International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

14 December 2010

Dear Sir/Madam

Exposure Draft, ED/2010/9 Leases

Statoil welcomes the opportunity to submit comments on the exposure draft for Leases. We support the IASB’s efforts to amend IAS 17 in a way that better addresses the major concerns with this standard that have been raised over the years. We think a new standard should aim to increase comparability for financial statement users and reduce structuring opportunities often resulting in unrecognised financing under the current standard.

To increase comparability we think it is important that contracts are accounted for in accordance with their economic substance in that contracts with different risks and characteristics are accounted for differently and vice versa that contracts with similar risks and characteristics receive the same accounting treatment.

We believe the main intentions and underlying concepts behind the existing IAS 17 are still valid, and that the main criticism has related to true financing arrangements not being recognised on the balance sheet. We do not think users of financial statements look at lease contracts covering periods that constitute a minor portion of the useful life of an asset as financing. We think users rather view these contracts as operational contracts with significantly more flexibility than true financing arrangements which are either meant for the main portion of an asset’s useful life or by other means effectively transfer the significant risks of ownership from the lessor to the lessee. Our concern mainly relates to an in our opinion weak analysis of lease “assets” and “liabilities” against the framework definitions, as well as the significant risk that operational contracts which could be almost identical in nature, regardless of the extent to which an asset is or may be used in the fulfilment, may be accounted for differently.

The existing IAS 17 has been criticised because similar contracts are being treated differently and the standard allows for potential structuring. In our opinion the suggested model in the Exposure Draft is not robust enough to reduce these risks if implemented.
Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Kind regards
Statoil ASA

Eldar Saetre
Chief Financial Officer
The accounting model

The exposure draft proposes a new accounting model for leases in which:

a) a lessee would recognise an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraphs 10 and BC5–BC12). The lessee would amortise the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.

b) a lessor would apply either a performance obligation approach or a derecognition approach to account for the assets and liabilities arising from a lease depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraphs 28, 29 and BC23–BC27).

Question 1: Lessees

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

We believe the main intentions and underlying concepts behind the existing IAS 17 are still valid and that the main criticism has related to true financing arrangements not being recognised on the balance sheet. We do not think users of financial statements look at lease contracts that are truly meant for periods that constitute a minor portion of the useful life of an asset as financing, but as operational contracts with significantly more flexibility than true financing arrangements meant for the main portion of an asset’s useful life.

We agree that the existing lease standard sometimes result in similar contracts being treated differently, but we believe this situation could be remedied by minor modifications to the existing standard. The problems of similar contracts being treated differently, as well as potential structuring, will in our opinion not be reduced if the suggestions in the ED are implemented. We also do not believe that operational lease contracts and finance lease contracts should be accounted for in the same way, as these have different economic characteristics and represent different risks.

We agree that unconditional rights and obligations generally create assets and liabilities, but that further recognition criteria are required. Hence we think e.g. that the past event criteria in the asset definition should be kept, and that performance obligations have to be made good on (ie. delivered/received) before assets and liabilities are recognised. We believe the performance obligations under a lease are satisfied gradually, as also
discussed in the ED in paragraphs 37 and 38. Hence, we believe the transfer of only the right-of-use does not complete the lessor’s performance obligations on day one, but gradually over the lease period. This should in our view also apply to the lessee. On this basis we do not agree that a lessee should recognise a right-of-use asset and a liability to make lease payments.

We also believe most constituents are used to thinking of rentals or leases, which are not in substance purchases, as services delivered gradually as time passes, not as the sale of an asset for a limited time period. This view is, as we see it, in line with the performance obligation approach and the revenue recognition model.

In the exposure draft, however, the most critical part of the concept for recognising leased assets on the balance sheet of the lessee, rests on the derecognition model and the assumption that the lessor (who retains significant risks for an asset for the majority of its life) has delivered and completed his performance obligations at the time the right of use of the asset is transferred to the lessee. I.e. the date on which the lessor makes the underlying asset available for use by the lessee (commencement date).

