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

Dear Sir David,

As "Bundesverband Deutscher Leasing-Unternehmen" (BDL) we represent the interests of Germany’s leasing companies to legislators, public authorities and the interested public at large. The association includes around 200 leasing companies, ranging from small and medium-sized businesses to international leasing corporations. The BDL’s members account for around 90 % of new business generated in this sector in Germany, a market worth some € 42 billion in 2009. Hence, the German leasing market is the biggest in Europe. Around € 39 billion of the new business relates to movable assets, especially vehicles, machines and IT / office technology. In 2009 more than 21 % of all investments in movable assets in Germany were realised through leases. Thus leasing contributes significantly to overall economic investment needs. Since leasing is an essential source of financing for a great number of companies, interference in leasing inevitably results in major economic disturbances.

In the attached comment letter, we state our position on the above-mentioned Exposure Draft. In the first section, we make general comments on the Boards’ plan for reform. In the second section, we answer the list of questions provided.

The central criticisms from the perspective of the German leasing industry can be summarised as follows:

• The wide-ranging criticism raised in the comment letters on the 2009 Discussion Paper “Leases: Preliminary Views”, especially concerning the complexity of the reform approach and the performance obligation model for lessor accounting was not adequately taken into account. The impression is left that the quality of the new standard is being sacrificed to needless time pressure.

• It has still not been demonstrated convincingly that there is a need for a fundamental reform of IAS 17. The Boards misjudge the economic realities of leasing and are excessively focused on the avoidance of supposed structuring opportunities.

• The differentiation between leases and services is not convincing and there has been no sufficient justification of why the accounting treatment for leases should be different from that for economically comparable executory contracts.
• The de-linked approach for the subsequent measurement of right-of-use assets and liabilities violates the matching principle and results in a declining recognition of total expenses which contradicts the economic substance of leases.

• The probability-based consideration of lease term options and contingent rentals combined with the obligation to carry out constant reassessments result in excessive complexity, horrendous amounts of accounting work and, due to the subjectivity of carrying amounts, a derogation of the informational value of the statement of financial position. This creates a gross imbalance between accounting costs and information benefits.

• There is no good reason for a “hybrid approach” to lessor accounting. The performance obligation model is conceptually incompatible with the right-of-use accounting for lessees and results in a mistaken view of the statement of financial position.

In short, it can be said that the Boards have failed entirely in their own reform objectives:

• Owing to the subjectivity of carrying amounts, the informational value is not increased.
• Complexity is dramatically increased instead of reduced, as intended.
• Due to the probability-based treatment of operational periods and avoidable contingent rentals, lease accounting is not brought in line with the definition of assets and liabilities in the framework.

The best course of action would therefore be to withdraw the exposure draft and completely rework it. If the right-of-use concept is to be retained in spite of this, then at the very least

• only contractually agreed payments that cannot be avoided by the lessee should be included in the measurement of leased assets and liabilities,
• the performance obligation model should not be used under any circumstances in lessor accounting and
• an adequate “grandfathering” clause and a sufficiently long transition period must be ensured before the first-time application of the new lease standard becomes compulsory.

We would also draw attention to the proposal put forward by our European umbrella organization Leaseurope for a “Simplified Right-of-Use Model for All Leases”, which we expressly support.

Yours sincerely,

Bundesverband Deutscher Leasing-Unternehmen e.V.

Horst Fittler
Managing Director

Dr. Martin Vosseler
Director

Attachment
Comment Letter on Exposure Draft ED/2010/9 Leases

1. General Comments

Proceeding of the Boards does not contribute to the quality of the new standard

First it should be noted that the Boards have not adequately taken into account the criticism of the 300 Comment Letters on the Discussion Paper. Although the feedback from the comment letters was ambivalent overall, the complexity of the proposal and the performance obligation approach for lessor accounting in particular were criticised heavily. However, the Exposure Draft rather increases complexity than reduces it and the Boards still retain the performance obligation approach within their “hybrid model”.

The impression arises that the quality of the new standard is being sacrificed for the sake of the current convergence project by the IASB and the FASB and the time pressure which has arisen unnecessarily as a result. Instead of developing a conceptually convincing and uniform model for both lessee and lessor accounting, the inconsistent “hybrid approach” is being used for lessor accounting. The therein proposed performance obligation model is not compatible with the lessees’ right-of-use accounting and reflects the economic substance of leasing contracts completely inappropriately. The opportunity of creating a high-quality and conceptually consistent integrated standard for lessees and lessors should not be thrown away. We therefore recommend the Boards develop a new discussion paper which allows the constituents to discuss the two corresponding spheres simultaneously.

Despite the demands of the leasing sector and the EU Commission, the Boards failed to publish an impact analysis of the new accounting model before releasing the Exposure Draft. The cost-benefit considerations made by the Boards do not provide any quantification. Instead they are limited to the Boards’ purely subjective and inadequately reasoned statement that in their view the information benefits of the new approach would outweigh the initial and ongoing costs of use. The online survey, which inexplicably was only initiated by the Boards after having already released the draft, falls short in terms of quality and will hardly be suitable for providing a meaningful quantification of the accounting burden.

The Boards are yet to provide proof that the current IAS 17 requires such a fundamental reform and that the intended increase in transparency could not better be achieved by disclosing additional information according to users’ needs. The mere indication by the Boards that the current accounting for operating leases does not adequately show all arising assets and liabilities is no reasonable justification. Even the proposed model does not manage to bring lease accounting in line with the definition of assets and liabilities under IFRSs. The proposed right-of-use approach overstates assets and liabilities by recognising payments which do not meet the definitions of the framework, e.g. treatment of optional periods, avoidable contingent rentals.
Boards misconceive the economic substance of leasing

In our view, the current considerations of the Boards focus too much on extraordinary transactions and on the prevention of suspected structuring opportunities (see Sir Tweedie’s hypothetical example of an airline, which shows all aeroplanes as off-balance sheet operating leases). This misleading overall concept is obviously being used as a basis for **weighing up the information benefits of users against the costs for the reporting entity**. But the vast majority of leases are plain vanilla transactions which are mostly used to finance what can be referred to as “straightforward assets” such as cars, computers, copiers, etc. Such assets can easily be replaced and thus only play a minor role for entities. In Europe the average acquisition value of leased equipment is around just € 27,000. As a result, there is a serious imbalance in most cases between the benefits derived from information and the costs of accounting. This is also the finding of the *European Impact Survey 2010* (p.13), a study on the leasing reform undertaken by PwC PriceWaterhouseCoopers. In this study a clear majority of respondents (74 %) were of the opinion that the costs of the new lease accounting will exceed the benefits for users of their financial information.

