Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6 XH  
United Kingdom

Date 14 December 2010  
Subject Exposure Draft on Leases ED/2010/9

Dear Sir,

Interparking is an important car park operator in Continental Europe and owns, leases (as lessee) or manages about 580 car parks. Interparking is part of AG Real Estate, the real estate vehicle of AG Insurance, a primary composite insurance company in Belgium.

AG Insurance and Interparking welcome receiving the opportunity to contribute to the on-going process of improving financial reporting standards. Please find below our constructive comments on the Exposure Draft on Leases (further referred to in this document as ED9).

The more substantial lease contracts usually are of a long-term nature. From our perspective, they share quite some similarities with other long-term contracts such as insurance contracts. Yet, it looks as if ED9 was developed distinctly from ED8, as if two different approaches were applied to similar types of long-term contracts. Instead, we would have expected ED9 to share certain aspects of ED8.

We see great benefit in defining a unique framework for long-term contracts as it would provide a global, structured, integrated and consistent vision on long-term contract reporting. Insurance contracts and lease contracts would hook up to a shared framework that would constitute a solid basis for other long-term contract reporting as well.

We believe such a framework would benefit from being rooted in ED8 and, accordingly, we propose to construct such a framework starting from ED8. In a constructive way, we therefore have initiated below a first attempt on describing how some cornerstones of a unified framework may look like.

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1 This document will also make reference to the exposure draft on insurance contracts ED/2010/8 which we will refer to as ED8 further in this document.
The principles suggested below are based on those aspects of ED8 for which we understand, based on the analysis of feedbacks on the earlier Discussion Paper and on ED8, a global consensus is likely to exist:

1. **Recognition.** As an overall guiding principle, we believe long-term contracts generate rights and obligations that need to be recognised at the time one becomes party to a contract.

   This conforms to the proposals of ED9.

2. **Measurement.** While the notion of ‘expected amount’ seems relevant for large contract populations, relevance may rapidly decrease when dealing with a discrete number of contracts because the distribution variance may rapidly increase. In forthcoming cases, a deterministic approach may therefore be more appropriate.

   Consequently, we propose, in a discrete environment, to limit future rental payments to the minimum amounts due under legal or constructive obligations instead of an expected outcome.

   Furthermore, we support the net present value principle (i.e. discounting future rights and obligations), be it that we favour a simpler alternative for short-term contracts.

   We also support the introduction of the actuarial amortisation method for cash-flows acquired.

3. **Presentation.** We believe that a net approach would benefit the presentation of contractual rights and obligations towards a single counterparty when rights and obligations are interdependent. ED8 already proposes a net approach for insurance contracts. ED9 proposes it for lessor reporting. We propose to generalise the principle to all long-term contracts. In order to provide additional coherence, one may consider deriving an appropriate wording applicable to long-term contracts from IAS 32.42, which defines the net presentation conditions required for financial instruments.

   As a result, we favour a net presentation of rights and obligations for lessee reporting under operational leases. A separate presentation would continue to apply for finance leases.

4. **Contract boundary.** In coherence with ED8, we believe the contractual rights and obligations taken into account for reporting purposes should be limited to that period in the contract lifetime where none of the parties to the contract has the ability to re-assess its risks and, hence, reprice, amend or withdraw from the contract. Rights and obligations past that point in time would not be in the scope of the contract.

   Consequently, we believe that only the minimal lease term should be taken into consideration for assessing rights and obligations.

5. **Discount rate.** We support the market consistent approach that ED8 proposes.

   This would avoid confusion and interpretation issues resulting from using different definitions for similar long-term contract features throughout IFRS.
Each of these potential framework principles is further developed in Exhibit A. For your convenience, Exhibit B further applies the same framework views to those ED9 questions that are relevant to our business model.

