Re: Exposure Draft « Leases »

Thank you for the opportunity to comment on the IASB and FASB Exposure Draft ED/2010/9 Leases. Our company, Accor, hospitality’s company representing an important part of the European hospitality companies, has considered this exposure draft (ED) and our comments follow.

We share with IASB and FASB the wish that financial statements reflect the most complete and understandable picture of an entity’s leasing activities so that the users of financial statements receive relevant and reliable information of their leasing activities at a reasonable cost to preparers. We understand, too, criticisms leveled against the current model and the wish of the Boards to eliminate opportunities to structure transactions so as to achieve a particular lease classification. We are ready to find solutions to resolve these difficulties.

However, we do not support the accounting model for lessees proposed in the ED “Leases”. We think that the approach proposed by both Boards to recognise, for all leases, an asset representing the right to use the leased asset and a liability for the obligation to pay rentals, is not the best accounting approach to have on apprehending leases in the entities’ financial statements especially in the current context of financial crisis.

We have indeed the following concerns:

1. The project is based on a view of leases which do not comply with the reality: entities as hospitality’s entities sign leases for many various economic opportunities (in particular to benefit from flexibility) and not to achieve a certain type of accounting presentation. Consequently, the project does not traduce the economic reality of the contracts as assuming that any lease is a financing of the purchase of an asset, which we consider to deny the economics of many of these arrangements. Increased transparency should not be at the cost of a misrepresentation of the reality.

2. The Boards still propose to recognise assets and liabilities that do not fulfil the definition of asset and liability – especially for contingent rents and optional periods which, finally could not be paid.

3. The Boards propose asymmetrical accounting principles between the lessee and the lessor when this one must apply the performance obligation approach whereas the accounting approach for the lessor and the lessee should be a “mirror” approach.
4. **The macroeconomic impacts of the proposed approach are too strong** especially in the context of the current crisis:
   - The application of this project will entail a strong risk that entities turn away from leases;
   - The project could put in danger the survival of some private entities;
   - The project will have strong significant repercussions on the entities’ financing and also on financial markets because the increases will not be without consequences on the entities’ ratings, on their debt capacities, on their stock-exchange rating and especially on their obligation to hold additional equity.

5. **The standard’s procyclical nature could have catastrophic effects, particularly on businesses such as ours that are sensitive to changes in economic conditions.** Indeed, the project will lead to different disconnections:
   a. The cash flow paid by the lessee will be disconnected from the impact recognised in the statement of comprehensive income.
   b. The results realized by entities during economic cycles as crisis or prosperity will be disconnected from the results published by entities during these cycles due to two reasons:
      i. The difficulties to estimate contingent rentals and lease term;
      ii. The impact in the statement of comprehensive income that is higher in the earlier years of a contract than in the last years of a contract.

6. The Boards do not answer the targets that they settled. We think that:
   - **Costs to preparers will be completely disproportionate** with regard to the expected benefits (please refer to answer to questions 8 and 9);
   - Because of the complexity of leases and of the numerous assumptions and assessments to make necessitating statistical approaches, the proposed approach will not describe in a reliable and relevant way the entities’ leasing activities. Two similar transactions could always be accounted for differently whereas two different transactions will be accounted identically. We believe that comparability for users will not increase and that users will always adjust financial statements.
   - **Bright-lines will not disappeared and will be just moved and even more numerous** because the model proposed relies on a complex distinction between a lot of categories of transactions:
     i. Leases that meet the definition of a purchase or a sale of an “underlying asset”;
     ii. Leases for which the lessor retains exposure to significant risks or benefits;
     iii. Leases for which the lessor doesn’t retain exposure to significant risks or benefits;
     iv. Short term leases.
7. States and entities are expecting prudential and permanent accounting standards and not standards that trigger high volatility.

Volatility and procyclicality will be increased if, as the Boards propose, contingent rentals are included in the lessee’s obligation to pays rentals. Contingent rentals based on the lessee’s performance derived from the leased item or on usage are not fixed costs but are considered and analysed as natural hedges by entities as by rating agencies.