Most companies that use leasing do so as an alternative source of financing for economic reasons: expanding their scope for investment by using third-party industrial goods in return for regular payments, concentrating on their core competencies by outsourcing the entire capital expenditure process, creating flexibility in the use of leased objects, keeping pace with technological advances. Balance-sheet motives such as structuring opportunities do not play any role here. The economic advantages of leasing are in danger of being vastly outweighed in future by unnecessary accounting costs. There is a reason to fear that the new accounting standard will negatively influence decisions that are rational in both micro- and macroeconomic terms instead of focusing on presenting them appropriately. Thus the principle of decision neutrality of accounting is violated. This leads to serious economic ramifications. Accordingly, the aforementioned *PwC European Impact Survey 2010* (p.14) found that preparers of financial statements will change the way in which they conduct their leasing business as a direct result of the proposed provisions.

Proposals lead to serious conceptual flaws

The new accounting model leads to an arbitrary deviation from the accounting treatment of other executory contracts. The boundary between leases and service contracts is difficult to define and in the commercial reality the two components merge more and more into all-round packages, e.g., full service leasing, fleet management. As a result, extensive additional information is needed by lessees in order to be able to separate them. This inevitably leads to difficulties in defining the scope of the new standard. At the boundaries of the scope, there is a danger that economically similar transactions get accounted for in totally different ways. While the Boards wish to remove the criticised “dividing line” between finance and operating leases, under the new approach this line will simply shift to preparers having to determine whether a contract is a lease or a service.

Because of the broad definition of leases on the one hand and the very different accounting treatment of very similar transactions beyond the boundaries of the scope (e.g. service, purchase / sale) on the other, **concrete and useful criteria to support a robust distinction** need to be provided. However, we have not identified such
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Criteria in the Exposure Draft. In particular, the criteria defined as a guidance to separating embedded service elements in a lease are totally insufficient. In addition, the criteria for distinguishing between purchases/sales and leases are inconsistent and not harmonised. Beyond that, there is no definition of the notion “specified asset”.

The economic rationale for lease arrangements and their pricing is the distribution of the economic risks and rewards of the underlying asset between lessee and lessor. However, the Boards’ main criticism of the current accounting treatment relates to the distinction between operating and finance leases, which is based on precisely that distribution of risk and rewards. Abandoning this distinction in favour of a merely theoretical concept inevitably results, when implemented in practice, in issues and inconsistencies throughout the standard. By replicating criteria from the existing IAS 17, the Boards simply shift the necessary assessment of whether risks and rewards have been transferred to different levels, especially regarding the differentiation between leases and purchases as well as between the performance obligation approach and the derecognition approach. The Boards clearly fail in their purpose and, with this mix of current criteria and a “new theoretic concept”, inevitably create an unstable and incomprehensible legal situation.

We are of the opinion, that the new accounting model does not provide an appropriate allocation over time of the costs incurred and the corresponding earnings and thus violates the matching principle. Revenues and expenses that result directly and jointly from the same transaction or other events must be matched (Framework, F 95). With regard to leases and other executory contracts, this means that the customer recognises the contractual payment when it receives the corresponding benefit from the contractual agreement. The proposed concept, which leads to a declining recognition of the total expenses of the lease transaction (because of the “de-linked approach”), disregards this coherence and therefore violates the accrual basis principle. This inconsistency can only be removed by implementing the “linked approach”, whereby the lease liability is apportioned between a finance charge and a reduction in the outstanding liability and the decrease in the lessee’s right-of-use asset is determined by using mortgaged-based amortisation.

Probability-based measurement causes complexity and reduces information benefits

The probability-based treatment of options and contingent rentals is one of the main criticisms of the new accounting model. It substantially contributes to the excessive complexity and unreasonably high accounting costs. Furthermore it leads to serious conceptual flaws with the framework and other IFRSs and diminishes the true and fair view of financial statements instead of improving it.

The determination and documentation of probability distributions for lease terms and contingent rentals is completely impractical and entails a tremendous amount of work. Thousands of lease transactions may be affected at a single lessee and even more at large lessors. Since the Boards basically adhere to the reassessment and adjustment of probability estimates at each reporting date, the work involved increases exponentially. The restriction that such reassessment is necessary only if facts or circumstances indicate that there would be a significant change is no actual relief. The reporting entity (and the auditor) still needs to screen all existing lease transactions in order to establish whether such indicators exist and quantify their potential impact in respect of the significance criterion. Moreover, no guidance is provided on how “sig-
significant” should be interpreted, thus practicability and comparability are derogated still further.

Due to the fact that probabilities cannot be determined empirically, they are inherently based upon purely subjective assumptions. This runs contrary to the aim of providing objective financial reporting that improves the comparability of financial statements. No one, neither an auditor nor a user of financial statements, is in a position to review or interpret balance sheet items appropriately that result from mere assumptions which are above all subject to constant reassessment. Structuring opportunities will be extended instead of restricted. The accounting principle of reliability is violated. Due to the subjectivity of the probability-based balance sheet items, no objective view of the economic reality can be provided. In their attempt to take every detail and every single situation into consideration, the Boards lost sight of the global implications. As a result, they fell short of their reform objectives to improve the information quality of financial statements for lessors and lessees.