Respectfully submitted,

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AG Insurance

Edouard de Vaucleroy  
Chief Financial Officer  
Interparking
Exhibit A: Foundations for a long-term contract framework

Recognition

We believe long-term contracts generate rights and obligations that need to be recognised at the time one becomes party to the contract as we believe contractual rights and obligations meet the definitions of an asset or a liability, respectively.

Under current standards, lease payments paid upfront would generate a prepaid expense on the face of the balance sheet, reflecting the right-to-use. The right-of-use finds its source in the contract. Yet, the fact that the right-of-use only would show up depending on the presence of (pre)payment seems not very coherent. We believe that the right-of-use is thus, independently from its payment, always present — be it implicitly — and therefore warrants recognition.

The recognition of the liability results only from deferral of payment in time. Its recognition is rather straight-forward.

Measurement

Initial measurement

While the notion of ‘expected amount’ seems relevant for large contract populations, relevance may rapidly decrease when dealing with a discrete number of contracts because the distribution variance may rapidly increase. In forthcoming case, a deterministic approach may therefore seem more appropriate.

Consider the dice example. The expected outcome when rolling a dice would be 3.5. If only one dice is involved, not only will the real outcome be different as only discrete values between 1 and 6 would occur, but the actual outcome may also be significantly differ from the expected amount. Rolling a thousand dices at the same time would however yield a total actual outcome that would be relatively close to 3 500.

A population of long-term contracts may be large and homogeneous, such as a portfolio of insurance contracts, or it may be small and discrete, such as rental contracts for office space. We believe that reported amounts for assets or liabilities arising from long-term contracts should be relevant for the user of financial statements. Accordingly, we believe that the underlying models used to determine such amounts should adapt to the underlying contracts portfolio. Favouring a universally applicable and unique statistical approach may therefore not always produce relevant results.

We do not view the distinction between the deterministic approach and statistical approach as the application of a different measurement principle. Rather, we see it as the application of a common measurement principle (i.e. reflecting relevant amounts), while featuring a variable wing span reflecting the properties of the contract population being measured.

In the particular case of discrete portfolios, we therefore believe that considering only the minimal duration (until the first break option) for estimating amounts presented on the
face of the balance sheet would make sense for reporting purposes, in forthcoming case complemented with relevant disclosures\(^2\).

We also believe that variable rights and obligations that are linked to parameters external to the contract should accordingly be limited to those amounts that result from legal or constructive obligations.

Furthermore, we support the net present value principle (i.e. discounting future rights and obligations), be it that we favour a simpler alternative for short-term contracts.

\textit{Subsequent measurement}

Amortisation and depreciation reflect the cost of using an asset over time. Construction of plant or equipment is a cost-based activity (i.e. reflecting a retrospective approach) for which current depreciation methods offer sufficient flexibility to reflect passage of time. However, we believe those amortisation or depreciation principles to be less relevant in a financial context. Finance is about fair value, net present value, unwinding of discount, etc. Production or construction cost is a rather alien notion in finance. Fair value of (real estate) property is therefore usually determined on the basis of a discounted cash-flow model (i.e. a prospective approach) and so would the right-of-use of the asset. When purchasing property, the acquisition cost thus lost its cost roots, replacing it with a reference to the present value future cash-flows instead. In a prospective context, we believe the application of unwinding of discount and associated actuarial amortisation to be more relevant.

Let’s assume that a first tenant enters a six year lease term. Three years later, a second tenant enters a similar lease\(^3\) but with a three year term. Three years after the inception of the first lease, both tenants have thus an identical lease in their hands. Let’s further assume, to simplify the argument, that swap curve and other contract parameters remain unchanged. Under the ED9 amortisation proposal, the two tenants would measure, three years before the common end of the lease term, a different right-of-use. Since the lease perspectives at that time would be identical for both tenants, such result would be counterintuitive and we fail to see an economic rationale justifying such difference.