The fundamental criterion behind the suggested model is the disaggregation of an asset into a number of rights and that the transfer of a few of these rights, namely the rights specifically related to the use of the asset for a certain period of time, completes the (lessor’s) performance obligation at the time the asset is transferred from the lessor to the lessee. We believe this way of looking at a transfer of only the right of use of an asset for a period of time, but not other risks and rewards related to the asset, is a fundamental change to the interpretation of the existing asset and liability definitions and the framework.

A conceptually sound principle-based way of looking at lease assets and liabilities would most likely impact other assets and liabilities that could potentially be treated in a similar way. Hence, we would recommend that before a new asset recognition model is introduced in individual IFRSs, a broader assessment of the consequences should be performed. We would particularly urge the IASB to elaborate further on the Framework and asset recognition criteria before new accounting rules for leases are implemented.

Our concern about making such fundamental changes in one standard without a broader assessment also relates to what accounting interpretations may subsequently
be made by analogy or applying antithetical views. If the rules only apply to a narrowly defined area of accounting, there is a significant risk of creating rules-based standards.

Currently we do not think the suggested model is less complex than the existing IAS 17, although this has been one of the main objectives. We are also questioning whether the problems with existing standards have been sufficiently addressed. One of the main criticisms of the existing model is that operating leases and finance leases are treated differently. This will definitely change under the suggested model in the way that two contracts with totally different financial risks will be recognised somewhat similarly (although one will recognise the actual asset and the other will recognise cash flows for the expected lease term) on the balance sheet. However, some service contracts that, more or less incidentally, involve the use of an asset will be subject to a totally different accounting treatment than other almost identical service contracts. We are not convinced by the arguments in the ED that the problems of similar contracts being treated differently, as well as the potential for structuring, will be reduced if the suggestions are implemented. Hence, we strongly suggest that more field testing is performed. We particularly think it is important that a thorough evaluation of the users' assessment of the suggested changes is performed before a final standard is issued, particularly to avoid preparers incurring significant implementation costs on a standard that only marginally, if at all, improves responding to users' needs.

b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

As discussed above we think the risks and economic characteristics should decide the accounting treatment. We do not believe the right-of-use assets should qualify for recognition as "assets". As such we believe rental costs should be presented as operating costs and not as amortisation or depreciation of assets.

Should, however, the IASB conclude that the right-of-use assets qualify as assets and liabilities, we are of the opinion that the assets are intangible in nature and should be measured consistently with the guidance in IAS 38 Intangible Assets.
We agree that interest should be recognised for liabilities measured at their present values. We also think it is important that the Boards aim to have financial liabilities accounted for as consistently as possible across different standards. Hence the lease liabilities should be treated consistently with the guidance in the standards for financial liabilities/instruments.

Question 2: Lessors

Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

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?

As discussed above, we think the best lease accounting could be achieved by minor amendments to IAS 17. Especially for lessors we think the existing model works well.

However, assuming that leased assets are to be recognised on the balance sheet regardless of whether the contracts are financing arrangements or operating arrangements, we think the only justifiable model to lessor accounting is the partial derecognition approach (BC 21). We do not support a hybrid approach, and would strongly prefer one single approach to lessor accounting.

Under the performance obligation approach, the lessor starts recognising revenues from the time the lessee is permitted to use the underlying asset and over the lease term. Hence, the performance obligation is satisfied continuously during the lease term. It is, however, argued that the lease ceases to be an executory contract after the date of commencement of the lease. If the lessee has an obligation for the full term of the lease from the time initial access to the asset is obtained, it follows that from that moment, the lessor has completed the execution of his part of the transaction. Hence, recognising revenue continuously during the lease term under the performance obligation approach seems inconsistent with the fundamental rationale for recognising the right-of-use asset (lessee has an unconditional obligation to pay for the right-of-use asset over the full lease term as soon as the lessor has provided access to the leased item) on the lessee's balance sheet.
We support the IASB’s efforts to reduce complexity in financial reporting and have difficulties understanding the IASB’s proposal to, in our view, significantly increase complexity in lease accounting. As we see it there is no doubt that the Exposure Draft’s introduction of two different models for lessor accounting will contribute to increased complexity.