8. We believe that the Boards should articulate a clear conceptual basis for the differentiation between leases and other non-lease executory contracts. If the Boards support this new approach in which executory contracts must be recognised as assets and liabilities, we do not understand why, in order to be consistent, the Boards do not apply this approach to other non-lease executory contracts as:

- Employee contracts: entities commit to pay wages during a term in exchange for the right to ask for the best skills of the employee;
- Firm commitments or supplier orders signed for several periods: entities commit to purchase commodities for minimal amounts and/or for definite period in exchange for the right to obtain the commodities;
- Contracts with statutory auditors: entities commit, at the inception of the contract, to pay fees to their statutory auditors during the term of the contract, in exchange for the right to obtain audit reports;
- Service contracts signed over several periods (such as insurance policies): entities commit to pay insurance premiums over future periods in exchange for the right to be insured;
- ...

We also note that despite the overall changes that may result from these proposals, no real effective and widespread field testing has been conducted.

We believe that the primary objective in developing a new standard should be to improve the usefulness of financial information, and we therefore think that this ED does not represent an effective improvement over the existing IAS 17 as:

- The proposals are based on a view of leases which do not comply with the reality;
- The proposed model is not based on well-established consistent principles and lacks of robust conceptual basis;
- The Boards propose to recognize assets and liabilities that do not fulfil the definition of asset and liability;
- The proposed model is costly, complex to implement, source of volatility and procyclicality and very risky in terms of economic and financial.

This new approach will permit neither to address criticisms levelled by the current approach nor to provide a complete and understandable picture of the entities’ leasing activities and will result in much more numerous and important new criticisms.

Consequently, we consider that this ED should not be issued as a standard.
However, in an effort to contribute constructively to the process, we propose to the Boards to make the following improvements to the current Standard.

1) *To improve principles that permit to better distinguish in-substance purchase leases (leases signed for financial reasons) from other lease contracts (signed for economic reasons). In-substance purchase leases would result in the recognition of the assets and liabilities arising in the lease contracts as required by the substance over form principle. We believe that the current indicators of situations disclosed under IAS 17 today may be a good first basis to make distinction between in-substance purchases leases and other lease contracts;*

2) *To propose additional disclosures in Notes about leases in order that users of financial statements receive relevant and reliable information and so that financial statements provide a complete and understandable picture of the entity's leasing activities;*

*Please refer to our answer to question 1 below in which we suggest improvements*

In addition to these main comments, answers to the detailed questions of the invitation for comment are provided in the appendix.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

Kind regards,

Sophie Stabile
Chief Financial Officer
Accor
Question 1 - Lessees

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

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?

a) We do not agree that the lessee has to recognize a right-of-use and a liability for its obligation to make lease payments.

We think that the lessor is not under the obligation to « transfer » the lessee a right to use an item at the inception of the lease but is under the obligation to « let the lessee use the item during all the lease term ». Consequently, there is no transfer of right-of-use at the inception of the contract because the transfer of control takes place throughout the lease term. The lessee has no right-of-use at the inception of the contract and consequently recognises no asset in respect of the lease. The lessee’s right-of-use is conditional on making payments under the lease. If the lessee stops making payments, the lessor can remove its right-of-use.

Moreover, we think that the obligation to pay rentals is not "current" but conditional on the lessor permitting the lessee to use the item throughout the lease term. If the lessor decides to break the lease contract (by paying compensation to the lessee for example), the lessee does not have obligation anymore to pay rentals. Therefore, the obligation to pay rentals does not meet the definition of a liability.

We consequently support the executory contract approach as described in appendix C6 to C7 of Discussion Paper.

b) We do not agree because the proposed model is based on a view of leases which do not comply with the reality.

Entities do not sign leases to achieve a certain type of presentation but for many various economic opportunities as:
- To benefit from flexibility in case of temporary decrease or increase of business;
- to concentrate on their core business without having to worry about considerations linked to ownership, such as the maintenance, insurance or disposal of the asset;
- to have the possibility to finance 100% of the purchase price of an asset without having to offer any supplementary guarantees (as for a borrowing);
- to have the opportunity to renew the leased assets, thereby ensuring that they can benefit from the latest available technologies and remain competitive;
- to better manage their working capital by spreading payments over the life of the asset rather than by financing them immediately;
- ...
The Boards appear to have failed to analyze the economic substance of leases since they propose to recognise all lessees’ leases as if they were financing arrangement.

c) However, we agree with the Boards that it is necessary to fight against opportunities to structure transactions in order to achieve a certain type of accounting presentation even if contracts concluded in the only purpose to achieve a certain type of accounting presentation are minority.

Consequently, we ask the Boards:

1) To think about principles that will permit to distinguish in-substance purchases leases from other lease contracts. In-substance purchase leases would result in the recognition of the assets and liabilities arising in the lease contracts as required by the substance over form principle. We believe that the current indicators of situations disclosed under IAS 17 today may be a good first basis to make distinction between in-substance purchases leases and other lease contracts.