We believe that the better way to reflect the cost-of-use of a net present value of future cash-flows to be the actuarial amortisation method (that includes unwinding of discount and inflation\(^4\)). We would be happy to see the innovative view presenting rights and obligations on the face of the balance sheet complemented with a coherent prospective view on the related amortisation principles.

\textit{Presentation}

We believe that a net approach would benefit the presentation of contractual rights and obligations towards a same counterparty when rights and obligations are interdependent, i.e. for operational leases\(^5\). ED8 already proposes a net approach for insurance contracts.

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\(^2\) Additional arguments on the contract boundary aspects are presented later in this document.

\(^3\) Assuming the same building, different floors, for example

\(^4\) Quite some lease contracts provide for lease payments that are linked to inflation

\(^5\) We believe that rights and obligations under operating leases to be interdependent, but not in the case of finance leases.
rights to receive premiums and obligations to pay claims and/or benefits. ED9 proposes it for lessor reporting. We propose to generalise the principle to lessee reporting as well. In order to provide additional coherence, one may consider deriving an appropriate wording applicable to long-term contracts from IAS 32.42 that defines the net presentation conditions for financial instruments.

The present ED9 proposals introduce an asymmetry in presentation between lessee and lessor. We fail to understand the benefit or rationale of such asymmetric presentation. ED8 puts forward the interdependency of cash-flows originating from insurance contracts as an argument for netting rights and obligations. If this argument prevails for lessor reporting, we do not see the rationale not to apply it to lessee reporting as well, the contractual terms being necessarily symmetric. Furthermore, we believe the rights and obligations under operational lease reporting may be interdependent as such:

- When variable lease payments apply (these are not insignificant amounts in our business);
- When contract breakpoints apply. Those breakpoints may even be dynamic (i.e. triggered by the occurrence of a specific event) rather than static (i.e. at predetermined time intervals).

Furthermore, a net presentation approach would eliminate the need to provide an exception treatment for property that is held at fair value through profit or loss. The fewer exceptions, the more solid the underlying principle appears.

**Contract boundary**

In coherence with ED8.27, we believe the contractual rights and obligations taken into account for reporting purposes should be limited up to the point in the contract lifetime where one of the parties to the contract has the ability to reassess its (operational and/or financial) risks and, hence, reprice, amend or withdraw from the contract. Rights and obligations past that point in time would not any more be in the scope of the contract.

The final standard should define the boundary of a long-term contract as the point in time at which one of the parties to the contract has the right or the practical ability to reassess the risk associated with the contract terms and, as a result, can (re)set a price that fully reflects that risk or exit the contract.

**Discount rate**

We support a market-consistent discount rate, such as proposed in ED8.30: "...discount rates that:

(a) are consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the ... contract liability, in terms of, for example, timing, currency and liquidity.

(b) exclude any factors that influence the observed rates but are not relevant to the ... contract liability (e.g. risks not present in the liability but present in the instrument for which the market prices are observed).

We believe this definition would provide a coherent definition of discount rate for long-term contracts. Using multiple definitions throughout IFRS would, in our opinion, cause undue confusion and generate interpretation issues.
Exhibit B: Answers to selected questions raised in ED9

The answers to the question listed below are based on the suggested guiding principles for a long-term contract framework as presented in Exhibit A. Both sets of comments should therefore be read together.

As a principle, we believe operating leases differ from finance leases. Finance leases have a clear financial drive and transfer control. The rights and obligations are quite independent from each other. Operating leases have operational roots, do not transfer control and have rights and obligations that are quite interdependent. Accordingly, we believe that the ultimate reporting principles should reflect these differences and that a unique reporting model would therefore be less relevant. We also believe, as a principle, that lessee and lessor reporting should be symmetric in order to reflect the symmetry of the common lease contract.

These principles are reflected in the comments below.

Question 1: Lessees

(a) Do you agree that a lessee should recognise a right-of-use asset and a liability for its obligation 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 its liability for lease payments? Why or why not? If not, what alternative model would you propose and why?