We find it relevant to ask whether replacing the current lessor model in IAS 17 (or alternatively a modified version of IAS 17), with one or both the proposed models, will enhance the quality (decision usefulness) of financial information. Furthermore, it is hard to see all the practical consequences of the proposed model at this stage. Hence, we urge the board to carry out field studies of how the model can be applied in practice. This, and the fact that this is the first time the lessor approach is exposed (with its magnitude and possible far-reaching consequences), leave us concerned that this approach is not sufficiently mature to be included directly in a standard.

**Question 3: Short-term leases**

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).

We note the significant attention and focus by the IASB and the project group to the simplified requirements and, although we do not disagree with the suggested simplified requirements for short-term leases, we believe the simplification will hardly be noticeable in practice.

As we generally believe that short term leases are not financing arrangements, but similar in nature to other supply contracts or operating services received over a given time period (see discussions above), we think the simplification rules should be developed to the effect that short term leases will not be recognised on the balance sheet.
We believe accounting for short term leases in the way suggested in the Exposure Draft would be very costly to the preparers compared to the benefits to the users. The significant part of the workload is identifying details and interpreting the nature and characteristics of the clauses in the contracts, and recognising them in the financial statements accordingly. Once identified and recorded, we do not think the suggested simplification makes much difference, as financial statement preparers apply discounting in a number of areas already.

b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65). Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We agree that lessors should not be required to recognise assets and liabilities arising from short-term leases in the statement of financial position, nor derecognise any portion of the underlying asset for such leases.

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 (Appendix A, paragraphs B1–B4 and BC29–BC32). The exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

Question 4

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

We believe the proposed accounting for operating leases poses fundamental questions concerning how to account for firmly committed executory contracts in general. Executory contracts and leases are in many instances similar in nature and frequently it requires considerable judgment to make the distinction between the two. Currently these contracts are all off-balance-sheet and preparers can handle similar contracts by means of providing the same level of disclosures for both contract types in order that the users understand the entities’ commitments.
From what we understand, the main criticism of the existing lease accounting standard relates to the difficulties in comparing the balance sheets of one entity which has purchased assets with that of another entity which has leased the same types of assets. If this was the most significant objective, we think the model (which was rejected by the Boards) under which the lessee would recognise the whole asset for the term of the lease, would be best suited to remedy the flaws inherent in the existing model.

We believe it is the contractually committed cash flows that are important to the users. Under this assumption we cannot see that commitments incidentally involving the use of specific assets would require different accounting treatment compared to other firmly committed contracts. We therefore urge the Boards to perform a complete review and elaborate further in order to clarify the fundamental distinction between operating leases and off-balance-sheet firmly committed executory contracts. As mentioned above, the users’ concerns in our view should represent important input in this assessment.

We appreciate that, from the discussions in the Exposure draft, it does not seem that the IASB intends to include long-term unconditional commitment contracts, which also effectively restrict companies’ debt capacity, on the balance sheet. These continue to be considered executory (mutually unfulfilled) contracts. This is also consistent with the discussions in the ED for Revenue from Contracts with Customers. However, any (executory) contract, long-term and short-term, in which an asset will be used to provide a service should be accounted for on-balance-sheet if the lessee takes all but an insignificant amount of the output.

As mentioned above we believe the transfer of only the right-of-use of an asset is a fragile indicator and measure of performance fulfillment. When the borderline between contracts (even short term operating contracts) that are to be recognised on the balance sheet and those which will remain off-balance-sheet become indistinct, we think the Boards should be very careful in defining criteria for when service contracts or sourcing contracts potentially must be deemed to constitute leases of assets (ie. assume assets implicitly), as these would contractually be executory contracts. If the Boards still conclude that the use of an asset represents the decisive factor for when a contract should be recognised on the balance sheet, we think that letter (c) in paragraph B4 should be deleted. This would result in contracts, under which the lessee is not
interested in which assets are involved throughout the performance of the contracted services, not being recognised on the balance sheet. For long term contracts we understand that letter (c) could serve a purpose in avoiding structuring opportunities, but for contracts significantly shorter in duration than the economic life of assets involved we think the costs of applying the rules would exceed the benefits. We also think the structuring risks in this area (off-balance sheet "lease" arrangements or similar) are better solved as part of the consolidation / SIC 12 project, not as part of the standard for leases. The main concern we have is that letter (c) could bring contracts for sourcing of raw materials and other input factors as well as service capacity onto the balance sheet.

