

**To**

IASB / Staff-members

**Comment on Second Exposure Draft Lease (issued May 2013)**

Mismatches in accounting between lessee and lessor in case of type B leases

Dear Sir or Madam,

Please allow for an individual comment on the second exposure draft for lease accounting and be informed that I do not represent any organization or enterprise. Please note further, though only some regulations are commented beneath, this does not mean that I agree with the other regulations of the ED. From my point of view the ED will, due to its unnecessary complexity (e.g. the lessee's asset amortization for type B or the rigorous application of capitalization) garnished with this untold retrospective application, cause a costly accounting for small and big companies.

a) IFRS regulations used for comment

According paragraph 37 a lessee has to recognize a right-of-use asset and a lease liability irrespective whether the type of lease is A or B.

According paragraph 93 a lessor does not recognize for type B leases a lease receivable, as required for Type A leases in paragraph 68, but instead recognizes lease payments in profit or loss on either straight-line basis or another systematic basis. This means in turn that in case of Type B leases the lessor does not derecognize assets that are delivered to lessees for being used as leased assets.

Paragraphs 41 b) requires for right-of-use assets constant amortization whilst IAS 16.30 requires for property, plant and equipment constant depreciation. Amortization of right-of-use asset is defined in paragraph 47 up to 50 and is there linked to useful life or lease term. IAS 16.50 requires that the depreciable amount has to be allocated over the asset's useful life.

A liability has to fulfill all criteria described in Framework F.4.4b., F.4.15 and F.4.46.

In case that the creditor (i.e. the lessor) is an entity which is in the same group as the lessee the IFRS 10.B86 c) states that the liability has to be offset with the corresponding asset. The corresponding asset for the very liability is a receivable since IFRS 10.B86 a) requires for consolidated financial statements that like items have to be combined. In addition IFRS 10.B86 c) also requires the elimination of income, expense and cash flows.

b) Comment

The circumstance, that a liability (not provision) can only exist together with a corresponding receivable, has to be seen as a premise. If a person has no right to demand an action from another person (i.e. receivable) then the latter is (legally) neither forced nor obliged to do something for the other. F.4.15 says that one criterion for the existence of a liability is a present obligation. If the absence of the right to demand an action (receivable) means that the other side has no obligation then this concludes that no liability exists. In the end one criterion for the existence of a liability is the existence of a corresponding receivable and vice versa.

For the moment the ED allows for type B leases the recognition of a liability within an entity's statement of financial position whereas its business-partner has no receivable. But a liability has to go along with a corresponding receivable. Thus the ED does not reflect the economic reality in case of type B leases particularly and systematically for the lessor's balance sheet.

A situation where an entity recognizes a liability whilst the partner-entity does not capitalize the corresponding receivable causes especially problems for consolidated financial statement when the entity and the partner-entity are members of the same group. Since an elimination of the liability (IFRS 10.B86 c)) is not possible the group has to show a liability as if it is a liability against third party which is not the case!

Another aspect of incongruent lease accounting in the course of type B leases is the circumstance that an asset is (more or less) capitalized in a twofold way. One capitalization occurs in form of tangible fixed asset in the lessor's statement of financial position and the other capitalization is the right-of-use asset in the lessee's statement of financial position. The doubled item in the balance sheets, which shows a wrong picture in itself, results in doubled depreciation respectively amortization and doubled investing activity by not showing a divesting activity (at the lessor's side). Again these doubled item and transactions show especially in consolidated financial statements a wrong picture of the economic reality since the group can only show one single asset and one single transaction referring to its depreciation and investing activity.

Due to the issues mentioned above the ED does not show the correct picture of the economic reality and thus fails to present a true and fair view of items in the financial statement related to type B leases. This can be seen especially in the case of a consolidated financial statement. For avoiding this, the incongruent accounting between lessor and lessee has to be abandoned. Implementing a lessee-regulation for type B leases similar to that of the lessor would be one way for avoiding the mismatches - this would then mean for the lessee accounting that no right-of-use asset has to be capitalized and lease payments are recognized in profit or loss when they occur.

Thank you very much and best regards

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