The Boards do not dispute that the probability-based treatment of term options does not meet the definition of a financial liability in accordance with the IFRSs; instead they think of their procedure as a “practical solution” (BC 117). No less problematic is the fact, that the lessor would recognise assets (in the form of receivables) or potentially even revenues they are not entitled to, because their realisation depends on the disposition of the lessee (exercise of the option). This gives rise to the question of what conceptual added value is provided by the new approach. The Boards are of the opinion that, under the current IAS 17, assets / liabilities are understated – in any case, they will be overstated in the future. Moreover, it contradicts intuition when the granting of options, which provides the lessee with more flexibility and reduces its risks, leads to a higher presentation of financial liabilities and therefore suggests higher risks and inappropriately distorts the assessment of creditworthiness.

The Boards don’t deny that the accounting treatment of (avoidable) contingent rentals is also inconsistent with other accounting standards. Moreover it seems counterintuitive that performance- or usage-based contingent rentals, which actually get the lessee into a better risk position, must be accounted for as an additional liability and thus suggest higher risks. Apparently the Boards accept this drawback for the sake of counteracting structuring opportunities within the proposed concept. This also raises the question of whether the proposed accounting model really leads to conceptual improvements.

Performance obligation model does not reflect lease transactions appropriately

The current proposals require lessors to use a hybrid model based on the assessment of the exposure to the risks and benefits associated with the underlying asset. However, it is precisely the risk and benefit approach, that provides the basis for the distinction between operating leases and finance leases under the current IAS 17. And precisely this distinction based on risk and benefit is said to cause application problems and is named as one of the main criticisms of the current IAS 17 by the Boards. We fail to understand why the Boards want to eliminate the risk and reward approach for lessee accounting but establish a new risk and reward based model for lessor accounting. And we fail to understand why the Boards retain the performance obligation approach for the vast majority of all lease transactions even though it was rejected by a three-quarters majority in the comment letters on the Discussion Paper.
The performance obligation approach is conceptually incompatible with the right-of-use approach on the lessee side. It does not make sense to account on the lessor’s side for an obligation to perform during the lease term while the lessee accounts for an unconditional obligation to make lease payments. Furthermore, the performance obligation approach represents the economic substance of lease transactions in a completely inappropriate way with the double recognition of a lease-asset and an additional lease-receivable / performance obligation. There is reason to fear that this will compromise refinancing opportunities for leasing companies and that the supply of leasing as a source of finance would decrease as a result, with macroeconomic effects on the investment supply.

The basically desirable conceptual integration of lessee and lessor accounting is not achieved by means of the Exposure Draft. The current proposal regarding lessor accounting is inconsistent, unnecessarily complicated and impairs the true and fair view as well as the comparability of financial statements. The complete removal of the performance obligation approach on the lessor side is therefore of highest priority. If the Boards cannot agree on a uniform application of the derecognition model, then retaining the current lessor model according to IAS 17 and its proven differentiation between operating and finance leases would be preferable to all other considerations on lessor accounting. Since users of financial statements are not apparently interested in a reform of lessor accounting, this would be the better solution, even if the Boards were to adopt their proposed right-of-use accounting model for lessees. Thus, no reform of lessor accounting at all would still be preferable to an entirely failed reform.

Conclusion: Proposals utterly fail to achieve the objectives of the Boards

- Due to the subjective probability-based measurement, transparency and decision usefulness of financial statements are impaired instead of increased, as intended.

- In particular, the treatment of term options and avoidable contingent rentals with aligned reassessment requirements, the distinction between leases, services and sales / purchases, and the hybrid model for lessor accounting strongly increase complexity instead of reducing it, as intended.

- The accounting of lease payments for optional periods and for avoidable conditional payments is incompatible with the framework and other IFRSs. The Boards are therefore failing in their objective of aligning lease accounting with the IFRS asset / liability concept.

So to sum up, the new accounting approach utterly fails to achieve the declared objectives of the Boards. Moreover the proposals lead to serious conceptual flaws. We are convinced that the intended increase in transparency could be better achieved through adjustments to the existing IAS 17 – especially through reasonable additional disclosures according to users’ needs – and without disproportionately increasing the costs of accounting. In light of this, the entire Exposure Draft should be withdrawn and re-drafted after a fundamental revision.
However, if the right-of-use concept is to be retained, it is at least necessary

- that only contractually agreed unavoidable payments are included in the valuation of rights of use and lease liabilities,

- that application of the performance obligation model (even partially) is completely waived for lessor accounting and

- that adequate transitional provisions in the form of “grandfathering” for all existing leases are put in place.

In this regard we also refer to the “Simplified Right of Use Model for All Leases” published by our European umbrella association Leaseurope, which we emphatically support. If the right-of-use accounting is to be retained, this alternative model provides a coherent practical concept, which avoids the main points of criticism of the Exposure Draft.

In any case, a new accounting model with on-balance-sheet treatment of all leases will lead to a burden for reporting entities. Lessees are effectively forced to introduce lease contract management systems in order to meet the reporting requirements at each reporting date. The adaption of IT-systems and the gathering and processing of lease data in particular will cause additional efforts. In order to allow the reporting entities and their IT-providers enough time to make the substantial changes, there is a necessity for a reasonable transition period of several years between the date on which the standard is adopted and the date on which it first becomes effective. This need is also underlined by the PwC European Impact Survey 2010 (p. 9), which found that European companies will not be able to implement the standard in its current form.
II. Response to Exposure Draft Questions

As stated above, we hold the opinion that the Exposure Draft should be withdrawn due to its fundamental flaws. Nevertheless, in addition to our general comments and subject to our fundamental objections, we answer the questionnaire as follows in order to make a contribution to the detailed discussion:

Question 1a: Lessees
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?