It also seems that letter (c) of paragraph B4 results in arbitrary differences in accounting between two entities that need the same volumes of a given service or product, but where entity A decides to contract for 50% of the output capacity in a large plant => off-balance sheet; while entity B decides to contract for 100% of the output capacity of a plant of half the size => on-balance sheet.

By requiring contracts with totally different risks and characteristics, such as operating and finance lease contracts, to be treated similarly, while at the same time requiring contracts with similar risks and characteristics, such as marginally different service contracts, to be treated differently, we see a significant risk of more guidance being required and a move from principle-based to rules-based accounting.

We also think there is an apparent flaw in the description in the last part of the sentence in B2 (b) ("if a lessor can substitute another asset for the underlying asset but rarely does so in practice"). In our view it can hardly have been the intention that the lessee’s accounting assessment is to rest on establishing what the lessor has previously been doing in similar circumstances, nor on anticipating what the lessor might be doing in practice going forward. In our opinion it should clearly be sufficient that the lessee make an objective assessment as to whether it is contractually possible and economically feasible for the lessor to substitute the asset, should he so desire.

In our opinion it would have been preferable also under the current IAS 17 and IFRIC 4 to apply the same disclosure requirements for leases and other long-term firmly committed contracts. Defining what constitutes a lease and adequately accounting for lease contracts and similar contracts are among the most demanding accounting areas...
for large companies. By implementing the suggested model this work will increase significantly, as contract details in a considerable number of contracts will have to be reviewed even more thoroughly in order to comply with the requirements. We cannot see that the significantly increased costs for preparers to comply with these rules can be defended by the benefits.

Furthermore, if the model suggested in the ED is introduced, we are not convinced that performance in general should be deferred until actual delivery of the asset in question. One such example would be, as discussed in relation to the revenue recognition project, a situation where the lessee gradually obtains control of the work in progress for an asset under construction.

Should the Boards decide to require the recognition of assets and liabilities originating from lease contracts which are executory or partially executory throughout the lease term, we question the implications for other executory contracts, such as firm commitments under consideration as part of the revenue recognition project. We would not support a model which results in inconsistens accounting for similar contracts with similar characteristics.

b. Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

We generally agree with the criteria in paragraphs B9 and B10.

c. Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

See our comments in 4 a. above.

Scope

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 that the proposed IFRS should be applied to all leases, including leases of right-of-use assets in a sublease. However, we see no conceptual basis for excluding leases of intangible assets from the scope of the proposed IFRS.

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 (paragraphs 6, B5–B8 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:

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

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

iii. 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 the 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?

Lessee

For the reasons expressed above, mainly in relation to question 4, we think that combined service and lease contracts should not be recognised on the balance sheet unless they represent true financing arrangement, or unless the objective of the balance sheet is modified. The significant efforts needed to identify and account for the different elements of such contracts differently (when their characteristics and risks are actually similar), is to us an indication that the model suggested in the Exposure Draft is not appropriate.
If the IASB decides to implement the suggested right-of-use model, we think the service components and lease components should be separately accounted for regardless of whether they are distinct or not. We think, however, that this could potentially be difficult to apply in practice and would require detailed guidance. As such our concerns would also be subject to the Boards’ conclusions as to what should be treated as executory contracts and what constitutes lease contracts.

We think the economic substance of the contracts should decide the accounting treatment. However, as expressed above, we are concerned that the costs of accounting for many of these contracts will exceed the benefit to the users of the financial statements.

**Lessor applying the performance obligation approach**

We think the lessor should separately account for service components in accordance with the proposals in Revenue from Contracts with Customers, even when the service component is not distinct.

**Lessor applying the derecognition approach**

We agree with the IASB that the lessor should separately account for service components in accordance with the proposals in Revenue from Contracts with Customers, even when the service component is not distinct.

**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, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options 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?