Example of Accor: in order to distinguish in-substance purchase leases from others leases, all the hotels’ contracts are today analysed one by one. Not only the current indicators proposed by IAS 17 § 10 are analyzed but also and above all the substance, the form of the contract are analysed too in order to determine if the lessor retains some risks and rewards incidental to ownership. The form of the contract is as important as the indicators proposed by the IAS Board. For each contracts, we try to know if the contract has been signed for financial reasons or economic reasons.

2) To propose additional disclosures in Notes about leases in order that users of financial statements receive relevant and reliable information and so that financial statements provide a complete and understandable picture of the entity’s leasing activities.

Example of Accor: rating agencies and investors are today pleased with the information published in the Notes of our financial statements. Accor is used to present, for its Hotel Division:

a. its entire future minimum rental commitments for each of the 15 future periods (and not by category of periods);

b. its rental expenses for the period broken down by type of rents (fixed rents with and without purchase options, contingent rents, contingent rents with minimum guarantees…) and type of brands of leased hotels;

c. The number of contracts;

d. The rental expenses by segment;

e. A main description of its significant lease contracts;

f. ...

For information, rating agencies and investors are not interested in the future minimum rental commitments for the “non-core” contracts (i.e. lease contracts of phones, computers, photocopiers…) and they do not ask to Accor this information.
Question 2 - Lessors
Do you agree that a lessor should apply the performance obligation approach when the lease exposes the lessor to significant risks and benefits associated with the underlying asset, and a derecognition approach otherwise? Why or why not? If not, what alternative model would you propose and why?

Do you agree with the boards’ proposals for recognition of assets and 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?

As developed in answer to question 1, we support the executory contract approach for lessee as for lessor.

Moreover, the accounting approaches proposed for lessors, based on the principle of significant risks and benefits associated with the underlying asset, is not consistent with the accounting principle proposed for lessees, based on the control of the right-of-use.

At least, the performance obligation model proposed for lessor is not consistent with the right-of-use model for lessee; if the lessee has bought the right-of-use asset and therefore has an unconditional obligation to pay for it, it is inconsistent to consider that the lessor still has the continuing obligation to provide the lessee with the underlying asset throughout the lease term. We think that the accounting approach between the lessee and the lessor must be a “mirror approach”.

Question 3 – Short-term leases
The Exposure Draft proposes that a lessee or a lessor should apply simplified requirements to short-term leases, defined in Appendix 1 as leases for which the maximum possible lease term is twelve months or less:

(a) At the date of inception of lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term.

(b) At the date of inception if a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term.

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative model would you propose and why?

The simplified requirements proposed by Boards to short-term leases are not simplified requirements. The main burden for lessee is the cost of identifying and tracking a large number of
expected lease payments, rather than the cost of discounting them. Moreover, the application of the accounting model for lessee may prove complex, especially when the contract includes contingent rentals.

To mention just one example:

- It will be difficult for groups with hundreds subsidiaries to identify and measure all individual leases which are negotiated by subsidiaries and not by the Head Office;

- In the case of Accor, Accor will have to analyze over 10,000 leases at each period-end, at considerable cost for the company: the valuations will be very time-consuming, generating significant payroll costs.

We propose to recognise short-term leases as there are recognised today according to the current IAS 17. Please, note that entities have very few short-term leases for which maximum possible lease term is twelve months or less without options to renew.

Moreover, we think that it would be more pertinent to distinguish core asset leases from non-core asset leases (leases of fax, photocopiers, computers...) and to exclude non-core asset leases from the scope. Indeed:

1) Users of financial statements are not interested in having an asset and a liability for non-core asset leases;
2) To gather and compile the information for leases of equipment as fax, computers, photocopiers and other is complex and time-consuming because of the volume of the leases, and the structure of the entity with hundreds of subsidiaries all over the world.

Exclusions of non-core asset leases:
- Will limit the workload triggered by the new approach and will allow preparers to present financial statements at a reasonable cost (objective described in DP-IN 23).
- Will permit to fight against opportunities to structure transactions so as to achieve a particular lease classification while not forcing entities to apply this new approach to their lease contracts committed for many valid economic opportunities.

We think that non-core assets could be defined as “all assets which do not directly generate revenue”.