(a) Under current standards, lease payments paid upfront would generate a prepaid expense on the face of the balance sheet, reflecting the right-to-use. The right-of-use finds its source in the contract. Yet, the fact that the right-of-use only would show up depending on the presence of (pre)payment seems not very coherent. We believe that the right-of-use is thus, independently from its payment, always present — be it implicitly — and therefore warrants recognition.

The recognition of the liability results only from payment deferral of payment in time. Its recognition seems rather straight-forward.

(b) On the amortisation, we do agree that amortization of the right-of-use asset is desirable to reflect the use over time of that right-of-use and the decrease of the remainder rights. However, we defend an actuarial amortization of the asset. The initial measurement of the right-of-use is the outcome of a discounted cash-flow model. In order to reflect the time value correctly and to reflect a correct unwinding of inflation, we believe an actuarial amortization to be most relevant. This technique allows, at any moment of time, the economic cost-of-usage to surface. Other amortization patterns of the present value of future cash flows yield results that, from both an economic and from a business model perspective, seem less relevant to us.
Let’s assume that a first tenant enters a six year lease term. Three years later, a second tenant enters a similar lease but with a three year term. Three years after the inception of the first lease, both tenants have thus an identical lease in their hands. Let’s further assume, to simplify the argument, that swap curve and other contract parameters remain unchanged. Under the ED9 amortisation proposal, the two tenants would measure, three years before the common end of the lease term, a different right-of-use. Since the lease perspectives at that time would be identical for both tenants, such result would be counterintuitive and we fail to see an economic rationale justifying such difference.

We believe that the better way to reflect the cost-of-use of a net present value of future cash-flows to be the actuarial amortisation method (that includes unwinding of discount). We would be happy to see the innovative view presenting rights and obligations on the face of the balance sheet complemented with a coherent prospective view on the related amortisation principles.

**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?*

The definition of the lease term seems not coherent with the definition of other long-term contract boundaries, such as those that ED8 proposes for insurance contracts. The terms of ED8.27 differ from the definition proposed in ED9.B16-B20 and we do not understand why they (should) differ.

The final standard should consider defining the boundary of a long-term lease contract as the point in time at which one of the parties to the contract has the right or the practical ability to reassess the operational and/or financial risk associated with the contract terms and, as a result, can (re)set a price that fully reflects that risk, amend or exit the contract.

**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 contract should be included in the measurement of lease assets and lease liabilities 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? Do you agree that lessors can only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the lease receivable if they can be measured reliably? Why or why not?*

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6 Assuming the same building, different floors, for example
In the car park business, variable lease payments in addition to a nominal fixed rent are rather common. Such contracts present a lower risk profile than fixed rent contracts as rental payments evolve in parallel with operating revenues and thus represent a variable as opposed to a fixed cost basis. We do not consider reporting an expected value of these variable rents as appropriate for the following reasons:

- A variable rent presents a reduced risk profile in comparison with a fixed rent. To present them both as a similar liability does not seem appropriate to us.
- As explained in Exhibit A, the statistical variance linked to the expected value may, in this case, be too important and so deny to the reported amount its relevance.
- Associated rights and obligations of the contract are totally interdependent.

Consequently, we support continuing the recognition of only minimum lease payments resulting from a legal or constructive obligation, be it complemented with adequate disclosures.

**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 rights-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, ... 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?

(a) While we understand an adjusted debt concept is already in force with financial analysts and rating agencies, presenting long-term rights and obligations separately on the face of the balance sheet is an innovative concept from a financial statement preparer’s perspective.

We believe that presenting rights and obligations on the face of the balance sheet too much focuses on a financial debt perspective. However, the reason that our business model includes lease contracts results from operational needs rather than from financial needs. Other than entities that use finance leases as a source of alternative financing, our approach is aimed at reducing risk, for example by focusing on variable rents. Hence, we do not favour the proposed approach as we feel it favours a single sided view that does not reflect the underlying business model correctly and so reduces the relevancy of financial statements taken as a whole.