**General comment:**

We see no conceptual reason to treat options to purchase and options to extend or terminate a lease differently. Hence, we believe that the same approach should be applied consistently to options to extend or terminate the lease term.
Preferred approach:

We do not support the "single asset"/"single liability" principle in the DP/ED. Rather, we support a component approach where all options (both options to purchase the underlying asset and options to extend or terminate the lease term) is separately accounted for. Our view is mainly based on the following arguments:

- A component approach would give rise to consistent accounting between different elements in the lease standard (option to extend, terminate and purchase) and between standards (non-financial options).

- A component approach would not give rise to liabilities or assets which do not meet the liability and asset definitions in the framework.

- We also share the concern expressed by Stephen Cooper in paragraph AV 2 that reflecting options as the gross cash flows resulting from exercise, would overstate leverage and will not reflect the economic flexibility that options provides.

Based on the wording of paragraph 15, we assume that initially, the purchase option will have to be separated from the lease payments ("component approach") and subsequently measured at cost. If this is the intention of the IASB, we believe the standard should state more explicitly that the value of the purchase option should be separately accounted for, that the purchase option should be measured at fair value initially and subsequently measured at cost (assessed for impairment). When exercised, the option premium should be included as part of the purchase price of the underlying asset. Hence, we agree with the suggested solution to the accounting for options to purchase the leased item. However, we believe the same approach should be applied consistently to all options to purchase the leased item and options to terminate or extend the lease term.

Comment, provided that the IASB decide to proceed with the proposed approach

We see no conceptual reason to treat options to purchase and options to extend or terminate a lease differently. Hence, if the IASB decides to adopt a single asset/single
liability approach, both options to purchase the leased item and options to extend or terminate the lease should be accounted for consistently (purchase option is integral to the agreement similar to an option to renew).

Measurement

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

a. assumes 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 (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).

b. includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131). Lessor should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be measured reliably.

c. is updated 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 (paragraphs 17, 39, 56 and BC132–BC135).

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?

Again we think the question that needs to be asked is what the purpose of the liability side of the balance sheet is. As discussed above, we think the economic substance and risk in a contract should determine the accounting treatment. We believe only the minimum commitment in a contract should be recognised in order to reflect the flexibility that an extension option in a contract gives. If the IASB concludes that the purpose is to show expected cash outflows, this would represent a significant change to core principles that should be dealt with on a broader basis.

We do not support the “single asset”/"single liability" principle in the DP/ED, which in our view result in recognising liabilities which do not meet the definition of a liability in
the framework, overstated leverage and reduced usefulness of information. Rather, we propose a component approach with separate accounting for both options to purchase the underlying asset and options to extend or terminate the lease term. We believe a component approach would ensure consistent accounting between different elements in the lease standard (option to purchase leased item and options to extend and terminate the lease) and between standards (non-financial options). Furthermore, a component approach would not give rise to liabilities which do not meet the “liability” definition in the 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 believe a model under which only minimum lease payments are included, better reflects the risks of the contract.

We support the alternative view expressed by Stephen Cooper, that contingent rental agreements that vary upon usage or performance of the asset provide the lessee with additional flexibility and reflecting them in the measurement of the lessee’s liability does not provide relevant information about the underlying economics of the transaction.

We believe that contingent rentals that are linked to the usage of an asset are under the control of the lessee. Hence, it could be argued that these elements do not meet the definition of a current obligation as the obligation results from a future decision of the lessee.

However, rentals that are contingent upon factors outside the control of the lessee meet the definition of an unconditional obligation where the uncertainty only relates to the measurement of the amount to be paid.
Hence, provided that the contingent component is outside the control of the lessee, we agree with the proposal to include contingent rent and expected payments specified in the lease in the measurement of assets and liabilities arising from the lease. However, we do not agree that contingent rentals under the control of the lessee should be included in measuring the liability.

As discussed above, we do not think options, which actually represent rights ("assets") should be recognised as liabilities on the lessee’s balance sheet. For a lessor, which has written call options ("liabilities") it is, as we see it, even more difficult to defend recognising these as assets.

If the Boards decide to proceed with the suggested model, the conceptual foundation behind the model and the principles for it should be elaborated, especially with regards to how recognising an obligation under a renewal option, which otherwise would not meet the definition of an obligation under the frameworks, can be justified.

We also think it is important that the rules for contingent liabilities in the standard for leases are consistent with the rules in IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

**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?

We agree that lessees and lessors should remeasure assets and liabilities arising under a lease only "if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period".

