Federation of European Accountants
Fédération des Experts comptables Européens

To:
Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@ifrs.org

9 September 2013

Ref.: ACC/AKI/ACH/IDS

Dear Mr Hoogervorst,

Re: FEE Comments on IASB Exposure Draft *Leases*

(1) FEE (the Federation of European Accountants) is pleased to provide you with its comments in relation to the Exposure Draft *Leases* published by the IASB ("the ED").

(2) As a founding organisation of EFRAG, we have also contributed to the EFRAG consultation process by submitting on 6 September 2013 the FEE comments on EFRAG's Draft Comment Letter issued on 8 July 2013.

(3) As expressed in response to the previous ED, FEE supports the IASB's efforts to improve the accounting for leases and continues to believe that a right-of-use model could achieve the objective of increased transparency sought by the IASB.

(4) FEE acknowledges the significant work performed by IASB to address concerns expressed with respect to the previous IASB proposals. In particular, we believe that the latest proposals on the determination of the lease term and the accounting for variable payments (subject to the simplification with respect to the lease term noted in our response to Question 5) represent an improvement over the previous ED.

(5) FEE also considers that the revised definition of a lease provided in the ED, in particular the modification of the criteria in IFRIC 4 to distinguish a service from a lease, also represents an improvement. We believe that focusing on control of the asset is appropriate since this is consistent with the focus in other recent standards/proposals (in particular on revenue recognition and in IFRS 10). However, we regret that the IASB has not followed our suggestion to clearly establish why a lease contract constitutes an executed, rather than an executory, contract. This is regrettable since work on this matter may have resolved some of the issues that led to the introduction of a dual-model.

(6) On the issue of the definition of a lease, we do not believe that the level of consumption of the underlying asset should be used to establish whether a contract is a lease or whether the right-of-use model should be used. If one accepts that a lease is an executed contract, the degree of consumption of the underlying asset does not appear to be a relevant factor to the existence of a lease. However, as indicated above, we believe that the determination of why/when a lease is an executed contract is a question that remains to be addressed.

(7) Despite the improvements noted above, we do not support the ED on conceptual and practical grounds. We acknowledge that the introduction of a dual-model is the result of an attempt by the IASB to respond to criticisms made with respect to the previous ED. However, we believe that the proposals in the ED are overly complex and not robust conceptually. Further, application of a dual-model would fail to respond to one of the key criticisms made with respect to IAS 17 which is that leases of similar assets are accounted for differently by different entities as a result of slightly different contractual terms or different assessments of these similar terms.

(8) Indeed, FEE believes that establishing a single accounting model, preferably symmetrical between lessees and lessors, is a prerequisite in order to achieve transparency and understandability in financial reporting. We believe that this single model could be based on the right-of-use model, subject to further work being performed on the conceptual basis underlying such a model.

(9) While FEE is unable to support the proposal in the ED, it acknowledges that users have been requesting more transparency around the obligations from leases. Accordingly, FEE supports the suggestion by EFRAG that the Board should bring improvement to the existing requirements of IAS 17 without delay through relevant and meaningful disclosures. As suggested by EFRAG, such disclosures could address information about minimum commitments and maximum potential further cash flows disaggregated by category of underlying asset.

(10) Concurrently, the Board should take advantage of its current project on the conceptual framework to address the fundamental and cross-cutting issues detailed below. Once these questions have been dealt with, the Board will be in a better position to propose robust improvements to lease accounting.

(11) Conceptually, we believe that the right-of-use is based on the notion that an asset is a bundle of rights, one of them being the right-of-use. However, it may be premature to use a definition of asset that seems to go beyond the current definition in the conceptual framework. Accordingly, FEE believes that the issues surrounding the right-of-use asset should be considered as part of the current work of the IASB on the conceptual framework. These issues include how to distinguish the right-of-use from the other rights conveyed by an asset, how the right-of-use asset is consumed and how control over the right-of-use is obtained.

(12) Another key aspect that should be examined as part of the project on the conceptual framework relates to the recognition of a liability for amounts arising from options and variable payments.

(13) The ED requires that a lessee recognises a liability for fixed payments due over periods covered by renewal options and for the exercise price of purchase options, if the lessee has a significant economic incentive to exercise the related options. While this is similar to the current requirement in IAS 17, it nonetheless appears inconsistent with other requirements in IFRS (in particular IAS 37) that consider that economic compulsion does not constitute a valid basis for recognising a liability. This fundamental aspect in the definition of a liability merits further consideration. Similarly, the recognition and basis for measurement of variable payments arising from usage or performance also deserve appropriate consideration as part of the project on the conceptual framework to ensure that clear principles are established that can be applied across IFRS.