Question 4 – Definition of a lease
The Exposure Draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed for a period of time, in exchange for consideration. The exposure draft also proposes guidance on distinguishing a lease from a contract that represents a purchase or sale and on distinguishing a lease from a service contract.

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
We have no specific comments.

As reading paragraphs B2 and B3, **we understand that contracts of leases of equipments as computers, fax, phones, photocopiers, cars... are excluded from the scope** of this project because these contracts do not provide specified asset.

(b) **Do you agree with the criteria in paragraph 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?**

We note that the Boards reintroduce “bright lines” whereas they wanted to abolish “bright lines”: “The [current] models also lead to a lack of comparability and undue complexity because of the sharp of “bright-line” (ED. Introduction).

The right-of-use model proposed by the Boards is much more complex than the current one (operating lease versus finance lease). As reintroducing bright-line as this one, there are a lot of risks that entities turn to contracts that represents a purchase or sale. Indeed, optional periods and contingent rents will not be included in the measurement of the purchase/sale and it will be easier, for companies to recognise a purchase/sale than to apply the right-of-use model. The “bright-lines” will be moved.

(c) **Do you think that the guidance in paragraph 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?**

The Boards seem to have taken up IFRIC 4. It is important to distinguish a service from a lease because service mustn’t be recognised as lease. But, the Boards should be aware of that they introduce too here a new “bright-line”. Companies could structure their contracts in order to maximize the service component and to minimize the lease component.

Moreover, the Boards didn’t resolve existing application difficulties and interpretations linked to the application of IFRIC 4 that will now affect all lease contracts with services’ component.

**Question 5 – Scope exclusions**

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

**Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?**

We agree with almost all the scope. We support the exclusion of the intangible leases from the scope.
But we disagree with the exclusion of investment properties that are measured at fair value. There is no conceptual basis for excluding investment properties that are measured at fair value. The Boards say that they could not justify distinguishing a right-of-use asset relating to a core asset from one that relates to a non-core asset. The position is the same for investment properties. How the Boards could justify distinguishing a right-of-use asset relating to an investment property from one that relates to the leases of other assets? We think that the measurement of investment property at fair value permits to show the fair-value of the investment property and doesn’t reflect the value of the right-of-use.

Moreover, when a lessee will lease an investment property measured at fair value in the lessor’s statement of financial position, the lessee will have to recognise an asset and a liability regards to this asset, whereas the lessor will recognise nothing. It is not consistent with the mirror approaches for lessee and lessor.

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

The exposure draft proposes that lessees and lessors should apply the proposals in *Revenue from Contracts with Customers* to a distinct service component of a contract that contains service components and lease components (paragraph 6, B5-88 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract;

(b) The IASB proposes that:

a. A lessee should apply the lease accounting requirements to the combined contract.

b. A lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

c. A lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in *Revenue from Contracts with Customers*.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We believe that when a contract includes both lease and non-distinct services, a lessee should identify the predominant component and treat the whole contract accordingly.

**Question 7 – Purchase options**

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC 63 and BC 64).
Do you agree that a lessee or a lessor should account for purchase option only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree that a lessee or a lessor should account for purchase option only when they are exercised. Amounts to be paid under purchase options are not present obligations and consequently do not meet the definition of a liability as long as the decision to raise the purchase option was not taken.

But we do not understand why options to extend are treated differently. Both, amounts to be paid under purchase options and options to extend, don’t fulfil the definition of a liability because there are not present obligations. Consequently, both should be excluded from the measurement of the asset.

These differences in accounting treatment will result in confusion consequences or could bring uniformity where differences exist.

Example 1: Assuming a lease of 10 years with an option to purchase and another lease of 10 years with an option to extend for 5 new years:

(a) For the lease with the option to purchase, the lessee will recognise a right-of-use asset and a liability amounting to rentals due over 10 years without considering the purchase price.

(b) For the lease with the option to extend, the lessee will recognise a right-of-use asset and a liability amounting to rentals due over 10 years if the probability to occur of the option to extend is less than 50%.

Both contracts will have the same accounting treatment whereas they are quite different.

Example 2: Assuming a 10-year lease contract and a 5-year lease contract with a 5 years option to extend. The same financial positions could be reported for the 2 contracts whereas these 2 contracts are different.

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?

