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POSITION PAPER
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
Sent electronically to www.ifrs.org

FASB/IASB Exposure Draft, ED/2013/6, Leases

Dear Sir/Madam,

The Swedish Bankers’ Association and the Association of Swedish Finance Houses and the Associations’ members (the Associations/we/our) appreciate the opportunity to respond to the US Financial Accounting Standards Board (the FASB) and the International Accounting Standards Board (the IASB) Exposure Draft Leases (the ED). The Associations are members of Leaseurope through AFINA. The Associations have played an active part in the handling of this matter by Leaseurope and by the European Banking Federation (the EBF).

In summary we consider that the proposed standard should not be introduced. Our main concerns behind this view are as follows:

- The ED does not meet its purpose of improving transparency in accounting for leases and the administrative burden for lessees and lessors is increased as a result of the still remaining complexity of the proposal.
- The ED is lacking an evidence based cost/benefit analysis. We consider this to be necessary as it must be possible to validate that the proposed new rules will lead to substantial improvements in comparison with retaining and revising the current standard.
- The proposal clearly discriminates leasing compared to other forms of financing. As no real rationale for stricter requirements for leasing than for other forms of financing has been presented in the proposal the ED appears to be more based on fears than facts. Example of this is the extensive disclosure requirements for both the lessee and the lessor.
- The knock-on effect on SMEs and other unlisted companies must be considered. If the proposal is implemented, the new standard, like IAS 17 and its principles, will be applied by a substantially wider circle than listed companies. It will be extremely challenging for SME companies to apply the
proposed new accounting principles for leases.

- The Associations consider that the current standard for accounting for leases (IAS 17) works well and is an established and accepted standard that should be retained, where the requirements for supplementary disclosures for both lessees and lessors can be developed.

SWEDISH BANKERS' ASSOCIATION  ASSOCIATION OF SWEDISH FINANCE HOUSES

Thomas Ostros  Lars Zacharoff
1. **Summary of our position and key concerns**

1. The Associations' view is that the ED adds to the complexity of accounting for leases. As a result of the complexity and scope of the proposal we obtain a standard that negatively affects leasing as a financing form.
2. The proposal doesn't fulfil the objectives of the ED. The benefit of the proposals doesn't outweigh the costs of the ED. Therefore, we strongly question if the proposals will lead to obtaining better financial information for investors.
3. The Associations consider an evidence based cost/benefit analysis to be necessary as it must be possible to validate that the proposed new rules will lead to substantial improvements in comparison with retaining and revising the current standard.
4. Several conceptual issues have been identified, such as the proposal for a dual accounting approach for lessees and for lessor. Furthermore, the proposal leads to new classification issues, for example in distinguishing a lease from a service contract, type A vs. Type B leases and property vs. non-property, which was one of the goals of the ED to avoid compared to IAS 17.
5. The Associations believes that the ED contains extensive disclosure requirements for both the lessee and the lessor. The disclosure requirements are more extensive than if an asset has been acquired by for instance hire-purchase or by loan financing.
6. The proposal on subsequent measurement does not reflect the linked nature of the lessee's obligation to make payments and the right to use the asset. The requirement for the reassessment of the lease liability for the lessee and the requirement for the reassessment of the lease receivable for the lessor means that the complexity of the proposals still remain. For Type A contracts the costs for the lessees will be dramatically increased in the earlier parts of lease contracts leading to front-loading of costs.
7. The proposal signifies reduced comparability and understanding in comparison with current rules, as new subjective factors are introduced in the proposed standard. The proposal therefore increases complexity and does not result in a fairer presentation being obtained. Nor is the proposal consistent with the EU's efforts to simplify the regulatory environment, tending rather in the opposite direction.
8. Simplification requirements for short-term leases should be expanded and should also include the transitional rules.
9. The proposal is not suitable for premises. Instead the disclosure requirements in IAS 17 should be expanded.
10. Competition is reduced as the number of lessor can be expected to decrease. The proposal means that leasing is discriminated in relation to other forms of financing and that opportunities to finance entities are adversely affected.

11. Knock-on effect on SMEs and other unlisted companies. If the proposal is implemented, the new standard, like IAS 17 and its principles, will be applied by a substantially wider circle than listed companies. It will be extremely challenging for SME companies to apply the proposed new accounting principles for leases.

12. The lack of a proposal for the entry into force of the ED leads to uncertainty.

2. Development of key concerns

Our key concerns are described in the section below.