(14) Once these key concepts are established, the development of a robust right-of-use model for the lessee and the lessor should be possible. However, we can already consider that the Type-B model does not represent a conceptually sound model, whether from the perspective of lessees or lessors.

(15) From the perspective of lessees, the lack of conceptual basis in the proposed accounting treatment for Type-B leases is evidenced by the fact that the statement of financial position treatment for these leases is not consistent with their treatment in P&L and in the statement of cash flows (it results in a financing liability for which the expense is not a financing charge and for which the cash outflows are classified as operating). The ED also introduces an amortisation method for the right-of-use asset (in the Type-B model) that is inconsistent with methods generally applied to assets under IFRS.

(16) From the perspective of lessors, the key conceptual problem with the proposed accounting treatment for Type-B leases is that, if one accepts that the right-of-use is an asset in its own right, it appears inconsistent for the lessor not to derecognise that right considering that the lessee recognises that same right on the basis that it controls it.

(17) In addition to the above conceptual deficiencies noted, FEE is concerned about the practical difficulties that would likely arise from the implementation of the ED proposals for the preparers and their auditors.

(18) In particular, the proposed basis for classification between Type-A and Type-B leases (based on a presumption reflecting the nature of the underlying asset, with a rebuttal of the presumption based on the level of consumption) is complex. If, contrary to our opinion, the IASB was to pursue a dual-model approach, FEE believes that the classification should be based solely on the level of consumption of the underlying asset by the lessee (without regards to the nature of the underlying asset).

(19) The requirements surrounding accounting by the lessor for the residual asset in Type-A leases, also appear to be a source of significant complexities as further explained in our response to Question 3.

Our detailed comments on the ED are included in the Appendix to this letter.

For further information on this letter, please contact Mrs Anastasia Chalkidou, FEE Advisor at +32 (0)2 285 40 82 or via email at anastasia.chalkidou@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

RESPONSES TO SPECIFIC QUESTIONS

Question 1: Identifying a lease

The 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 a 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.

(1) FEE considers that the revised definition of a lease provided in the ED represents an improvement.

(2) In particular, the modification of the criteria in IFRIC 4 to distinguish a service from a lease represents an improvement as it addresses the key practical difficulties encountered in the application of IFRIC 4 to capacity-type arrangements and the assessment of the ability to direct use of an asset.

(3) We believe that focusing on control of the asset is appropriate since this is consistent with the focus in other recent standards/proposals, in particular the distinction based on control of the underlying asset is consistent with the proposals for the new standard on revenue that would recognise amounts based on control rather than risks and rewards.

(4) However, we regret that the IASB has not followed our suggestion to clearly establish why a lease contract constitutes an executed, rather than an executory, contract. This is regrettable since work on this matter may have resolved some of the issues that led to the introduction of a dual measurement model.

(5) We do not believe that the level of consumption of the underlying asset should be used to establish whether a contract is a lease or a service contract. If one accepts that the lessee has an obligation for lease payments because the contract is executed, an obligation should be recognised regardless of the size of the obligation relative to the fair value of the asset (i.e. regardless of the degree of consumption of the underlying asset).

(6) To ensure consistency, it would be important to ensure that, to the extent possible, the definition of control is the same as the one provided in IFRS 10 *Consolidated Financial Statements* and in the future standard on *Revenue from Contracts with Customers*. In that respect, we note that paragraph 15 of the ED appears to be definitive that, in the absence of on-going decisions, an involvement of the lessee in the design of an asset would result in control of the asset by the lessee. This does not

appear to be consistent with IFRS 10 that indicates that an involvement in the design must be considered in assessing power. We believe that this should be clarified. Moreover, it may be useful to clarify what other factors may be relevant to assessing whether a "lessee" controls a right to use the asset such as on-going capital expenditures.

(7) Furthermore, we believe that the assessment of whether there are barriers to substitution (as required in paragraph 9b of the ED) could be subjective and therefore, we would welcome some additional clarification. For example, if the lessor does not currently own substitute assets, would the substitution right depend on the capacity of the lessor to acquire additional assets (including the financial capacity of the lessor to do so)? How would the lessee determine the capacity of the lessor to exercise its substitution right?

(8) Finally, it should also be clarified whether reassessment is necessary if consumables become available in a contract initially determined to be a service contract because of the unavailability of consumables on the market (such as in example 2 in the ED).

(9) In its April 2012 response to the ED *Revenue from Contracts with Customers*, FEE expressed agreement with the revised proposal to separate performance obligations in a revenue contract. In order to be consistent, FEE believes that separation of the components of a lease contract should be based on the same criteria as those that will be ultimately introduced in the new revenue standard.

(10) However, there may be situations where these criteria may result in an assessment that a contract includes non-distinct service components. When this is the case, we do not agree with a provision to apply lease accounting to the entire contract. Further, we are concerned that the proposed paragraph 23(c) may result in recognising an entire contract as a lease even though the lease component is very small.