We agree that changes in the liability / receivable due to changes in the lease term should be adjusted against the right-of-use asset / performance obligation (provided that the IASB decide to proceed with the single asset/single liability approach).
If the IASB decides to include contingent rentals, we would agree with a model under which changes in contingent rentals which affect the right-of-use asset (qualify as asset additions under IAS 16 or IAS 38) are recognised as adjustments to the right-of-use asset, while other changes are recognised in profit or loss.

For the lessor, we think it is most important that the solution is consistent with the revenue recognition solution. In many industries the contracts include a stand-by element and additional charges if the uptime is higher than a certain threshold. It is important that the accounting treatment allows the users to reliably assess and compare the performance of the individual companies. Re-measurement due to changes in contingent rentals based on usage arises when it is expected that the lessee will acquire more or less of the right-of-use asset. This is no different from a reassessment of the lease term that is treated as a new recognition (derecognition) event. Hence, we believe the residual value should be reassessed in these circumstances.

Furthermore, we support the alternative view of Stephen Cooper expressed in AV 11, pointing out that interest should be accreted on the residual amount to reflect time value of money to avoid understatement of the profitability of the lessor during the period of the lease with a catch-up arising when the asset is sold or used in a subsequent period.

Sale and leaseback

The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents the sale of the underlying asset, the leaseback would also meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).

Question 11

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?

We do not support the performance obligation approach to lessor accounting. Hence, we believe that the derecognition approach should be applied to all leases.

Presentation

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www.statoil.com
The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

Question 12: Statement of financial position

Question 12 is answered under the presumption that the Board decide to proceed with a hybrid approach to lessor accounting.

(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?

We agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets separately from assets that the lessee does not lease. However, as mentioned above, we do not think they should be presented as if they were tangible assets within property, plant and equipment or investment property as appropriate, but as intangible assets.

(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?

We 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.

(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?

We agree that the lessor should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment.
(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?

We agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position.

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 do not agree that lease income and lease expense should be presented separately from other income and expenses in profit or loss. Leasing is a part of the business as well, and the reasoning behind the new standard is to increase comparability amongst companies. Separating lease elements from deprecations, other expenses etc. will reduce comparability between companies which own assets and companies which lease assets. Lease income and lease expenses should be disclosed in the notes.

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?

We agree that cash flows arising from leases should be presented separately in the statement of cash flow. We believe that a statement of cash flow that gives information on how the operations are financed and a split between lease and other transactions will provide useful information for investors and analysts.

Disclosure

Question 15

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?
We agree that lessees and lessors should disclose quantitative and qualitative information that identifies and explains the amounts recognised and describes how leases may affect the future cash flows.

In general we believe the suggested disclosure requirements are too extensive. It will be very demanding to provide this information, even if there are some limitations under paragraph 71. Extensive disclosure requirements might increase risk of errors due to complexity and also reduce the comprehensibility of the disclosures.

Disclosure requirements for both lessees and lessors include information that might be business sensitive. We urge the Board to reconsider the extent of information required.

Transition

Question 16

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?

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

c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We agree with the proposal to use a simplified retrospective approach. We also think that full retrospective application of lease should be permitted. Different application methods will, however, reduce comparability between companies. The effect of different application approach might be significant as operating leases will be put on the balance sheet under the new standard.

Benefits and costs

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?
As commented above we do not think the suggested model in the ED is superior to the existing IAS 17 Leases. Hence, we do not think that the significant costs, as discussed by the Boards in paragraphs BC200-BC205, that will be incurred can be defended on a cost-benefit basis.

Other comments

Question 18

Do you have any other comments on the proposals?

Sublease

For both the derecognition model and the performance obligation model we assume that in a sublease, under which the leased asset is subleased under the same terms as the original lease, the right-of-use asset will be derecognised in its entirety for the period subject to the sublease, even though this period is shorter than the original lease term. I.e. the assessment of whether the main risks are retained or transferred has to be performed for the period covered by the sublease only. E. g. if a rig has been leased for 5 years and subleased for the first two years, the assessment should only cover the 2 years and not be a comparison of the risks for the two years versus the full five years.