1. Complexity and scope negatively affects leasing as a financing form
   The Associations' view is that the ED adds to the complexity of accounting for leases. As a result of the complexity and scope of the proposal we obtain a standard that covers most types of leases and that negatively affects leasing as a financing form. The subjective components of subsequent measurement requirements for lessees and lessors together with the criteria of significant economic incentive for lessees to extend the lease term will add to the complexity of accounting for leases. The Associations overall judgement is that the alleged advantages of the proposals do not outweigh the drawbacks associated with the proposal.

2. Objectives of the proposal in relation to the benefits and costs of the ED
   The objectives of the ED are to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an entity uses in its operations, and the risks to which it is exposed from entering into the lease transactions. As the Associations' sees it we believe that the proposal doesn't fulfil the objectives of the ED. The benefit of the proposals doesn't outweigh the costs of the ED. The Associations are missing an analysis where the boards weigh the pros and cons with different standard setting alternatives against each other. For instance, we are missing an analysis where the boards retain the current standard and increase the disclosure requirements for both the lessee and the lessor. The Associations strongly question if the proposals will lead to obtaining better financial information for investors. The Associations consider that the current standard for accounting for leases works well and is an established and accepted standard that should be retained, where the requirements for supplementary disclosures for both lessees and lessors can be developed.

3. A thorough evidence based cost/benefit analysis is necessary
The Associations consider that an evidence based cost/benefit analysis to be necessary as it must be possible to validate that the proposed new rules will lead to substantial improvements in comparison with retaining and revising the current standard.

The IASB has devoted extensive resources trying to describe and explain the effects for leases that the ED might lead to. The analysis differentiates between the effects for the lessee and the effects for the lessor. The Associations' view is that the effects analysis for leases that are presented in the ED to a large extent is discussion based. However, having said that we believe that the analysis must be evidence based meaning that the IASB must demonstrate that the benefit outweighs the costs associated with the envisaged new standard. This must be shown at the latest when the ED is presented, not after the comment period has ended. This is because the commenting organisations of the ED must be able to base their conclusions on facts rather than on estimations of what a proposal might lead to.

When new or amended rules are introduced, a reasonable requirement is that they should be accompanied by a thorough evidence based impact assessment. The reason why an evidence based impact assessment is needed is that it must be ensured that rules are not introduced or amended without there being an observed need and that the proposed rules are appropriate and proportionate to their purpose. In addition, the assessment is needed to ensure legal certainty for those who are going to apply the amended or new standardisation. This creates the necessary basis for predictability and transparency in standardisation. The Associations consider the discussion based cost/benefit considerations in the revised ED Basis for Conclusions not to provide sufficient backing for the proposal. We would therefore like to see an evidence based analysis of the effects of the proposal principally for those who prepare and use financial statements. In addition, it must be shown that introducing a new standard offers benefits in comparison with developing and refining the current standard. The Associations therefore consider that the underlying purpose of the ED has not been achieved, and we consider that this must be shown through a thorough evidence based impact assessment.

4. Several conceptual issues have been identified
The Associations welcome that the boards to certain extent have listened to the comment letters on the previous ED making a number of simplifications in this ED. These proposals for simplifications are necessary as we see it due to the complexity of the previous ED. The simplifications that we have noted in the revised ED are for instance the short-term leases, options to extend the lease and the treatment of variable lease payments.

However, the Associations have noted that several conceptual issues remain through the proposals in the ED. Several conceptual issues have been identified
such as the proposal for a dual accounting approach for lessees and for lessor. Furthermore, the proposal leads to new classification issues, for example distinguishing a lease from a service contract, type A vs. type B lease agreements and property vs. non-property, which was one of the goals of the ED to avoid compared to IAS 17. Structuring opportunities will depend on how lease agreements are written regarding lease terms, options for prolongations etc. Similar lease agreements could still be accounted for differently depending on judgements made when classifying contracts into type A and type B agreements, although stated in Basis of conclusions that incentives for structuring will be small. Adding to this the interpretation of the definition of property ("land or a building, or a part of a building, or both") could lead to different accounting solutions. Should the term include assets such as telecommunication towers and pipelines? This is not clear in the ED.

