer a wide range of compressed and liquefied gases as well as chemicals and we are therefore an important and reliable partner for a huge variety of industries. Our engineering division is successful throughout the world, with its focus on promising market segments such as olefin plants, natural gas plants and air separation plants, as well as hydrogen and synthesis gas plants.

The Linde Group is listed in the Top 30 German share index (DAX 30) and prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. We therefore appreciate the opportunity to comment on the Exposure Draft Leases (ED / 2010 / 9) from a gas and engineering company perspective.

We strongly support the initiatives of the Board aimed at increasing the usefulness of information for external and internal decision-makers. We also welcome the publication of ED / 2010 / 9 designed to establish more consistent and cohesive accounting regulations for lease contracts.

THE LINDE GROUP

We acknowledge that the accounting practice as well as users of accounting information raised criticism regarding the off-balance-sheet-accounting yet allowed for leases classified as operating on the lessee side.

We understand that the IASB's approach to work on those concerns is leading to a reconsideration of the term "asset" and of the term "control"; whereby the "asset" is subject to a rather binary decision on which entity should account for it and "control" being the determining factor for answering this question. In short, the new approach proposes to

- splits asset, formerly treated as whole assets, in rights;
- attach values to those rights;
- recognise those rights regarding assets on lessees' books;
- derecognise the underlying asset partially from lessors' books if no exposure to significant risks associated with the underlying asset is retained.

This implies that lease contracts in general are not interpreted as "executory contracts" any more, since "fulfilment of the contract" (in the sense that they are not executory – that means to be fulfilled – any more) takes place with the conveyance of a "right-of-use" and the transfer of physical control regarding the underlying asset.

We acknowledge that the boards decided that a right-of-use asset and transfer of control together may justify the interpretation of a lease contract as being non-executory. Anyhow, we want to stress the necessary prerequisites of such an interpretation: that a "right-of-use"-asset exists as of inception of the lease. And this is – to our firm belief – only the case (recognition matter), if a **right**-of-use has been established at inception of the lease, and to the extent (valuation matter) that the lease payments are unconditional or under the free disposition of the reporting entity and hence covered by this contractual right. In this context we are convinced that the circumstances under which a "right-of-use" asset is established and to which extent this is the case needs more clarification in the standard. Therefore we have significant concerns about the inclusion of lease renewal options or contingent rents in any calculation of lease-related assets and especially liabilities. Furthermore, we believe that an inconsistent treatment regarding the other "executory" contracts will result from this ED (e.g. firm commitments, purchase obligations, etc.)

In the context of embedded leases we especially do not agree with the proposed accounting treatment for contracts, which contain a lease element and one or more non-distinct service components. We do not believe that the treatment of the whole contract as a lease arrangement from a lessor perspective[1] reflects properly the timing of "transfer of control" in the sense stipulated by ED/2010/6 Revenue from Contracts with Customers and hence leads to a deterioration of information provided regarding revenue recognition. We find the implicit assumption that fulfilment of the full contract is being made "pro rata temporis" arbitrary. Especially in the case of embedded lease contracts, the host contract will often require the rendering of services as well as delivery of product as prerequisite for obtaining customer payment; in this context revenue recognition resulting from the performance obligation's straight line unwinding and the application of the effective interest method may

[1] Par. B5(b)

THE LINDE GROUP

often not reflect reality. Therefore, we do not support the assumption that the treatment of the whole contract as a lease contract will not lead to a materially wrong statement of revenue recognition and we would therefore proposed a more activity based approach than a general lease approach for such contracts. This would better reflect the performance progress under the contract and therefore leads to a more correct and decision useful accounting in compliance with the matching principle.

We furthermore think that contracts containing a lease element and one or more service elements, if distinct or not, should never be treated under the partial derecognition model since in most cases the risk and reward positions between the components (irrespective if distinct or not) are usually so interwoven that revenue recognition regarding an artificially split lease part would usually not reflect economic reality. So we would generally plead for a mandatory application of the performance obligation model in the cases discussed in paragraphs B5-B8.

Especially regarding the proposed accounting treatment for contracts containing both, service components and lease components, we see a potential moving apart of the information base used for external reporting and the one used for internal performance measurement, the cohesiveness between both sets of information being a crucial element for best practice corporate governance.