No. The Boards have not sufficiently substantiated that IAS 17 requires such fundamental reform as entailed in the transition to right-of-use accounting. The mere assertion that assets and liabilities arising under an operating lease are not accounted for appropriately is no reasonable justification. The right-of-use model – at least as it is specifically defined in the present Exposure Draft – gives rise to new and much more profound breaches of the framework and other IFRSs.

If the basic concept of right-of-use accounting is to be retained at all, fundamental modifications will be required for implementation to avoid conceptual inconsistencies and an excessive burden for preparers of financial statements. Altogether, we are still of the opinion that the objective of an increase in transparency can be better achieved by detailed changes to the current IAS 17 (e.g. reasonable additional disclosures).

Question 1b: Lessees
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 the right-of-use model is to be retained at all, we would agree that lessees should generally be enabled to recognise their expenses as amortisation of the right-of-use asset and interest expense. Regarding the proposed recognition of expenses, however, we consider a linked approach to be necessary, whereby the lease liability is apportioned between a finance charge and a reduction in the outstanding liability and the decrease in the lessee’s right-of-use asset is determined by using mortgage-based amortisation.

Assets and liabilities of a lease contract are intrinsically linked as they originate from one contract. This explicit connection between the right-of-use asset and corresponding liability is recognised by the Boards themselves and reflected in the concept of initial measurement. Disregarding this connection (coherence) for subsequent measurement does not add to the feasibility in application or the understandability of the standard. We believe that the users of financial statements would not appreciate different concepts on initial and subsequent measurement as this implies that economically similar events will be accounted for differently on a systematic basis.

Hence, in the interests of true and fair presentation and comparability of financial statements, this special feature of leasing must be accommodated by an adequate assessment via a linked approach. Otherwise it would lead to an inconsistent situation.
where the recognition of assets and liabilities of a lease contract with, for example, an initial term of 10 years and a residual term of 5 years would be totally different compared to a new lease contract for the same 5-year-old used asset with identical lease payments and the same (residual) term of 5 years.

Furthermore, without the linked approach, the declining interest expenses on the lease liability together with the straight-line amortisation of the right-of-use asset lead to a declining recognition of total expenses. This contradicts intuition and the economic substance of leases, since the value in use of the leased asset is constant over time. Therefore, in order to enable an appropriate link between the costs incurred and the corresponding earnings in accordance with the matching principle, the linked approach must be applied.

We are well aware that there may be cases in which the right-of-use asset becomes impaired or increases in value without there being a change to the lease liability with the consequence that the carrying amount of an asset and corresponding liability may no longer match. However, we believe that such circumstances should not be used as an argument against a subsequent measurement based on the linked approach. On the contrary, we are convinced that the impending losses imminent in the lease agreement caused by an extraordinary event (i.e., an impairment) are presented more clearly if right-of-use and lease liability develop simultaneously.

**Question 2a: Lessors**

*Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risk 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?*

No, we do not agree. The existing accounting model for leases requires entities to classify their leases as either finance leases or operating leases, based on exposure to the risks and rewards associated with the underlying asset. However, the Boards considered this model to be problematic and thus initiated a project with the objective of eliminating such a differentiation. Given this fact, we fail to understand why precisely such a differentiation should now be implemented for lessors. Nor can we understand why the Boards consider it necessary for different accounting concepts to apply to lessors depending on the economic substance of leases, but not to lessees. The Boards’ proposal therefore appears to be quite inconsistent.

The criteria provided in the Exposure Draft for distinguishing between the performance obligation and the derecognition approach deviate from the criteria provided in IAS 17 for distinguishing between operating leases and finance leases, although they are both based on the risks and rewards approach. In practice, this means that existing guidance cannot be used and, as such, applying the new standard will not be easier compared to IAS 17, but rather more complicated. The wording of the criteria allows the conclusion that the mistaken performance obligation approach would have to be applied to nearly all common lease contracts in Germany, since a significant residual value, which is realised either through sale on the market or to lessees, or through subsequent transactions, always remains with the lessor.
Generally, there is no need for a differentiation of several accounting models for lessors, which would only lead to unnecessary complexity. Based on the assumptions of a right-of-use model, the derecognition approach is essentially suitable for all kinds of leases. For reasons of simplification, short-term leases should nevertheless be accounted for as executory contracts (see answer to Q3). In contrast to the performance obligation approach, the derecognition approach is conceptually in line with the proposal for lessee accounting and leads to an appropriate presentation of the economic substance of lease transactions. The performance obligation model should be abandoned in favour of sole application of the derecognition model.

**Question 2b: Lessors**

*Do you agree with the Boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?*

We emphatically reject the proposal with regard to the performance obligation approach. The recognition of a performance obligation for lessors is conceptually incompatible with the recognition of a right-of-use asset and a lease liability for lessees. If a lessor has an ongoing performance obligation, then he does not fulfil his obligation merely upon making the leased asset available to the lessee, the contract does not cease to be an executory contract and the lessee cannot recognise an unconditional lease liability and an unconditional right-of-use asset. Not least because of this conceptual discrepancy, the performance obligation approach was rejected by a three-quarters majority in the comment letters on the Discussion Paper.

The performance obligation approach also conveys a mistaken view of the balance sheet on the asset side. It is incomprehensible why simply concluding a lease contract would generate an additional asset not affecting the original asset, i.e., the leased asset. Why should a lessor account for 100 % of an asset he has leased out on a non-cancellation basis for 80 % of its useful life, in addition to the lease receivable? The receivable was recognised on the balance sheet because 80 % of the benefit inherent to the object was transferred to the lessee and is no longer at the lessor’s disposal. But it makes no sense then to still account for 100 % of the leased asset.

Revenue recognition under the performance obligation approach also conveys a misleading image of the economic circumstances. Within manufacturer leasing contracts, the manufacturer’s profit can only be realised over the lease term. But in order to enable adequate comparability between lease transactions directly with manufacturers and those involving independent third-party leasing companies, it would be appropriate, to realise the manufacturer’s profit up front. The Boards obviously wanted to make allowances for this deficiency by scoping out de facto sales. However, this leads to further conceptual damage and unnecessary complexity.

