

The Chairman  
International Accounting Standards Board (IASB)  
30 Cannon Street  
London  
EC4M 6XH

Your ref.

Our ref.  
/

Oslo  
15 December 2010

RB  
RB000202

Dear Sir,

**IASB PROPOSALS ON ACCOUNTING STANDARDS FOR LEASE CONTRACTS  
– IFRS EXPOSURE DRAFT ED/2010/9**

Norges  
Rederiforbund  
Norwegian  
Shipowners'  
Association

I am writing on behalf of the Norwegian Shipowners' Association (NSA) representing more than 160 shipping and offshore companies in the tanker and bulk transport sector, short sea sector and offshore activities. NSA represents one of the world's largest merchant fleet.

We hereby wish to comment on the issue of ED/2010/9 Leases for the reporting issued by IASB 17 August with comments to be received by 15 December 2010. Our comments may be summarised in the three following main points:

- 1) No proven need to change the regulation of lessor accounting, and if such changes is to be made further considerations is necessary before a standard can be issued. We propose that lessor accounting and lessee accounting for a sub lessor are excluded from the scope of the initial standard.
- 2) Time charter is significantly different from bareboat charters as they include significant service components.
- 3) If IASB is to issue a new lease standard that includes lessor accounting, then this will be a significant change with large knock on effects that require a prolonged period of implementation. The lease standard should not be made mandatory before the Standard on recognising revenues from contracts with customers is made mandatory.

We agree with the board's objective to report relevant and represent faithful information to users of financial statements about the amounts, timing and uncertainty of cash flows arising from leases. We therefore recognise the conceptual benefits of the proposed new model for lessee accounting that will bring on the balance sheet of the lessee the assets controlled and the related liabilities incurred by the lessee. In regard to lessee accounting we question however the logic of gross presentation of commitments relating to extension options and servicing elements embedded in leases.

**IASB has not provided a sufficient case for why there should be a case for the change of lessor accounting**

The interest of NSA mainly relates to the lessor side. It is our view that there is today no immediate need for changing the regulation of lessor accounting.

We believe that the current accounting model under IAS 17 is well understood by the users of the financial statements of ship owning companies as it produces information that is relevant and faithfully represents the activities of the ship owning companies. We therefore encourage the IASB to retain the guidance on lessor accounting in IAS 17. We would also like to emphasize that the feedback from constituents mainly has been towards lessee accounting.

It is the opinion of NSA that if IASB decides to progress with a standard for lessor accounting it should do it thoroughly including use of a discussion paper that brings to the table the experiences made after implementing the proposed new solutions to the lessee accounting.

A large number of ship owning entities coordinate their shipping activities through pool arrangements whereby a fleet of ships are managed together. In some of the pool arrangements the pool could be considered as an agent while in some other the pool will be both acting as a lessee and as a lessor in relation to the ships in the pool.

Today there is generally no accounting mismatch relating to leases in the financial reporting of pool entities. As NSA recommend that lessor accounting is scoped out of the new lease standard, NSA would also argue that lease contracts for assets to be sub-leased is to be scoped out of the new standard.

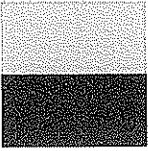
**A successful new lease standard applicable to lessors must reflect the distinct differences between bareboat charters and time charters**

If IASB in the current situation is to proceed with a new lease standard covering lessor accounting, NSA urges IASB to present solutions that strike the right balance between cost of producer implementation, user interpretation and faithful representation whereby similar items are treated similar and dissimilar contracts are treated dissimilar.

A total faithful representation of every lease contract would require each contract to be decomposed into its individual components. As seen from a lessor these components would typically include:

- 1) A simple lease for a defined period
- 2) Compensation for lessee options to extend or terminate the simple lease
- 3) Compensation for lessee options to purchase the underlying leased asset
- 4) Compensation for service components related to the simple lease
- 5) Payments for residual value guarantees provided by the lessee
- 6) Compensation for lessee options to expand, extend or terminate service components related to the simple lease

A number of these components will be present in most time charter contracts, however most often they would be challenging to identify/isolate and estimate. It is the position of NSA that a fully faithful representation of each component of a time charter is currently not achievable within a reasonable cost benefit ratio. It is the position of NSA that it is conceptually incorrect and that it will provide onerous results if components identified in number 2 to 6 above is recognised as being an undivided



part of a simple lease. If as a part of a necessary simplification components are to be subsumed into other components, relatively less would be at risk if some simple lease contracts are accounted for as pure servicing contracts as opposed to if some service contracts are accounted for as simple leases.

While NSA recognises the principle merits and additional benefits provided by the proposed new solutions for lessee accounting NSA is of the strong opinion that IASB, at current has not presented the right balance in regard to lessor accounting.

It is of paramount importance for NSA that IASB comes to a solution that faithfully reflects the significant service and other non-lease components embedded in most time charter contracts. It is the opinion of NSA that the recognition of income day by day as the ship owning company fulfils its obligations under the time charter, as currently done, is the method of income recognition that provides the most relevant information to user of the financial statements of ship owning companies and that most faithfully represents the economics of the time charter. And importantly, does so at a very modest cost to the preparers.

#### **A prolonged implementation period will be needed**

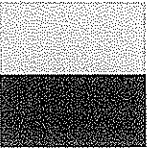
NSA is of the opinion that the proposed changes to lessor accounting will have a very significant impact on required accounting system, accounting procedures, outcome as reported in the financial statements and education of management presenting the outcome and analyst interpreting the outcome.

Shipping involves financing of larger investments. Most financing involve covenants that is to be affected by the proposed changes. It is thus of importance that preparer, and among them shipping companies, are provided sufficient time to handle both the accounting issues and the consequential issues that first will be fully reviled after some test financial accounting has been prepared.

If IASB is to proceed with the proposed changes to lessor accounting, then there will be symmetrical underlying principles applied both to lease accounting, accounting for revenue from contracts with customers and accounting for insurance contracts. All of these projects contain large and costly implementation challenges and require coordinated efforts in the implementation. NSA is concerned about a number of potential accounting mismatches that may arise if these projects are not implemented at the same time.

Implementation of the proposed derecognition approach for certain leases represent a distinct change related to current practice related to derecognition. This would be implemented while IASB at the same time has postponed its project on derecognition of financial assets and financial liabilities. NSA fear that a dramatic increase in the use partial derecognition of financial assets while at the same time the rules for derecognition of financial assets and financial liabilities remain unchanged and conceptually on a different basis could create tension within the IFRS standards. By allowing a prolonged implementation period for the lease standard, IASB will provide itself with more time to align the derecognition principles for financial and non-financial assets.

Finally, NSA would like to refer to the letters of concern from the International Chamber of Shipping (ICS) as well as the European Community Shipowners' Associations (ECSA) sent to IASB on the 14th of December. NSA is fully member of these organisations and we share the issues of general concern for the shipping industry and for descriptions of different charter contracts used in shipping including



voyage charter, time charter and bareboat charter raised in the abovementioned letters.

We hope that our comments have been helpful in explaining the special characteristics of the international shipping industry, and the need for clear and consistent accounting rules that take account of business practice while avoiding excessive compliance burdens. We remain ready to assist you in any way possible as you continue to develop your proposals.

Yours faithfully,  
NORWEGIAN SHIPOWNERS' ASSOCIATION



**Sturla Henriksen**  
Director General