The previous ED introduced a "right-of-use model" for the lessee’s accounting and two models, the "performance obligation approach" and the "derecognition approach", for the lessor’s accounting mean that accounting was not consistent for lessees and lessors. In our comment letter to the previous ED we advocated a symmetrical accounting for lessees and lessors. With the revised ED a symmetrical accounting for the lessee and for the lessor is to a large extent achieved. The dilemma is of course to divide the leases between Type A and Type B leases as mentioned above. Most leases of equipment or vehicles would be classified as Type A leases, whereas most leases of property would be classified as Type B leases. For Type B leases the lessor would continue to recognise the underlying asset. However, as the lease create rights and obligations that meet the definition of an asset and a liability for the lessee it will also recognise the Type B in its balance sheet. Therefore, the same property will be recognised twice, both in the lessor’s balance sheet and in the lessee’s balance sheet. Based on this we question the consistency of the proposal in this part.

Another issue that we have identified is the issue of distinguishing between a lease and a service contract. The boards have decided to retain the definition of a lease in IAS 17, but change the guidance setting out how to apply it. The changes proposed mainly relate to the concept of control used within the definition, i.e. a contract contains a lease when the lessee obtains the right to control the use of an identified asset for a period of time. The changes are expected to narrow the population of contracts to which the proposals apply by excluding service contracts that, under the previous proposals, may have been considered to be leases. The Associations are still not confident that this will really help preparers in an efficient way of distinguishing between lease contracts and service contracts.

5. Extensive disclosure requirements for both the lessee and the lessors
To see our more detailed comments on this issue we refer to our answer for question 8 in the ED.
6. Subsequent measurement and our linked approach
The proposal on subsequent measurement does not reflect the linked nature of the lessee's obligation to make payments and the right to use the asset. Considering the lease-term, the requirement for the reassessment of the lease liability for the lessee and the requirement for the reassessment of the lease receivable for the lessor mean that the complexity of the proposals still remains. The administrative burden for the lessee's and the lessor's should be carefully considered in this context. The Associations question the value added of this information and believes that the financial information will not be substantially improved by these requirements.

In our response to the previous ED we described our linked approach. Subsequent measurement should, like at the commencement of the contract, continue to reflect the fact that the lessee's liability to make lease payments and its right to use the lease asset originate from the same contract. Should the right of use model be applied we therefore favour a "linked approach" between the asset and liability sides for all leases. The lessee's right of use asset should be measured on an amortised cost basis using mortgage-based amortisation to appropriately reflect its pattern of consumption of economic benefits. The liability should be amortised according to the same methodology.

Based on the unique characteristic of a leased right of use asset the Association support the right of use asset as a specific class of assets and a lease liability that should be presented separately in the balance sheet of the lessor and of the lessee, respectively. Therefore, we urge the boards to clarify that the right-of-use asset and the lease liability are specific class of assets/liabilities in the final standard.

With the proposed dual approach in the ED, the costs for Type A leases will be dramatically increased in the earlier parts of lease contracts, leading to front-loading of costs for the lessee. This does not in our view represent a true and fair view of the economics of lease contracts.

7. Reduced comparability and understanding, increased complexity and not in line with efforts to simplify the regulatory framework in the EU
The Associations' have already in our comment letter to the previous ED highlighted our concerns considering the reduced comparability and understanding, increased complexity and not in line with efforts to simplify the regulatory framework in the EU. We believe that our arguments are still valid. For your convenience we here restate our position on this.

As a result of rules, for example on subjective measurement which are difficult to apply, the subjective elements in the application of the accounting rules are increasing and are having the effect of lowering the quality of the financial
information. The complexity of the ED may therefore mean that we have reduced comparability and understanding, which may jeopardise fair presentation in accounting in comparison with current rules. Such a development does not benefit those who prepare, use or are standard setters for financial information.

A key argument against the ED is the increased complexity associated with the proposal and the consequences this may have principally for those who prepare financial information. In our judgement, the current problems of defining what can be regarded as constituting a finance lease or operating lease will be replaced by problems principally with complex valuation and measurement issues.

The accounting standards (IFRS) adopted by IASB today are global standards. National standards bodies in more than 100 countries require or allow IFRS to be applied. In the European Union (EU), the European Parliament and the European Council have decided through a Regulation (1606/2002/EC) that the Member States are to apply IFRS in preparing consolidated accounts if the company's securities are listed on a regulated market in a Member State. Entities in the EU thus represent a significant portion of those that prepare IFRS accounts. The European Council of the EU initiated a process under which the European Commission have drawn up action plans for simplifying and improving the regulatory environment for entities. The purpose of the plans is to boost the competitiveness of entities in the EU. We therefore consider the ED not to be in line with the efforts to simplify the regulatory environment which the EU and its Member States are pursuing for the benefit of entities. We view the ED as a major step in the opposite direction.