According to the Exposure Draft, a lessor shall present the right to receive lease payments and the performance obligation as a net lease asset or a net lease liability. With this decision the Boards are clearly attempting, ineffectually, to compensate for the misleading effects resulting from the performance obligation approach. Although the Boards hereby concede that the chosen approach is conceptually flawed, presenting a net lease asset or a net lease liability cannot repair this mistake. The only solution is to reject the performance obligation approach entirely.
Concerning the derecognition approach, we generally agree with the proposal in the Exposure Draft, based on the assumptions of a right-of-use model. This model is a coherent application of the right-of-use approach for lessors. In this model, the leased asset is consistently regarded as a bundle of rights. The part of the bundle being transferred by the lease arrangement to the lessee is accounted for as a disposal. In this way, all lease agreements are recognised according to their economic substance.

However, the residual value should not remain constant over the term of the lease, otherwise revenue is deferred to the end of the lease contract. It is preferable for the residual value to be written up over the lease term, in order to present a lessor’s contractual yield which reflects the commercial reality. “Freezing” the residual asset, as proposed in the Exposure Draft, would lead to a lessor’s return on assets being lower than contractual yield at the beginning of the contract, decreasing over the lease term and only increasing significantly when the lessor sells or releases the underlying asset. Furthermore, “freezing” the measurement of residual assets would not reflect the lessor’s risk exposure appropriately and would restrain comparability between manufacturer and third-party lessors, because the contractual yield of the financing component of the transaction shown by these parties would not be identical.

Given the above-mentioned unwinding of the residual value discount over the lease term, the revenue recognition within the derecognition approach is generally welcome. It differentiates appropriately between interest income and manufacturer profit. Where it makes economic sense, i.e., in manufacturer leasing, the (partial) derecognition model allows up-front realisation of manufacturer’s profit to the extent it relates to the sold part of the bundle of rights represented by the leased asset. But in the case of conventional third-party leases, the lessor generally acquires the asset at fair value, such that no profit is recognised up front, rather only interest income is recognised over the contract term.

In summary, if right-of-use accounting is to be adopted, we would recommend the sole implementation of the partial derecognition model with accretion of the lessor’s residual asset for all leases (except for short-term-leases) and a complete rejection of the performance obligation approach. Only in this way would a consistent concept for lessor and lessee accounting be realised. Limiting the concept to a single lessor model significantly reduces complexity, since this makes it possible to dispense with the assessment of risks and rewards and the definition of de facto sales required to scope them out in the performance obligation model. Alternatively, retaining unchanged the current lessor model under IAS 17 with its differentiation of operating and finance leases would be preferable even if the Boards were to implement the right-of-use model as planned, despite the objections raised.

**Question 3: Short-Term-Leases**

*Do you agree that a lessor or a lessee should account for short term leases in the proposed way? Why or why not? If not, what alternative approach would you propose and why?*

Due to the fact that, especially within short-term leases, the accounting work required is not commensurate with the information benefits received, there is an urgent need to simplify such lease transactions in order to reduce the unnecessary accounting burden for lessees.
However, the Boards’ suggestion is far too simplistic. Basically, all it does is to dis-
pense with the discounting of lease payments, which will not noticeably simplify the
process in practice. The accounting burden will not be alleviated. We rather suggest
the treatment of lessees’ short-term-leases as executory contracts in line with the cur-
rent operating lease concept pursuant to IAS 17.

Regarding the treatment of short-term leases on the lessor side, we agree with the
proposals in the Exposure Draft. From our point of view this is a proper consideration.

**Question 4a: Definition of a Lease**

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

No, we see an urgent need for modification. Please see Q4b and Q4c for further ex-
planations.

**Question 4b: Definition of a Lease**

*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?*

The differentiation between leases and de facto sales appears to be arbitrary. Al-
though the transactions described in B9 and B10 resemble purchases, up to a certain
point (settlement of final lease payment, exercising of purchase option) they funda-
mentally differ from purchases in terms of the legal position of the customer and
therefore continue to be leases. The differentiation for the purpose of scoping out de
facto purchases increases the complexity of the new standard and reduces the com-
parability of financial statements, since it leads to a totally different accounting treat-
ment depending on whether the transaction is in scope or out of scope, although the
economic differences are sometime small on both sides.

By scoping out de facto purchases, the Exposure Draft merely shifts the differentiation
of operating and finance leases – which was criticised by the Boards – with partially
identical criteria to the level of a differentiation between purchases / sales and leases.
But it makes no sense at all to sacrifice the hitherto well-defined and coherent defini-
tions within one standard (here: IAS 17) for a combination of complex assessment
rules and unclear definitions between different accounting standards. For instance, the
classification of a lease contract with a bargain purchase option as a notional pur-
chase / sale leads to insurmountable problems. In order to avoid permanently
changing between leasing and purchase / sale standards due to the continuous
reassessment of the favourability of options, the Exposure Draft (B9) stipulates that
assessment should take place only at inception. This simultaneously leads to a
violation of a basic principle of the Exposure Draft, namely the inclusion of a
continuously remeasured expected outcome. It is incomprehensible, why a lease
contract with a purchase option assessed to be bargain at the inception of a lease, but
which becomes unfavourable during the contract term and is therefore not exercised,
should be accounted for as a purchase / sale. The current differentiation based on
economic risks and rewards within one standard appears to be much more consistent.
In addition, the scoping out is clearly also used to provisionally compensate for the deficiencies of the performance obligation model with respect to revenue recognition (see Q2b). If the performance obligation model were to be abandoned, the scoping out could be dispensed with, too.