If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely

Björn Schneider
Head of Group Accounting & Reporting

Crispin Teufel
Head of IFRS Competence Center & External Reporting

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Appendix: answers to the questions raised in the ED

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?

(i) We acknowledge that it might be a possible solution to require that a lessee shall recognise a right-of-use asset and a lease liability, if one accepts that the criticism regarding the existing standard is justified (what we do not).

Regarding the criticism raised on the existing standard: the question is if an outside-in view on the financial position of an enterprise is significantly distressed if rights and the relating benefits regarding executory contracts do not appear on a balance sheet. We believe that this is not the case since we firmly believe that the balance sheet is not very much in the focus of external addressees of financial reporting information. To our experience lease expenses do quite well signal – interpreted as ongoing and recurring expenditure – the liability character of a lease contract taking into account that a valuation of the company by means of a discounted cash flow method is automatically considering these expenses as ongoing cash outflows. We do not believe that there is any benefit from recognizing an item in the balance sheet which basically does not have the character of an asset.
(ii) Neglecting for a second the basic remark made under (i) and assuming that – seen from a broader view – it is desirable to have lease-related rights and obligations on the balance sheet, this should only be the case if- and only if, the criteria of an asset / a liability are met. We consider them fulfilled if the unconditional right of use and obligation to make lease payments exists already at inception of the lease. This is in our view only the case if the position of rights and obligations are sufficiently secured and if hence the contractual arrangement has a strong and unconditionally binding character. This is not an automatism as implicitly assumed by the boards. Especially we deem the mere handover of the underlying asset as considered decisive by the board (BC.7(b)) insufficient for the recognition of a “right-of-use” asset and a corresponding lease liability. In this context, more diligent attention should be paid to the fact that a contract may be terminable at any time with the lessor’s possibility to take possession of the underlying asset for instance if the lessee fails to meet specific contractual obligations or in contrast unconditionally binding over a minimum period of time. This depends on the contractual arrangement itself but also depending on the civil law and the sanctions existing for breach of contract. We would encourage the board establishing more specific indicators for the definition of lease. Those should be in line with the general asset and especially “control” definition used in other IFRSs (e.g. Framework, IAS 27, ED/2010/6, IFRIC 18 etc.) and with the general criteria for financial liabilities (IAS 32.11). Otherwise incongruent definitions of terms amongst different IFRS occur and the user of financial information as well as preparers of financial information may get confused which endangers decision usefulness of IFRS as a whole. Furthermore, the general treatment and the question of the accounting for executory contracts should be further analyzed and a broad solution found, before changing on an isolated basis the accounting treatment for leases on that basis.

THE LINDE GROUP

(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?

If control regarding parts of the economic benefits associated with an asset has been transferred to the lessee in the sense of having obtained a sufficiently secured "right-of-use" asset associated with an contractual obligation to pay, this is a strong indicator for the transaction to be considered in essence a finance transaction – comparable to a leveraged buy. In this case – and only in this case – we consider the recognition of depreciation / amortization of a right-of-use asset and interest relating to the liability to make lease payments appropriate. If control of a "right-of-use" asset has not been transferred and a financial liability defined as contractual obligation to make lease payments has not been incurred by the lessee, the lease contract should be treated as an executory contract, whereupon the liability to make lease payments arise pro rata temporis rather than at inception of the lease and therefore should remain without any implication for lessee's Statement of financial position (unless a loss situation occurs). Again we do not share the boards' basic assumption laid down in BC.7(b), which we deem too general to properly reflect economic reality in the light of the principles of accounting stated throughout IFRSs.

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 and why not? If not, what alternative approach would you propose and why?

We agree with the proposed treatment. Anyhow, we do not understand that the hitherto existing distinction between economic life and useful life has been abolished. We believe that economic life can significantly differ from useful life and that economic life as defined by the current IAS 17.4 is more indicative for lessors' risk position (e.g. residual value risk) than useful life.

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

We generally agree with the proposed treatment. We especially deem it helpful that the asset, right to receive payment and performance obligation will be presented on a net basis in the lessor's statement of financial position if applying the performance obligation approach.