8. Simplification requirements for short-term leases should be expanded
In the Associations' response to the previous ED we advocated that short-term leases should be treated according to the current model for operating leases so that it thereby becomes a real exemption for entities in practice.

In the revised ED the boards propose that a lessee would recognise a right-of-use asset and a lease liability for all leases of more than 12 months. A lessee can choose to recognise a right-of-use asset and a lease liability for leases of 12 months or less but is not required to do so. The boards' state in the ED that by not requiring the recognition of assets and liabilities for leases of 12 months or less, concerns about cost and complexity are addressed without a material change to the information provided to users of financial statements.

The Associations opinion is that the concept of simplified accounting should be expanded and also should be included in the coming transitional rules. For a contract with a term of less than 12 months with an option to extend an entity should be able to use the exemption if the entity concludes that the option does not offer a significant economic incentive. Further when the envisaged new standard entry into
force we believe that contracts that have a remaining contractual maturity of 12 months or less that they should be permitted to be treated in line with the 12 month rule for contracts that has an original maturity of 12 month or less.

Therefore, the Associations consequently believe that the proposal for simplified requirements for short-term leases should be revised and expanded to be included in the coming transitional rules as well.

9. The proposal is not suitable for premises
The Associations note that the proposal has now been a little more suitable formed for property and premises than the previous ED. From a conceptual point of view we have some understanding for the proposal of a dual approach splitting leases in Type A and Type B leases. The dual approach leads to a certain extent to a consistent accounting for the lessee and the lessor. However, the benefit of the proposal on property doesn't outweigh the costs of the proposal.

Leases relating to property and premises are specific types of contracts where the proposal for accounting for lessees in the ED is not well suitable. The complexity and subjectivity of the assessments in the ED will in all probability have very substantial effects on, among others, entities in retailing, which in several cases may lead to entirely unreasonable effects on the balance-sheet totals of these entities. The entities business plans are normally not exceeding 5 years. To consider a lease term exceeding both the business plan and the contractual term would mean recognition of assets and liabilities lacking the evidence that is required in all other transaction, for example support from management budgets and other types of plans. The administrative burden for the lessee's should be carefully considered in this context. We question whether users of financial statements will find information useful, which is not supported by a company's usual planning process. In addition, applying the right of use approach amounts may in many situations exceed market values, especially for certain types of real estate such as retail shops and offices in good locations.

The Associations therefore advocate that the disclosure requirements in IAS 17 for the lessee's should be developed and expanded. Examples of such disclosures requirements might include the present value of future payments for rent and a sensitive analysis linked to those payments.

10. Decreased competition and discrimination in relation to other forms of financing and deterioration in financing options
The Associations' have already in our comment letter to the previous ED highlighted our concerns considering the decreased competition and discrimination in relation to other forms of financing and deterioration in financing options. We believe that our arguments are still valid. For your convenience we here restate our position on this.
As the proposals in the ED can be expected to reduce the attractiveness of leasing as a form of financing, it will have an adverse impact on the specialised leasing entities which, unlike financial groups of entities, for example, find it difficult to offer other financing alternatives. The reason why the attractiveness of leasing as a form of financing will decrease is the increased complexity of the accounting rules which the ED entails and the associated cost increases for lessees and lessors. The dilemma is that the standard setter requires much more information about leasing than for other forms of financing. See for instance our answer on question 8. This will increase the administrative burden for the lessees and for the lessors.

A decrease in the number of leasing entities will in turn lead to decreased competition among lessors, which adversely affects the opportunities of customers for supply of financing.

The proposal will therefore most probably have a negative effect on leasing as a form of financing. At the same time leasing is a very important source of financing to companies globally. This is especially true for SMEs.

