

January 6, 2011

International Accounting Standards Board 30 Cannon St.
London EC4M6XH
<u>United Kingdom</u>
By: www.iasb.org

Re: Exposure Draft - Leases

We appreciate the opportunity to respond to the Exposure Draft *Leases*, issued by the International Accounting Standards Board (IASB). The responses stated below represents the views of the Institute of Certified Public Accountants in Israel. We truly apologize for the delay of this comment, due to end-of-year effects.

Question 1

- (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?
- (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 agree and upport the Boards' efforts to develop a model that will eliminate "off-balance sheet" items for lease commitments, thus it improves the recognition of liabilities in the statement of financial position. We also agree with charactering the related lease expenses as amortization expenses and recording interest expenses on the liability, rather than calling it rent expenses.

Question 2

(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?

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Yes, we generally agree. We believe that the proposed approach will reflect properly the difference between a situation in which the lessor has effectively transferred the significant risks and benefits over the asset and will apply the derecognition approach, and a situation where the lessor retains significant rights in the asset and would apply the performance obligation approach.

However, we do not capture the notion of offsetting assets against liabilities – not in the broad sense of IFRS concepts, nor in the specific case of offsetting financial assets from performance (non-financial) obligations. We recommend that the Board will discuss this issue in a broader spectrum.

Question 3

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 a 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 a 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 the statement of financial position, nor to derecognize any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65). (See also paragraphs BC41–BC46.)

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?

We generally support the Boards' approach of allowing a simplified accounting model for short-term leases on an optional basis; however, we believe that allowing such option on a lease by lease basis should be avoided and, instead, the option should be applied in a consistent manner for all short-term leases, by each lessee and lessor.

Ouestion 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?
- (b) 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?
- (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 definition and the guidance referred in (a) and (c) above.

We also agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale. According to the proposed guidance, a lease would be considered an in-substance purchase or sale of an underlying property, if control of the property, and all but an insignificant amount of the risks and benefits associated with it, are transferred to the lessee at the end of the arrangement.

However, we do acknowledge that the only difference between such cases would likely be from the legal point of view. The accounting for both cases will in effect result in the same items in the statement of position, for both the lessee and the lessor, and we doubt the benefit of showing them as different items where, in fact, the legal title has not been transferred.

Question 5

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 generally agree with the proposed scope, however, we do not see any reason for taking leases of intangible assets out of the scope of this ED. We believe that, as in other matters, if measurement difficulties exist, they should be dealt in the arena of this ED.

Question 6

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:

- The FASB proposes the lessee and lessor should apply the lease accounting (a) 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.
 - 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 support the IASB's approach, which may be considered more consistent with both "Revenue from Contracts with Customers" ED and "Leases" ED.

Questions 7 through 12

We concur with the Boards' recommendations as specified in the questions.

Question 13

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?

No, we do not see a significant difference between income or expenses derived from lease contracts and income or expenses derived from self-owned assets - both from the perspectives of lessors and lessees. As a result, we do not believe that such separation will add any significant information to the users of financial statements.

Questions 14, 15 and 16

We concur with the Boards' recommendations as specified in the questions.

Sincerely yours,

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Chairman, The Professional Council

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Chairman, The Financial Reporting Committee