THE LINDE GROUP

Regarding the application of the (partial) derecognition approach, we would encourage seeking alignment between ED/2010/6 Revenue from Customers and ED/2010/9 Leases. As stipulated in ED/2010/6 Revenue from Customers transition of control is the decisive criterion for revenue recognition. Transition of control regarding the “right-of-use” asset is transferred if sufficiently secured in the underlying lease contract, i.e. with start of existence of this right. The retention of significant risks associated with the underlying asset first of all does not refer to the transferred asset (which is a “right of use” asset whose value should be determinable) and secondly does not correspond with the control over this “right-of-use” asset made in ED/2010/9. We share your concerns regarding the general application of the derecognition approach and would suggest re-implementation of sort of risk and rewards criteria explicitly also for revenue recognition purposes – complementing the control criterion rather than only be indicative for it. The customer’s “unconditional obligation to pay” as stipulated in ED/2010/6 Revenue from Customers par. 30(a) and the “customer-specific-criterion” as stipulated in ED/2010/6 revenue from Customers par. 30(d) may be suitable criteria applicable for revenue recognition as well as a starting point for developing criteria for the application of the (partial) derecognition approach (including the recognition of day-one gains).

Furthermore, the derecognition of partial assets is in our opinion not in line with the requirements of the framework. We are of the opinion that the elimination of the recognition of partial assets – as done in the ED9 Joint Ventures – is fully in line with the framework and should not be undermined by applying a partial asset approach with ED/2010/9 Leases.

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Question 3: Short-term Leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

(a) At the date of inception of the lease, a lessee that has a short-term lease may elect on a lease-by lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).

(b) At the date of inception of the lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in profit or loss, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise lease payments in profit or loss over the lease term (paragraph 65).

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?

From a lessor's perspective, we generally welcome the proposed simplifications regarding short term leases.

Anyhow we deem it absolutely necessary that the assessment of a lease being a short term lease was made without taking into account any type of contract renewals (except bargain renewal options). From a theoretical perspective, we find it difficult to account for a right-of-use asset and an obligation to perform if a lease renewal option has not yet been taken. From a practical perspective, we do not consider it worthwhile to investigate contract renewal probabilities in all depth for our short term leases, being very numerous but of limited materiality.

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Question 4

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

We would encourage the board to elaborate more in depth the definition of a lease. Given the importance if the term "right-of-use" asset for the definition of leases, we miss detailed guidance on the qualitative characteristics which lead to the existence of a "right of use asset" in exchange for consideration. Prerequisite for the recognition of a contractual right as an asset should be that general asset criteria are fulfilled; that should also be applicable for a "right-of-use" asset unless it is the boards' intention to establish an asset category of its own which we would not welcome. Therefore transfer of control regarding the "right-of-use" asset has to be demonstrated and that can only be done in practice if criteria are defined when contractual arrangements lead (a) to the existence of a right-of-use asset and (b) to transfer of control regarding such an asset. The definition as given in the actual exposure draft is – so we firmly believe – not well elaborated, although we acknowledge that the boards mentioned this topic in the basis for conclusion (which will not form part of the later standard) – but in our view with too swiping assumptions and wrong conclusions. The boards stress this point in BC7(b) but draws the conclusion that this is fulfilled for a „simple lease" which is definitely not the case. A „simple lease" does normally not convey such rights and does not represent such unconditional liabilities. In contrast, this is – upon our experience - rather the exception than the rule. So a normal rental agreement – even if concluded for an agreed period of time – represents a continuous generation of rights of use (with non-redemption of the underlying asset has taken place at the end of a billing period) and a continuous generation of liabilities to pay (after such a billing period is over) and therewith an executory contract. Only in circumstances where both parties of the contract are interested in entering an agreement which establishes unconditional "right-of-use assets" and unconditional obligations to make lease payments, this should be fulfilled. That is especially the case if the secondary market situation for the underlying asset is difficult, the volatility of residual values is high – in general if the economic risks associated with the assets are significant. Only in those cases an early termination of the contract leads to preventive consequences and therefore to an unconditional asset / liability.

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

Regarding Lessor Accounting:

We understand that the derecognition approach is in substance the sale of "part of the asset", the one which relates to the value of a temporary "right-of-use" which is transferred to the lessee. We understand the boards' approach in a way that an asset might be disposed of in parts and hence has to be treated as several asset components rather than keeping it complete – although we saw with astonishment that the introduction of a

THE LINDE GROUP

“partial asset approach” was denied in BC161 which obviously seem to contradict BC3(c). In this context, we furthermore do not understand the boards’ decision to abolish the proportionate consolidation for Joint Ventures aiming at putting an end to a “partial asset” approach on the level of consolidation.