The increased complexity entailed by the proposal for customers may, as mentioned, lead to leasing as a form of financing becoming less attractive and also being discriminated against in relation to other forms of financing. Discrimination also exists in the situation that the leased asset is recognised at a higher value in the lessee’s statement of financial position than if an equivalent asset had been acquired by purchase. This stand in contrast to the present standard IAS 17, paragraph 20, where “at the commencement of the lease term, lessees shall recognize finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease”. The proposal’s requirement for continuous revaluation of the leased asset and increased costs of lease administration, for example, are other discriminatory elements. The Associations regard this as an unfortunate trend in view of the fact that leasing as a form of financing accounts for a significant share of global corporate financing. We consider it crucially important that the accounting rules allow different business models. Based on this approach, our view is that the rules should be adapted to the entities’ business models, and not vice-versa. The accounting should therefore illustrate what the entities do and not steer the entities towards what to do.

The Associations judge that the proposal, if it is implemented, will detrimentally affect the options for the financing of companies, which would have an adverse impact on companies and economic development in general. Under the current rules on leasing, the lessor uses the volume of security in the objects in an efficient way. This enables companies and society to create growth. If this state of affairs is adversely
changed by the ED, the opportunities for growth in companies and society will also decrease. The accounting rules must not be formulated so that they inhibit growth.

11. Knock-on effect on SMEs and other unlisted companies
The Associations’ have already in our comment letter to the previous ED highlighted our concerns considering the knock-on effect on SMEs and other unlisted companies. We believe that our arguments are still valid. For your convenience we here restate our position on this.

If the proposal is implemented, the new standard, like IAS 17 and its principles, will be applied by a substantially broader circle than listed companies. It will be extremely challenging for SME companies to apply the proposed new accounting principles for leases. In addition to this, there is IASB’s new standard for SMEs, which is based on applicable IFRSs. Changes in IFRS standards may therefore affect the SME standard. SMEs with business offers including leasing and service to IFRS-s companies will be immediately affected, as such customers will consider other solutions. The proposal must consequently be assessed on the basis of what effects it has on unlisted companies, including SMEs. It is noted in this context that leasing as a form of financing accounts for a significant share of the total financing needs of SMEs in particular. The element of structuring, which is a recurring argument for the introduction of the new standard, does not exist at all in this group of entities. Despite this the proposal, if implemented, would lead to a worsening of opportunities for company financing and higher costs as a consequence of an increased administrative burden. As we have noted above, thorough evidence based impact assessment is lacking, and this also applies to the issue of how other than listed companies are affected. Such an assessment should be done before any new standard is presented.

As mentioned in previous sections, decreased competition in the leasing market will adversely affect the opportunities of SMEs for supply of financing, which will lead to higher prices for financing of the customer’s operation. The whole economy in society is consequently affected in an undesirable way. These are effects that standard setters, legislators etc. must take into account, formulating instead standards that have long-term positive effects on the business environment the economy in general.

12. Lack of a proposal for the entry into force of the ED leads to uncertainty
The Associations’ have already in our comment letter to the previous ED highlighted our concerns considering the lack of a proposal for the entry into force of the ED which leads to uncertainty. We believe that our arguments are still valid. For your convenience we here restate our position on this.
The ED does not contain any proposal for the entry into force of the proposed provisions. At the same time, the ED contains proposals that signify a complete "re-think" on the recognition of leases for both lessees and lessors. If the proposals are introduced, they will, among other things, necessitate reorganisation of entities' business systems, initial recording and general ledger. We regard these requirements as far-reaching, with the result that entities need time to plan and reorganise their accounting systems. The Associations consider it crucially important that the accounting rules allow different business models. Based on this approach, our view is that the rules should be adapted to the entities' business models, and not vice-versa. The accounting should therefore provide a picture of what the entities do and not steer the entities towards what to do. The Associations therefore consider it very important that entities are given adequate time to adapt to the future accounting standard. The time taken by this work should not be underestimated. As the ED appears at present, the proposals lead to the creation of uncertainty for those who draw up and use the envisaged new standard.

3. The Associations' responses to the specific questions contained in the ED

Below please find our responses to those questions that are of most concern to us.

**Question 1: identifying a lease**

This revised Exposure Draft defines a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". An entity would determine whether a contract contains a lease by assessing whether:

(a) fulfilment of the contract depends on the use of an identified asset; and
(b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of as lease and the proposed requirements in paragraphs 6-19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.
The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

The Associations basically support the proposed definition of a lease and its guidance in the Basis for conclusions. As stated if paragraph 23 the lessee shall allocate the consideration in the contract in accordance with (a) to (c). In the case where there are observable stand-alone prices for each component of a contract the lessee shall allocate the consideration to each component on the basis of the relative stand-alone price of each component. However, if there are no observable stand-alone prices for any component of the contract a lessee shall combine the components account for them as a single lease component. The Associations wants to add to this sentence “provided that the lease components are significant”.