We disagree because we think that options to extend should be recognised as assets / liabilities if they meet the definitions of an asset and if they can be measured reliably. We agree with the conclusions of the Boards stated in DP that conditions for measuring options in lease contracts reliably may not be met. However, we do not believe that the alternative to no reliable measurement can be recognition of rentals to be paid under options to extend that do not meet the definition of a liability or that do not meet the Framework’s recognition criteria for liabilities (reliable measurement).

We disagree too because we share the concern expressed by Stephen Cooper. Companies as ours negotiate options to extend in order to benefit some flexibility to react to changing business
circumstances and in order to reduce risks. Exercise of optional lease periods depends on future business conditions. Options have a cost and we do not negotiate options to extend only for accounting purposes.

Moreover, the term “the longest possible term that is more likely than not to occur” is excessively complex to understand and to implement and the estimation introduce a lot of subjectivity. We have no idea whether the options will be renewed or not because companies do not think in terms of probability.

For example, Accor is used to negotiate the following options to extend in its contracts: lease term of 12 years with 6 options to extend of 12 years each one. Accor has already signed more than 500 contracts of hotels with this term. These options to extend are negotiate in order to benefit flexibility if case of business difficulties and to reduce risks for Accor. Accor has no idea if it will exercise these options to extend or not. According to the principle proposed by the Boards, Accor will have to estimate probabilities for future scenarios that will be highly unlikely whereas Accor will be able to estimate the likelihood of changing from one scenario to another only at the point that it decides to change its plan. The Boards ask to companies to think in terms of probability to occur but companies do not think like this. The exercise asked by the Boards is hard, complex, will result in liabilities that will be overstated and will not provide useful and reliable information for the user.

At least, we also agree with Mr Stephen Cooper’s view expressed in AV4 concerning the impact of this approach applied to lessors, because it will underestimate the business risks retained by lessors which grant such options.

Consequently, we ask to the Boards that lessee and lessor determine the lease term as the most likely term of the lease that will reflect best the estimation of the future payments. This principle should be gone with additional disclosures in Notes that will permit to provide a useful and a reliable information for the user.

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?

We disagree and think that contingent rentals (based on the performance or the use of the asset), expected payments under option penalties and residual value guarantees should be excluded from the measurement of the asset and liability.

1. Contingent rentals (based on the performance or the use of the asset):
   - Contingent rentals based on the performance or the use of the asset, do not meet the definition of a liability because they can’t be reliably measured and they are at the discretion of the entity.
   - Contingent rentals linked to the use of an asset do not form part of the business’s fixed costs but are included in the calculation of Ebidtar, i.e. the profit before fixed costs that
serves to cover fixed costs. Contingent rents linked to the use of an asset are natural hedges that are in no way equivalent to fixed lease payments.

- Rating agencies systematically exclude contingent rents from their calculation of group’s adjusted debt. They consider contingent rentals based on the performance or the use of the asset as natural hedges and not as fixed costs.
- Measurement of contingent rentals is judgement-based due to underlying uncertainties.

<table>
<thead>
<tr>
<th>Year</th>
<th>Change in the average expense of contingent lease payments compared to precedent year</th>
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<tbody>
<tr>
<td>2005</td>
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<tr>
<td>2006</td>
<td>34.4%</td>
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<tr>
<td>2007</td>
<td>-6.6%</td>
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<tr>
<td>2008</td>
<td>18.5%</td>
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<tr>
<td>2009</td>
<td>-30.6%</td>
</tr>
<tr>
<td>2010</td>
<td>-43.3%</td>
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<tr>
<td>Between 2005 and 2010</td>
<td>-41.4%</td>
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</tbody>
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Because of the complexity of leases and of the numerous assumptions and assessments to make, measurement and remeasurement of hundreds contingent rentals at each period-end is costly, complex and judgment-based and reflecting them in the measure of the lessee’s liability will not provide relevant information and will not describe in a reliable and relevant way the entities’ leasing activities. This is in direct contradiction to the IASB’s stated aims.

2. Expected payments under option penalties:
   - Expected payments under option penalties do not meet the definition of a liability because the obligation results from a future decision of the lessee.

3. Residual value guarantees:
   - Residual value guarantees do not meet the definition of a liability because the obligation results, too, from a future decision of the lessee.

We think that information about contingent rents based on the performance or the use of an asset, expected payments under option penalties and residual value guarantee should be provided in Notes.

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 do not understand the conceptual basis that allow the lessor to exclude contingent rentals, expected payments under term option penalties and residual value guarantees which are not measured reliably whereas the lessee has to include them in its obligation.