The criteria for differentiating between leases and purchases / sales are neither coordinated nor coherent. The proposed leasing standard regards a transaction as a purchase / sale if control and substantially all risks and rewards of the underlying asset are transferred. By contrast, in the ED Revenue from Contracts with Customers, the transfer of control is the sole criterion for a purchase / sale. This leads to a situation where, for example, a lessor who has transferred control to the lessee but agreed on contingent rentals and therefore has not transferred substantially all risks and rewards, cannot account for a sale under the ED Leases whilst the provisions of the ED Revenue from Contracts with Customers indicate a sale. This problem would be solved by applying solely the derecognition approach.

**Question 4c: Definition of a Lease**

*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?*

No, we do not regard the suggested criteria for distinguishing between leases and services to be appropriate. Since the proposed right-of-use accounting for leases differs fundamentally from the principles governing the treatment of other executory contracts, a significant elaboration of the economic differences between leases and services, if any, is absolutely vital. Otherwise a different accounting treatment cannot be justified. The current draft is lacking in a theoretically convincing justification based on differences in economic substance.

Consequently, this leads to a fundamental accounting mismatch of economically equivalent issues. Hence it is incomprehensible, why the provision of transport capacity (including driver) by a haulage contractor should be treated completely differently from the transfer of use of a specific truck (without driver) by a leasing company. The mere circumstance that in one case a specified truck, in the other case an unspecified truck chosen by the contractor is used does not provide convincing justification.

Generally it can be assumed that, with regard to objects which can de facto be replaced at any time due to a liquid market, the customer is interested in receiving a service package rather than acquiring the right-of-use of a specified asset. The same applies to contracts where the service component is much more significant in terms of value than the right-of-use / financing component. Typical examples for such contracts are rentals of copiers or computers. In these cases the customer is only interested in receiving copies or in running its office software. The object by which the service is provided to the customer is irrelevant. Often the asset's serial number is included in the contract only in order to enable the entity granting the contact to track its assets and secure them in the case of non-payment for instance.

If the criterion of determinability of the object is to be taken into account, we suggest narrowing the definition in order to reduce distortions. A lease should only be assumed if there is a definite contractual or de facto exclusion against a provider replacing the object involved in his service provision with another one. This will normally not be the
case, if the provided asset could easily be replaced at any time because of a liquid market or if the relative fair values of the right-of-use / financing component and the service component indicate that a contract contains a predominant service package. The component of time should also be taken into account for differentiation purposes. Only if the clearly specified asset is surrendered to the service recipient for a relevant part of its useful life can a differentiation from other services be justified – if at all.

**Question 6: Contracts that contain service components and lease components**

*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?*

Payments for service components should be ignored when measuring the lease-related assets and liabilities of both lessor and lessee. Instead, service components should be treated in accordance with the generally agreed principles for services.

Regarding the differentiation between leasing and service components, a distinction must be made between lessors and lessees. The lessor will always be able to readily differentiate between leasing and service components, since they form the basis for his business model and calculations. The lessee, however, does not generally have any insight into the lessor’s calculation and potentially has a more limited market overview than the lessor for third-party comparisons. The lessee must therefore be given broad discretion to make estimations. It is not acceptable that a lessee is “penalised” by treating an entire contract as a lease when in doubt, as proposed. This would also be inappropriate in terms of conceptual considerations.

**Question 7: Purchase Options**

*Do you agree that a lessor or a lessee should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessor or a lessee should account for purchase options and why?*

We agree. By excluding purchase options, the Exposure Draft avoids a violation of the definition of a liability, which would have occurred under the earlier proposals of the Discussion Paper.

**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?*

No, we emphatically reject the proposal and concur with the criticisms made in the dissenting votes from Stephen Cooper (see paragraph AV1 et seq.). Including payments for optional periods is not consistent with the definition of liabilities under IFRSs because the lessee can avoid them by not exercising the option. As such, there is no unconditional obligation. Furthermore lessors would recognise receivables or even revenues they are not entitled to, because their realisation depends on the disposition of the lessee (exercise of the option). Thus the definition of an asset is not met. Whilst
the Boards previously criticised an understatement of assets and liabilities arising under lease arrangements, they currently accept an overstatement and thus fail in their overall objective of bringing lease accounting in line with the definition of assets and liabilities under IFRSs.

In practice, lease term options are arranged because the lessee does not know the required lease term in advance and hence wants to preserve flexibility. Through the option the lessee gets into a better risk position. The Board’s proposal is diametrically opposed to this objective. A lessee is forced to make an (inherently arbitrary) assessment of the lease term, which is precisely what he wanted to avoid. Including optional periods when measuring a lease liability incorrectly suggests higher instead of reduced risk. This effect is amplified because the lessor claims higher lease payments in return for granting the option, which in turn gives rise to a higher lease liability.

Since the required probabilities are empirically neither observable nor verifiable, the proposed approach leads to a highly subjective assessment which contradicts the comparability and true and fair presentation of financial statements. Consequently a distinct escalation in structuring opportunities is inevitable — especially with regard to the regulations on reassessment (see Q10). Moreover the concept only conveys pseudo-accuracy since (in some cases arbitrary) deviations in subjective probabilities by just a few percentage points may exert a substantial impact on book values. Ultimately the probability-based lease term assessment, combined with the probability-weighted measurement of performance- or usage-based contingent rentals is the main source of the excessive complexity and the inordinate accounting burden arising under the new concept. There is an extreme imbalance between this burden and decision usefulness.

These major flaws arising from the new concept could be avoided if the probability-based measurement was to be replaced by focussing on contractually agreed unavoidable payments. Concerns regarding structuring opportunities in this case are unfounded. The granting of options exerts a significant influence on the risk position of both lessees and lessors as independent contracting parties and consequently on the amount of the agreed lease payments. The lessor would only accede to the replacement of a contractually arranged lease term with an optional period at the lessees’ discretion, if either the lease payments under the shorter lease term were raised to such an extent that the lessor would generate the same amortisation, or this was assured by means of a residual value guarantee. The right-of-use model “automatically” takes this effect into account by measuring the present value of the (higher) lease payments. With regard to residual value guarantees, the “built-in” obviation of structuring opportunities could be enhanced by including these guarantees at their maximum amount payable instead of their expected amount payable (cf. answer to Q9). If the lessor does not insist on higher lease payments or the granting of a residual value guarantee, the distribution of risks will shift to his disadvantage, making a reduction in the lessee’s right-of-use asset and lease liability justifiable in any case. Either way, there is no scope for structuring considerations.