Even though the Associations support the proposed definition of a lease we are not convinced that the new application guidance will be efficient. The reason for this position is that we believe that the requirement to allocate the consideration between the lease component/s and the service component/s might be burdensome for the lessee. Therefore, the Associations question if the benefit will outweigh the cost of the proposal.

Question 2: lessee accounting
Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

The FASB and the IASB have proposed a number of improvements in the revised ED compared to the initial ED. Examples of this include the “dual approach” for both lessee and lessor, the treatment of options to extend the contract and the treatment of variable lease payments. For the lessee the revised ED means that the previous “single lessee accounting model” is abandon.

The Associations support a consistent lease accounting model for the lessee and the lessor which we believe the proposed “dual approach" to a large extent achieves. However, a dilemma is the type B leases where the same property will be accounted for in the financial statement of the lessee and of the lessor.
The Association further support the "right-of-use" asset as a specific class of assets and a lease liability that should be accounted for separately in the balance sheet of the lessor and of the lessee, respectively. Therefore, we urge the boards to clarify that the right-of-use asset and the lease liability are specific class of assets/liabilities in the final standard.

Concerning the classification of lease we note in paragraphs 29 and 30 that a type A lease could be classified as a type B lease if neither of the two criterion, in the mentioned paragraphs, is met and vice versa. The Associations support these proposals.

However, the proposal leads to new classification issues, for example distinguishing a lease from a service contract, type A vs. type B lease agreements and property vs. non-property, which was one of the goals of the ED to avoid compared to IAS 17. Structuring opportunities will depend on how lease agreements are written regarding lease terms, options for prolongations etc. Similar lease agreements could still be accounted for differently depending on judgements made when classifying contracts into type A and type B agreements, although stated in Basis of conclusions that incentives for structuring will be small. Adding to this the interpretation of the definition of property ("land or a building, or a part of a building, or both") could lead to different accounting solutions. Should the term include assets such as telecommunication towers and pipelines? This is not clear in the ED.

The Associations favour retaining the present-day standard for accounting of leases (IAS 17) as we consider it to work well and to be established and accepted standard. From a conceptual point of view we believe that the accounting approach should start from the contractual aspect of the contract, i.e. what has been agreed between the parties to the contract. The Associations approach, which we described in our response to the initial ED, we termed the "liability-to-pay model". The focus in our approach is on the liabilities side of the statement of financial position. The Associations note that the revised ED is more closely aligned with our approach than the initial ED was.

**Question 3: Lessor accounting**
Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?
The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

The Associations support a consistent lease accounting model for the lessor and the lessee which we believe the proposed “dual approach” to a large extent achieves.

The Associations support the proposal to abandon the “performance obligation approach” as a lessor accounting model in the initial ED which we believe didn’t reflect the economics of the transaction. We also support the deletion of the “derecognition approach” as a model in the initial ED.

The Association further support the “right-of-use” asset as a specific class of assets and a lease liability that should be accounted for separately in the balance sheet of the lessor and of the lessee, respectively. Therefore, we urge the boards to clarify that the right-of-use asset and the lease liability are specific class of assets/liabilities in the final standard.

However, as mentioned under question 2, the proposal leads to new classification issues, for example distinguishing a lease from a service contract, type A vs. type B lease agreements and property vs. non-property, which was one of the goals of the ED to avoid compared to IAS 17. Structuring opportunities will depend on how lease agreements are written regarding lease terms, options for prolongations etc. Similar lease agreements could still be accounted for differently depending on judgements made when classifying contracts into type A and type B agreements, although stated in Basis of conclusions that incentives for structuring will be small. Adding to this the interpretation of the definition of property (“land or a building, or a part of a building, or both”) could lead to different accounting solutions. Should the term include assets such as telecommunication towers and pipelines? This is not clear in the ED.

**Question 4: classification of leases**
Do you agree that the principle on the lessee’s expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28-34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

The Associations support the principle of using the lessee’s expected consumption of the economic benefits embedded in the underlying asset when classifying the
lease as a type A or a type B lease. The reason for this position is that we believe that this principle better reflects the economics of the transaction then the criteria’s used in the initial ED. Therefore, the Associations believe that this proposal is an improvement compared to the initial ED.