(11) Instead, classification of the contract based on an assessment of the economic substance of the contract may remove some of the pressure in distinguishing services from leases in contracts in which it is apparent that the asset is incidental to the contract. Indeed, we believe that when a contract includes both a lease and non-distinct services, an entity should identify, based on the information available, the predominant component and treat the whole contract accordingly.

(12) On the matter of whether certain payments contemplated in lease contracts represent payments for services, we believe that the IASB should clarify whether certain amounts frequently included in real estate leases, such as insurance, maintenance and taxes, represent lease payments or not.

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?

(13) We acknowledge that the introduction of a dual-model is the result of an attempt by the IASB to respond to criticisms made with respect to the previous ED. However, we believe that the proposals in the ED are overly complex and conceptually not robust. In addition, the application of a dual model would fail to respond to one of the main points of criticism made with respect to IAS 17, i.e. leases of similar assets are

accounted for differently by different entities as a result of slightly different lease terms or a different assessment of these similar terms.

(14) Further, we are concerned that the proposals with respect to classification of leases between Type-A and Type-B leases would result in a dual model that is in fact more complex and more subjective than the current operating vs. finance lease classification in IAS 17.

(15) Indeed, FEE believes that establishing a single accounting model, preferably symmetrical between lessees and lessors, is a prerequisite in order to achieve transparency and understandability in financial reporting. We believe that this single model should be based on the right-of-use model, subject to further work being performed on the concepts underlying such a model.

(16) From the conceptual point of view, the right-of-use model is based on the notion that an asset is a bundle of rights, one of them being the right-of-use. However, it may be premature to use a definition of an asset that seems to go beyond the current definition in the conceptual framework. Accordingly, FEE believes that the issues surrounding the right-of-use asset should be considered as part of the current Conceptual Framework project. This should include issues like how to distinguish the right-of-use from the other rights conveyed by an asset, how the right-of-use asset is consumed and how control over the right-of-use is obtained.

(17) Another key aspect that should be examined as part of the Conceptual Framework project relates to the recognition of a liability for amounts arising from options and variable payments. For further details, we refer to our response to Questions 4 and 5.

(18) Once these key concepts are established, the development of a robust right-of-use model for lessees and lessors should be possible. However, we can already consider that the Type-B model does not represent a conceptually sound model, whether from the perspective of lessees or lessors.

(19) From the perspective of lessees, the lack of a conceptual basis in the proposed accounting treatment for Type-B leases is evidenced by the fact that the treatment for these leases in the statement of financial position is not consistent with their treatment in P&L and in the statement of cash flows (e.g. it results in a financing liability for which the expense is not a financing charge and for which the cash outflows are classified as operating).

(20) The ED also introduces an amortisation method for the right-of-use asset (in the Type-B model) that is inconsistent with methods generally applied to non-financial assets under IFRS. The method proposed seems to be inconsistent with recent proposals with respect to what constitutes an acceptable method of amortisation of assets under IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. These recent proposals reinforced the principle that the method used for depreciation or amortisation should reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

(21) We would expect (subject to completion of the work on the Conceptual Framework proposed above) that a sound right-of-use model would be closer to the Type-A lease accounting. It should reflect the fact that if a contract is determined to represent a lease this is because the lessee has obtained control of the right-of-use asset at commencement of the contract in exchange of periodic payments. Accordingly, a lessee should account for the acquisition of the right-of-use asset similar to the

acquisition of any other financed asset. Subsequent to initial recognition, the lessee should recognise amortisation of the right-of-use asset and interest expense on its obligation for lease payments.

(22) We do not believe that the level of consumption of the underlying asset should be used to establish whether a contract is a lease or whether the right-of-use model should be used. If one accepts that a lease is an executed contract, the degree of consumption of the underlying asset does not appear to be a relevant factor to the existence of a lease. However, we believe that the determination of why/when a lease is an executed contract is a question that remains to be addressed.

Question 3

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?

(23) As stated in our response to the previous ED, in FEE's view, the IASB must aim to establish a single model for lessor accounting that is consistent with lessee accounting.

(24) We believe that a single model that could be applied by lessors is a "derecognition model" consistent with the proposal for Type-A leases in the ED.

(25) As previously indicated, we have sympathy for the idea that the right-of-use is based on the notion that an asset is a bundle of rights and one of them being the right-of-use. It appears inconsistent that the lessee recognises this right-of-use asset (on the basis that it controls it), but the lessor does not derecognise that right. For this reason, we do not support the accounting model proposed in the ED for Type-B leases.