If optional periods are to be included in the measurement of lease assets and liabilities at all — we prefer a general abandonment (see above) — at least a significantly higher probability threshold should be chosen for determining the lease term, e.g., “virtually certain”. The previously established principle “significant incentive to renew”, which is based on contractual principles and at the same time contains a probability-based approach, is preferable to the proposed new principles because it is significantly easier
to apply, conveys more realistic results, induces fewer reassessments and is more in line with the IFRS framework.

**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?*

*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 disagree. With regard to the general criticisms of the probability-based-measurement, which leads to complexity and excessive accounting costs and hugely derogates the true and fair presentation and comparability of financial statements, we refer to Q8 as well as to the alternative view expressed by Stephen Cooper, with which we concur. In addition, the approach determined using expected outcomes based on different scenarios always results in a liability which, by definition, cannot arise in that amount.

We suggest differentiating between variable lease payments and contingent rentals. **Variable lease payments** cannot be avoided by the lessee. It is only the amount to be paid which is uncertain, depending on specific indices or interest rates. Therefore, variable lease payments should be included when measuring the right-of-use asset and the lease liability at the values assigned to them at the date of inception. Changes during the lease term should be recognised directly in profit and loss as they arise. As laid down in IAS 17, residual value guarantees could be accounted for with their maximum amount payable, if that is deemed necessary in order to avoid suspected structuring opportunities when abandoning the probability-based approach for optional periods (cf. answer to Q8).

By contrast, **contingent rentals** depend on the fulfilment of certain conditions and as such are not unconditional obligations for lessees. Typical examples are performance- and usage-based contingent rentals. Such payments do not meet the definition of a liability and should therefore not be taken into account when measuring the right-of-use asset and the lease liability. Contingent rentals should be recognised directly in profit and loss only once the event that causes the corresponding payments has occurred. Once again, concern that such a treatment would open up additional structuring opportunities is unfounded. In these cases, the mechanisms are similar to those which have already been described in Q8 in the context of lease term options.

The conceptual inconsistency in the treatment of contingent rentals proposed under the Exposure Draft can also be seen in the asymmetry between lessors and lessees. Lessors are only permitted to recognise revenues by including contingent rentals in the lease receivable if the amount of the contingent payments can be reliably estimated. Whether or not contingent rentals can be reliably estimated is particularly doubtful from the perspective of lessors, because they are contingent on the actions and decisions of lessees (e.g., in the case of performance- and usage-based pay-
ments). However, this circumstance cannot be reconciled with the concurrent assumption of an unconditional obligation by the lessee under the definition of a liability. Doubts about reliability on the one side and an unconditional obligation on the other are mutually exclusive and cannot result in a simultaneous recognition on the lessee side and the lessor side. We therefore firmly reject the recognition of contingent lease payments for both lessees and lessors.

Question 10: Reassessment
Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or 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?

No, we do not agree. Requiring periodic reassessments at each reporting date only serves to intensify the problems related to the treatment of uncertainty – complexity, excessive accounting costs and massive derogation of the true and fair view and comparability of financial statements. It is precisely this continuous reassessment that opens up a vast field of structuring opportunities. Changes in probability assessments by preparers of financial statements, which are in any case subjective, are almost impossible to understand or to verify for third parties (e.g., investors or auditors). The floodgates will be opened to the arbitrariness of preparers of financial statements. Complexity and the accounting burden are taken to extremes by the reassessment obligation.

Restricting reassessments to cases where there is an indication of significant change does little to alleviate the situation. Large lessees and even more lessors can hold thousands of contracts. At each reporting date, every lease arrangement would have to be reviewed for indications of changes in value and such changes would then have to be tested for significance. Once again, there is a complete imbalance between costs and information benefits.

For an alternative approach, please refer to Q8 and Q9, where we proposed abandoning the probability-based approach for determining lease terms and in the treatment of contingent rentals and instead using only the contractually agreed unavoidable payments. With this approach, the problems relating to prospective reassessments will not arise. Events which have an impact on the original underlying cash flow are only recognised through profit and loss once they occur.

Question 11: Sale and leaseback
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?

First of all, it should be noted that the extensive list of criteria in B31 that preclude a sale / purchase hardly seems consistent with a principle-based standard setting process. We don’t in general accept the proposition that a sale and subsequent leaseback, both being arranged at arm’s length, may not be accounted for as such. If the
Boards are of the opinion that assets and liabilities arising under leases would be recognised appropriately in the right-of-use model, then why should the same not apply to an object sold to the lessor by the (thereafter) lessee at arm’s length?

Question 12a: Presentation - Statement of financial position
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?

Given the distinct nature of leases and their characteristics, we believe that leases should be presented separately in the balance sheet – for example, under a separate asset class from intangible assets and property, plant and equipment, as well as in a separate liability class.

In any case, it is crucial that a lessee’s right-of-use assets are presented in the financial statements separately from assets it owns outright. Otherwise, there is no way to distinguish between assets owned by the company, and those leased by the company, which would give rise to difficulties, for instance, in the event of the lessee going bankrupt.

As it stands, the Exposure Draft results in the recognition of intangible assets together with tangible assets. If this issue is not resolved, it could have serious implications, for example, for lessees in the banking industry and their capital requirements. In our opinion, there is a need to discuss further the nature of the lessee’s right-of-use asset.

Question 12b: Presentation - Statement of financial position
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 reject the use of the performance obligation model for lessors since it fails to reflect the economic reality. The arising issues of presentation are evidence of this.

Question 12c: Presentation - Statement of financial position
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?