Regarding Lessee Accounting:

We understand that accounting for right-of-use assets for lessees is treated in substance like a leveraged buy of a partial (tangible) asset – the part belonging to the asset’s economic substance conveyed by means of a right of use asset. Seen in this light we again find the distinction made as rather artificial and confusing.

(c) 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 agree with the boards’ intention to separate embedded lease arrangements from contracts which in fact contain more than one performance obligation. The criteria given are clear and help identifying the existence of embedded lease contracts. Anyhow, we would consider an asset as non-specified if the lessor can clearly demonstrate that it can substitute the asset and that this is economically feasible and practicable.

Generally, we believe that for our industry the requirements of IFRIC 4/EITF 01-08 or the new requirements of ED/2010/9 B1-B4 are not and will not lead to the proper reflection of the business model of gas supply contracts. Therefore, we would stress this fact again and propose to reconsider these requirements in general.

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 BC 33-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 do not understand why intangible assets are excluded from the standard. If the contract comprises the transfer of control regarding a right-of-use asset which refers to an intangible asset as for instance licenses, pieces of intellectual property or certain rights (for instance way rights), we do not understand what is hindering the application of the general guidance on leases. In this context we furthermore do not understand the distinction made in ED/2010/6 Revenue from Customers between exclusive and non-exclusive licenses. The fact that the entity selling the license has to refrain from further use of the license in the case of exclusive

THE LINDE GROUP

licensing would in our view not hinder the transition of “control” about the right of use if an unconditional obligation to make payments was established – risk (violation of the exclusivity clause) avoidance is entirely in seller’s hands and is therefore irrelevant for the transfer of economic benefits incorporated in the license’s right of use.

We feel that there is urgent need for alignment between the two exposure drafts – on the level of detail regulations as well as on the level of the basic underlying concepts.

We share your views regarding the other scope exclusions and consider a consistent application of the lease standard to right-of-use assets in the context of subleases.

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Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
(b) The IASB proposes that:
(i) a lessee should apply the lease accounting requirements to the combined contract
(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract
(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in Revenue from Contracts with Customers.

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?

We do not agree with the FASB's view that lessors and lessees should apply lease accounting in the case of a contract which contains an embedded lease and one or more non-distinct service arrangements. We believe that this approach may lead to results on the lessor side which contradict the principles laid down in ED/2010/6. Furthermore we deem the asset capitalised on the lessee side overstated since there usually cannot be a right-of-use asset regarding services. The fact that the asset is "offset" by a corresponding liability to pay does not heal this fundamental error since regarding the service part no liability has been incurred, at inception of the conrtact.

For the same reasons we do not agree with the IASB's view.

So we would always require the lease part to be segregated if lease accounting was applied. This may happen on a relative fair value basis, the fair value hierarchy laid down in ED/2009/5 providing reporting entities with sufficient guidance on the methods to be used determining fair values so that at least on a cost plus basis lessors and lessees should be able to segregate a service part from a lease part. If a segregation of the performance obligations was not possible, we would not automatically head for lease accounting but for a revenue recognition method best reflecting the nature of performance obligation and the way and timing control is transferred. In general, we believe that the becoming of the unconditional obligation make payments (ED/2010/6 par. 30(a)) best reflects transition of control for the cases where performance obligations involving a lease are altogether non-distinct.

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Question 7: Purchase options

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64)

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 with the proposed treatment regarding purchase options.

Question 8: Lease Term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term is more likely than not to occur taking into account the effects 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 do not agree with the proposed method for determining the lease term. Regarding lessee accounting we do not consider the renewal terms fulfilling the conditions of a financial liability or a “right-of-use” asset, since they are still subject to a later active decision to be taken by at least one party of the contract. Regarding the application of the (partial) derecognition approach for lessor accounting we do not find that revenue recognition regarding potential renewal periods should take place before renewal has been firmly agreed and hence the relating “right-of-use” asset has been transferred. Also regarding the obligation to perform approach we do not see the right to receive lease payments and obligation to perform established for renewal periods at inception of the contract. For those reasons we would limit the lease term relevant for accounting to the legally enforceable lease term without taking into account any renewal options.

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?

For the same reasons as under question no. 8, we do not 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. They are

THE LINDE GROUP

not yet part of a right of use asset or subject to a right to obtain lease receivables. Furthermore they become financial liabilities when the prerequisites are fulfilled. Therefore, we would keep the current regulation referring to the minimum lease payments.