**Question 5: lease term**

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

The Associations note the simplifications that the boards have made in the proposal concerning the lease term. However, we are concerned that the proposal still is very administrative burdensome for the lessee.

The Associations view are that an entity shall not reassess the lease term unless there has been a change in the terms of the contract or the lessee has decided to use an option to terminate or extend the contract. As we interpreted the proposal the lessee as well as the lessor must assess whether to reassess the lease term or not at each reporting period.

Therefore, in paragraph 27 (a) it is not clear to us when and how to reassess the lease term. With the proposal as it stands it is still unclear to us how to interpret the term “reassess”.

**Question 6: variable lease payments**

Do you agree with the proposals on measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

We note the simplifications that the boards have made in the proposal, in this context concerning the variable lease payments. However, we are concerned that the proposal still is very administrative burdensome for the lessor and especially for the lessee.
An example of this concern is for instance that in our jurisdiction the rent for premises are (often) based on the consumer price index (CPI). This means that when the CPI changes then the entity need to re-calculate the value of the new cash flows from the contract and thereby we end up with a revised balance sheet items for property and its lease liability. This means that the proposal is still very complex. Therefore, the Associations strongly question the value added of the updated financial information.

The Associations truly believes that the proposal is still very complex and leads to that the administrative burden for entities will increase without any substantial improvements in the financial information. Instead, we propose that the existing standard IAS 17 should be kept and its disclosure requirements ought to be enhanced.

Question 7: transition
Paragraphs C2-C22 state that a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the boards should consider? If yes, what are they and why?

The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

The Associations note that all of the existing lease contracts, that are covered by the existing IAS 17, are also covered by the proposals and that the present financial lease contracts will continue, more or less, as they do at present whereas the operational lease contracts will be substantially affected by the proposals both for the lessor and for the lessee.

The Associations support that the lessee and the lessor would recognise and measure at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. However, the Associations propose that for contacts that are initially longer than 12-months, but where only less than 12-months remains of the contract period, when the new lease standard come into force, for those contracts the lessee and the lessor should be permitted, as an accounting policy, to accounted for them as “short-term leases”. Further, for a contract with a term of less than 12 months with an option to extend an entity should
be able to use the "short-term lease" exemption if the entity concludes that the option does not offer a significant economic incentive.

Question 8: disclosure
Paragraphs 58-67 and 98-109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

The following replies and comments are provided on the assumption that the IASB proceeds to issue a Lease Standard based on the proposals in the ED. They are not intended to express support for the right-of-use model.

A completely new standard for lease accounting should conceptually mean that the requirements for disclosures are diminished. However, the Associations are surprised to note that this is not the case. The Associations believes that the proposals contain extensive disclosure requirements for both the lessee and the lessor. The disclosure requirements are more extensive than if an asset has been acquired by for instance hire-purchase or by loan financing. This clearly discriminates leasing compared to other forms of financing. As no real rationale for stricter requirements for leasing in this regard has been presented in the proposal the ED appears to be more based on fears than facts.

As illustrative examples for the lessee where we find the disclosure requirements to be too extensive are for instance paragraphs 64, 65 and 67 in the ED where the lessee shall disclose information about lease contracts where the equivalent information are not required in other IFRSs. The equivalent disclosure requirements we don't find for other balance sheet items of the lessee.

The same goes for the lessor. As illustrative examples for the lessor where we find the disclosure requirements to be too extensive are for instance paragraphs 101 a), 101 c), 101 d), 103, 106 and 109 in the ED where the lessor shall disclose information about lease contracts where the equivalent information are not required in other IFRSs. The equivalent disclosure requirements we don't find for other balance sheet items of the lessor.

Therefore, the Associations question why these extensive disclosure requirements are proposed for the lessee and for the lessor in the ED.
Appendix A - Defined terms

Definition of “commencement date of the lease”.

Consider the following example. The lease contract consists of computer parts. The computer parts are delivered to the lessee with one delivery in $x$ month, a second delivery in $y$ month and the last delivery in $z$ month. The start of the lease is in the month immediately after the three months. From an administrative point of view it is very burdensome to start the contract already in $x$ month as the proposed definition now stipulates. With the proposed change of the definition the contract can start after the three deliveries have been performed and the interim period is completed.

The Associations propose that the definition of the commencement date is changed as follow: “The date on which a lessor makes an the underlying asset available for use by a lessee”.