The distinct nature of leases and their characteristics also applies to lessor accounting. As such, we would propose that lessors also introduce a “leases” category for the separate recognition of lease receivables and lease residual assets.

Since residual assets are effectively rights to “future” assets, and thus different to property, plant and equipment in the normal sense, we believe they should be shown separately. Such a presentation would lay bare to stakeholders a lessor’s credit and asset risk.

Question 12d: Presentation - Statement of financial position
Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, 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 agree, for the reasons given in BC156. The “leases” category could be subdivided into receivables and residual assets relating to head leases and subleases.

Question 13: Presentation - Statement of comprehensive income
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? Why or why not?

We consider separate presentation to be essential. If interest and amortisation expenses are not shown separately from non-lease expenses, users will be unable to determine a lessee’s total lease operating expenses. We believe lessees should be allowed to determine for themselves in the future whether interest and amortisation expenses arising under leases relate to financing, investing or operating activities.

Question 14: Presentation - 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 or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Yes.

Question 15: Disclosure
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 or why not? If not, how would you amend the objectives and why?

In view of the fact that the use of a probability-based approach is an attempt to merge uncertain future parameters into a single balance sheet item, the required notes are far too extensive. It begs the question, what are the information benefits of the new accounting model with its on-balance-sheet treatment of operating leases, if the additional balance sheet items would at best be interpretable by searching through the epic notes. Reasonably determined additional disclosures in the notes would be acceptable if they were to be introduced instead of, but not in addition to right-of-use accounting.

Question 16a: Transition
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 or why not? If not, what transitional requirements do you propose and why?

We fundamentally object to the application of the new lease accounting standard to all currently existing lease contracts without any “grandfathering”. This causes excessive costs of conversion for the companies concerned and could lead to distortions if, for example, financial covenants are based on certain key performance indicators, which will be affected by the transition. The same holds for companies like banks that are subject to capital requirements depending on balance sheet assets. Furthermore we object to the details of the conversion procedure. Paragraph 92 of the Exposure Draft states that existing finance leases are also to be included in the conversion process, even though the information can be of little interest. On the lessee side, there are frequently transition losses, while the lessor is required to perform a time-consuming and error-prone estimate of the fair values of used equipment.

In addition, due to the complexity of the new accounting rules and the completely inadequate solution to differentiation issues, effects on profit and loss arise which are neither interpretable nor comparable. Take, for example, the case of sales with repurchase agreements, as frequently offered by manufacturers, which are currently accounted for as operating leases with regard to their economic rationale. In the future, the profit margins from these sales will no longer be deferred and therefore the deferral from all running contracts is lost due to the recognition as transition adjustments directly in equity. Consequently, after transition it will not be possible to account for results from those lease contracts in an appropriate way, which will give rise to significant distortions in the long term. The same applies to lessees, e.g., for deferred profits from sale and finance leasebacks, since these sales often will not qualify as a sale under the proposed Exposure Draft due to the much more strict rules. Further inconsistencies also arise, for example, through the above-mentioned front loading of expenses under the right-of-use approach.

In order to avoid the above-mentioned distortions and the uncontrollable effects on profit or loss arising from the conversion of the entire lease portfolio to the new standard, “grandfathering” is imperative.
**Question 16b: Transition**

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

Yes, a voluntary, fully retrospective application would be desirable. In particular, this would prevent lessors from needing to estimate fair values for used equipment (see Q16a).

**Question 16c: Transition**

*Are there any additional transitional issues the Boards need to consider? If yes, which ones and why?*

Generally it must be considered that the new standard necessitates an extremely complex adaptation of IT systems for both lessees and lessors. Enough time should be granted to the companies for this purpose. Comprehensive system migration could not be accomplished before 2015 at the very earliest. An earlier start date would be unrealistic from the outset.

**Question 17: Benefits and costs**

*Paragraphs BC200–BC205 set out the Boards’ assessment of the costs 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 consider the Boards’ cost benefit analysis to be completely inappropriate and unsubstantiated. They rely purely on the unsubstantiated assumption that the information benefits gained by the proposed new standard outweigh the costs of its first-time adoption and ongoing application. No quantification is provided at any time.

In reference to the deficiencies on the benefit side of the proposed new standard, please see our statements on various other issues. In particular, the proposed probability-based treatment of uncertainty has a substantial adverse effect on the true and fair view and comparability of financial statements. Indeed, the proposals regarding recognition give the impression of taking every detail faithfully into account. However, due to the subjectivity of the probability-based values, they enable apparent accuracy at best. In this respect it is doubtful whether the new standard provides any significant information benefits compared to IAS 17.

As far as costs are concerned, the Boards obviously believe they have given adequate consideration to the huge amount of criticism in the comment letters with their modifications to the treatment of options and contingent rentals and the “simplifications” for short-term leases (cf. BC 205). However, these steps have not perceptibly alleviated the situation. The basic problem of measurement based on probabilities combined with the excessive costs incurred in calculating, documenting and verifying the probabilities remains. Even the implementation of a significance criterion for reassessment does not produce any significant alleviation, as already mentioned in Q10. Moreover, several of the modifications made since the Discussion Paper have actually increased complexity and therefore created even more accounting work: in practice, excluding de facto sales from the scope of the standard creates many difficulties in differentia-
tion, as does differentiating between the performance obligations and the derecognition approach on the lessor side on the basis of the new criteria for the risks and rewards analysis. In net terms, the accounting costs previously excoriated in comment letters on the Discussion Paper are likely to increase even further as a result.

This is also the finding of the *PwC European Impact Survey 2010* (p.13), where a clear majority of respondents (74 %) were of the opinion that the costs of the new lease accounting will exceed the benefits for users of their financial information.

However, it would help to significantly improve the cost-benefit ratio if – as already called for elsewhere – the probability-based treatment of lease term options and contingent rentals were to be abandoned. This step would result in positive effects on both sides: costs would decrease clearly and the true and fair presentation and comparability of financial statements – and hence decision usefulness – would be improved.