

# Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2010:18

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

Dear Sirs,

## Re: Exposure Draft Leases ED/2010/9

The Swedish Financial Reporting Board is responding to your invitation to comment on the International Accounting Standard Board's Exposure Draft Leases ED/2010/9.

In summary we consider that the proposed standard should not be introduced. Our main concerns behind this view are as follows:

- The proposed two model approach for lessor accounting in the ED is to a great extent similar to the present approach under IAS 17. On the other hand the ED requires that for lessees all leases should be brought on to the balance sheet. This is not logical and is in itself a strong argument for that IAS 17 should be retained.
- We do not agree that amounts relating to renewal options and contingent rentals should be recorded as liabilities. Only contractual obligations should be recorded.
- We cannot see that the IASB has in a convincing way clarified a logical and practical distinction between leasing and service. The former relates to the definition of when an asset falls under the leasing standard while the latter refers to the much stricter requirements in the ED, compared to present IFRIC 4, on the distinction between leasing and services.

If the IASB should decide not to follow our recommendation but instead pursue its work in line with the ED the attached exhibit sets out some further aspects that must be considered.

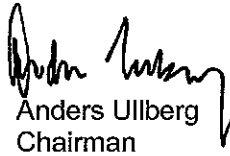


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If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: [carl-eric.bohlin@radetforfinansiellrapportering.se](mailto:carl-eric.bohlin@radetforfinansiellrapportering.se)

Stockholm, 4 November 2010

Yours sincerely



Anders Ullberg  
Chairman

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## Exhibit

### Remarks relating to ED/2010/9

- Right-to-Use (RTU)- amounts may in many situations exceed market values, especially for certain types of real estate such as retail shops and offices in good locations. The effect could be an impairment in the RTU-asset, which would have to be recorded, whereas the liability would remain intact.
- With reference to our comment above that only contractual obligations should be recorded we note that lease terms according to the ED shall be defined based on weighing of probabilities. An entity's need for optimization and supply of property, plant and equipment is based on the entity's business plan, normally not exceeding 5 years, as acknowledged in IAS 36 Impairment (p.33 (b)). To consider a lease term exceeding both the business plan and the contractual term would mean recognition of assets and liabilities lacking the evidence that is required in all other transactions, for example support from management budgets and other types of plans. We question whether users of financial statements will find information useful, which is not supported by a company's usual planning process.
- The definition of what is "specified asset" is not logical. Based on the example in B2, we question what the effect would be if certain airlines would disregard the effect on the brand of repeated aircrafts changes? For cost saving reasons it could be logical to replace the leased aircrafts regularly – with the consequence of not having to recognize any RTU-assets.
- The ED requires components of services and leases to be distinct, otherwise the total contracts shall be treated as pure lease contract from the perspective of the lessee. IFRIC 4 allows estimation of the split of the two components (p. 14). The stricter requirement of separation according to the ED is not acceptable from a commercial perspective. Vendors sometimes offer customers combinations of service, leases and arrangements with sub-suppliers. Separation of service components from the lease components should be made in a way that is practically possible to apply and commercially sound.
- We do not agree that bargain purchase option terms should mean that a leasing contract should be treated as an outright sale or purchase. This treatment should only apply for hire-purchase agreements. We have noted instances where bargain purchase options, identified when the lease contracts were entered into, later for various reasons have not been exercised.



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- We note that for short term leases simplified accounting procedures are proposed for lessees. We consider instead that leases with a term of maximum one year should not be recognized by lessees, just as the ED proposes lessors may elect to do.
- The proposed transition procedures can in our view result in inappropriate accounting effects in the years after transition. As a consequence, we recommend that as an alternative a fully retrospective application can be used.