From a more technical point-of-view, the present proposals introduce an asymmetry in presentation between lessee and lessor. We fail to understand the benefit or rationale of such asymmetric presentation. ED8 puts forward the interdependency of cash-flows originating from insurance contracts as an argument for netting rights and obligations. If this argument proves for lessor reporting, we do not see the rationale not to apply it to lessee reporting as well, the contractual terms being obviously symmetric. Furthermore, we believe rights and obligations under lease reporting may be interdependent as well:

- When variable lease payments apply (these are not insignificant amounts in our business);
- When contract breakpoints apply. Those breakpoints may even be dynamic (i.e. triggered by the occurrence of a specific event) rather than static (i.e. at pre-determined time intervals).
Furthermore, a net presentation approach would eliminate the need to provide an exception treatment for property that is held at fair value through profit or loss. The fewer exceptions, the more solid the underlying principle appears.

It is also not clear why the proposed presentation model should be limited to leasing rights and obligations. In our view, other long-term rights and obligations such as long-term service contracts and payroll obligations in a context of guaranteed employment terms generate similar rights and obligations. Yet, they do not require being reported on the face of the balance sheet.

For operating leases, we therefore believe a net presentation at lessee level to be more relevant. On the other hand, maintaining a distinct presentation between rights and obligations under finance leases, where the interdependence between rights and obligations seems absent, would then seem relevant.

Should, however, the final standard maintain the separate presentation of lease rights and obligations, we support presenting the rights-of-use as a distinct line under the proposed headings as we believe that the right-of-use of an asset should be classified in the same category as the underlying asset if it were owned.

In forthcoming case, we would like to draw your attention on a potential coherency issue.

Car park concession rights, which we own extensively, do appear to us an equally long-term rights-of-use of property. The main difference with leases is that concessions are usually paid upfront while lease payments are spread over the lease term. Other features such as right-to-control seem quite similar. Nevertheless, IAS38 (and IFRIC 12) require classifying concession rights under intangible assets. We see no obvious business rationale supporting such different classification.

Hence, we suggest aligning both standards in order to provide a unique classification for rights-of-use assets, preferable under the relevant property heading. Rights-of-use of property have, in our view, not much in common with trademarks or internally developed software. However, we regard property and rights-of-use on property sufficiently closely related on aspects as liquidity (both can be sold), duration (usually the useful life of the underlying asset), depreciation and valuation that all are aspects that determine the positioning on the face of the balance sheet. We therefore believe a presentation in the same property category of tangible assets to be more relevant.

**Question 18: Other comments**

ED9.12(a). The discounting rate should be the lessee's incremental borrowing rate or, if it can be readily determined, the rate the lessor charges the lessee

We do not support the proposed discounting rate for the following practical reasons:

- For a same contract, different tenants would report a different right-of-use asset for which the rationale seems not evident from a business perspective. For example, the corresponding right-of-use asset would be higher for a low leveraged tenant than for a highly leveraged tenant.
- Unlike financial obligations, rents applicable to our type of business are usually not priced according to the tenant's credit rating.
- Exception made for finance leases, the incremental borrowing rate or the rate charged by the lessor is usually not readily available.
• For long-term contracts, the application of such a rate combined with expected contingent rental payments may yield measurement amounts exceeding the fair value of the underlying asset, which would represent a rather counter-intuitive result.

From a coherency perspective, we would rather favour a market-consistent discount rate, such as proposed in ED8.30: "...discount rates that:

(a) are consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the ... contract liability, in terms of, for example, timing, currency and liquidity.

(b) exclude any factors that influence the observed rates but are not relevant to the ... contract liability (e.g. risks not present in the liability but present in the instrument for which the market prices are observed).

We are of the opinion that this definition would provide a coherent definition of discount rate for long-term contract liabilities and that it would address certain of the issues discussed above.