For example, in a contract which payments are only based on the performance of the asset, the lessor will present a receivable and a lease liability equal to zero because it can’t measure reliably the lease payments whereas the lessee will present a right-of-use and a liability equal to the present value of the lease payments that it will estimate. This will lead to two inconsistent treatments.

Moreover, as described above, contingent rentals, expected payments under term option penalties and residual value guarantees do not meet the definition of a liability because there can’t be reliably measured and because they are at the discretion of the entity.

So, we think that they should be excluded from the measurement of the right to receive lease payments.

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?

As mentioned in the replies to Question 8 and 9 above, we do not support the proposal that options to extend the lease term and contingent rentals based on performance or usage are included in the measurement of lease receivables and payables as proposed by the IASB.

We agree that there should not be a requirement for systematic remeasurement on a periodic basis and agree with a remeasurement 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.

Question 11 – Sale and lease back
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?

No opinion

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 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?
In the context of the Boards’ approaches:
- We agree that lessees should present liabilities to make lease payments separately from other financial liabilities.
- We do not agree that lessees should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property. The Boards explain that the asset is a right-of-use the leased asset. But, a right-of-use does not meet the definition of a property, plant and equipment because it is not tangible but intangible. For this reason, we think that the right-of-use asset should be present as if they were intangible assets, within intangible assets but in a special category. Moreover, this will be consistent with the proposition made by the Boards to amortize the right-of-use asset in accordance with IAS 38.

(b) 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?

No opinion

(c) 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?

No opinion

(d) 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?
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?

No opinion

Question 13: 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 think that this is a matter for management’s judgement to resolve. We think that it depends on the amount and on the utility of the information. It is not interesting to present the amounts in profit...
or loss for leases of equipments as fax, phones, computers... but it may be interesting to have this information in the profit or loss for leases of core assets.

**Question 14: 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?

Please refer to answer to question 13. The answer is the same.

**Question 15 - Disclosures**
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 70-76 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

Yes, we think that this information is very useful. We think that to disclose a lot of information in the Notes will permit users of financial statements to receive a relevant and reliable information and a complete and understandable picture of the entity’s leasing activities. We think that disclosures will provide most interesting information than to recognise all leases in the financial statements. Indeed, to recognise all leases in financial statements is costly, complex to implement, source of volatility and procyclicality and very risky in terms of economic and financial consequences because the amounts that will be registered will never represent the real value of the debt.

*Please, refer to the information that Accor is used to disclose in our Registration Document. Our analysts and rating agencies told us that they were pleased with this information which they consider as complete.*

**Question 16 - Transition**
- (a) The exposure draft proposes that lessees and lessors should recognize 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 are in favour of the simplified retrospective approach that the ED proposes.

- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

No, it is too complex to implement
(c) Are there any additional transitional issues the Boards need to consider? If yes, which ones and why?

Yes, for leases that were classified in accordance with IAS 17 Leases as finance lease and have options, contingent rentals... Which value should be recognised in the financial position? The value under the current IAS 17 or the value under the proposed IFRS? If we have to retain the value under the proposed IFRS, where must be recognised the difference between the two values?

Question 17
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 disagree with the Boards. We think that the costs of the proposals will outweigh the benefits even if the Boards propose to reassess the asset and the liability only if there is an indication of a significant change in the expected lease payments.

Indeed, a lot of leases present contingent lease payments and options that are quite difficult to estimate.

As you could read in our answer to Question 9 in the example displayed by Accor, the contingent lease payments fluctuated each year from +34.4% to –43.3% between 2005 and 2010. These significant changes will oblige Accor to reassess all its assets and liabilities at each closing date (2 times a year). These reassessments:

1) are unduly burdensome.
2) will result in the presentation of amount that will never reflect the future lease payments because they can’t be reliably estimated. The published information will be misleading.

Moreover, with hundreds subsidiaries in all over the world, our three companies will have important practical difficulties:

- to gather and compile lease information;
- to determine the appropriate discount rate for each contracts; especially for leases of equipments as fax, photocopiers, and computers...

We will have to dedicate full-time persons in order to implement the Boards’ proposals and to follow the assets and liabilities’ assessments for an additional information that will be neither pertinent, neither useful for users but misleading and not reliable.

Question 18
Do you have any other comments on the proposals?

Could you please, insert in the future standard, examples regarding the initial recognition and the subsequent recognition for the lessee side especially for a lease that contains contingent rents...
based on the performance of the asset and when these contingent rents differ from the one estimated in the current year?