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 basically welcome this regulation since this could increase the user's confidence in the reported numbers and limit the publication of unreliable and highly subjective information.

Question 10: Reassessment

Do you agree that lessee and lessors should re-measure assets and liabilities arising under a lease when changes in facts and 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 basically agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts and circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments. Since we are in favour of limiting the lease term to the legally enforceable lease term, only changes regarding contingent payments (including expected payments under term option penalties and residual value guarantees) would potentially lead to a re-measurement if reliably measurable.

Question 11

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 agree with the criteria for classification as a sale and leaseback transaction. The basis for conclusion seems reasonable. Anyhow, we do not understand why the partial asset approach has been rejected so harshly being widely introduced in the proposed regulations for lease accounting in general ("partial derecognition approach", lessee accounting for a "right-of-use" asset which represents part of the economic substance of an asset).

THE LINDE GROUP

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?

We agree with the proposed presentation for lessees in the statement of financial position.

(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?

We believe a net presentation in the statement of financial position best reflects an entity's asset / liability position. Underlying assets, rights to receive lease payments obligation to let the asset should be disclosed in the notes.

(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?

We agree with the proposed presentation for lessors in the statement of financial position. A separate presentation of the remaining assets provides an overview about the asset structure and highlights the assets within PPE being subject to the impairment only approach.

THE LINDE GROUP

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

We do not agree with the proposed distinct presentation of assets and liabilities that arise under a sublease. A separate notes disclosure should be fully sufficient to supply users of financial statements with the necessary information.

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 within profit of loss (paragraph 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why and why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We agree with the proposed separate presentation of lease-related income and expenses in the statement of comprehensive income.

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 and why not? If not, do you think that a lessee or lessor should disclose this information in the notes instead? Why or why not?

We agree with the proposed separate presentation of lease-related cash flows.

Question 15

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 and why not? If not, how would you amend the objectives and why?

We are convinced that the narratives required by IFRS are in general far too extensive. Compared to the attention given to them by the users of financial statements and hence the potential decision relevance, the costs to be incurred generating and providing the required narrative information are far too high. So in our view the cost benefit relation regarding narratives is definitely unfavourable.

Question 16

(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 and why not? If not, what transitional requirements do you propose and why?

In our view, a mandatory simplified retrospective approach will in many cases lead to results which are not comparable with a full retrospective application regarding the asset base and subsequent earnings effects. These deteriorating effects are – in absolute terms – most significant in the mid of a lease contract and unevenly spread over the lifetime of lease contract. This may lead to incomparability amongst competitors compared to the information that would be provided applying the new standard retrospectively in full. Since – in our opinion – a full retrospective approach would be practically unfeasible for most applicants, we would encourage a prospective application. This would limit the significant implementation costs of the new standard and the comparability between applicants would not suffer significantly compared with the proposed limited retrospective application.

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

We do not think so. Comparability of company's financials will suffer even worse compared with the proposed mandatory limited retrospective application if you leave it upon the applicant which transition method to choose.

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

None.

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Question 17

Paragraphs BC200-BC205 set out the boards' assessment of the cost 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?

We estimate that the costs to be incurred for implementing the proposed accounting regulations for leases will be very significant. We are not sure if the additional information given in the statement of financial position and in the statement of comprehensive income will lead to significantly better decisions taken by the users of this information (this comprises external users of financial information and internal users of financial information as for instance an entity's controlling department) than the information given under the current standard. This, because the users of financial statements (external as well as internal) have learned to interpret the information given and developed very cost efficient routines for eventually adjusting their financial KPIs as deemed appropriate. In this context we believe that there is little difference between a "value" being outcome of the statement of comprehensive income (discounting a recurring item in the operating expenses in the form of lease expenses) or being outcome of the statement of financial position ("right-of-use" asset and its amortization / obligation to make lease payments and the related interest expense). We do not believe that introduction of the new proposed methodology really refines decision making, but we know for sure that it will be extremely cost intensive to implement – for preparers of financial statements and for users (external and internal) of the financial information provided.

We laid down our unfavourable opinion regarding the extensive narratives required under ED/2010/9 above. To our firm believe the cost-benefit-relationship is even worse in this case.

Question 18

Do you have any other comments on the proposal?

None.