(26) However, we note that key aspects of the application of a right-of-use model by lessors need to be developed further. In particular, the nature of the residual asset must be clearly established. Only when the nature of the residual asset is clarified, it will be possible to evaluate an appropriate accounting for this asset (e.g. should it be revaluated, should it accrete interest or, on the contrary, should it be depreciated). While the accounting proposed for Type-A leases reflects an application of the right-of-use model to lessors, we cannot conclude that this is the approach that should prevail until further work on the underlying concept is performed.

(27) Further, we note that the model proposed for Type-A leases, in particular the method proposed for the measurement of the residual asset, may result in practical difficulties. For example, paragraph 71 indicates that one of the components of the residual asset is "the present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term". Some may interpret this as requiring lessors to develop multiple scenarios of the cash flows that could be expected from subsequent leases of the asset over its remaining economic life after the end of the current lease. The IASB should clarify whether this is really meant by paragraph 71 or whether that component could be more simply expressed as representing the expected fair value of the underlying asset at the end of the lease term.

(28) Additionally, the requirement in paragraph 72 that "if a lessor reflects an expectation of variable lease payments in determining the rate the lessee … the lessor shall include in the initial measurement of the residual asset the present value of the variable lease payments" may be read as implying optionality. This should be clarified.

(29) Practical difficulties may also be expected in performing the impairment tests on the lease receivable. The ED indicates that the impairment test of the lease receivable (to be performed under IAS 39) should consider the collateral but must exclude from the collateral the amount expected to be derived from the asset at the end of the lease. Hence it seems that the lessor cannot consider the part of "profit" element that may be derived from recuperating the asset in case of default. Consequently the result of the impairment test may not reflect the economic reality. Further, the arbitrary separation of the cash flows arising from a single asset is likely to create practical difficulties.

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?

(30) If the Board retains a dual accounting model for leases, we disagree with the proposed lease classification requirements. We believe that the lease classification should depend solely on the terms of the lease (i.e. the level of consumption of the underlying asset by the lessee), rather than the nature of the underlying asset.

(31) Indeed, we believe that the same criteria should be used to establish lease classification regardless whether the underlying leased asset is a property or a non-property, similar to the current requirements in IAS 17.

(32) The presumption based on the nature of the asset, with the required alternative treatment based on the level of consumption is overly complex, does not necessarily reflect the substance of the transaction, and may not result in transparency to the users.

(33) Further, the proposal in the ED would put additional pressures on the definition of "investment properties". Should assets that are attached to land and cannot be removed and used separately without incurring significant costs (such as cell towers and wind farms), be considered as investment properties? If not, would the differentiation with "typical" real estate assets be justified?

(34) If the IASB retains the presumption, and the circumstances in which the presumption is overcome, we note that leases of property are classified as Type-A if the lease term is for the major part of the remaining economic life of the underlying asset whereas leases of non-property are classified as Type-B if the lease term is for an insignificant part of the total economic life of the underlying asset. The reason for the difference in the threshold to be used to assess the term of the lease should be explained. Similarly the different thresholds used in the proposals (insignificant, major part, substantially all) should also be explained.

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?

(35) FEE believes that one of the key conceptual issues for which further work is required relates to the recognition of a liability for amounts arising from options and variable payments.

(36) The ED requires that a lessee recognises a liability for fixed payments due over periods covered by renewal options and for the exercise price of purchase options, if the lessee has a significant economic incentive to exercise the related options. While this is similar to the current requirement in IAS 17, it nonetheless appears to be inconsistent with other requirements in IFRS (in particular IAS 37) that consider economic compulsion as not constituting a valid basis for recognising a liability. This fundamental aspect in the definition of a liability merits further consideration.

(37) Should the IASB complete the lease project without tackling this issue, we would support EFRAG's view A i.e. accept to include in the lease liability payments under options in certain circumstances.

(38) Indeed, we believe that the proposals in the ED are not significantly different from what is required under IAS 17 and we believe therefore that this concept should be retained (as opposed to the "significant economic incentive" concept proposed in the ED).

(39) We also believe that the determination of whether a lease is a short-term lease should be made using a lease term that considers renewal options that are reasonably certain to be exercised.

Question 6: variable lease payments

Do you agree with the proposals on the 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?

(40) We generally agree with the proposals in the ED. We believe that the different types of contingencies set out in the ED have very distinct attributes that deserve distinct consideration and accounting treatments.

(41) Further, we believe that contingent rentals based on an index or a rate represent unavoidable obligations and accordingly would be included in the measurement of the lease asset/liability.

(42) While we tend to agree that variable payments based on usage or performance should be included in the measurement of the lease asset and liability, as indicated in our response to Question 5., we believe that the recognition and basis for measurement of variable payments arising from usage or performance deserve appropriate consideration as part of the project on the conceptual framework to ensure that clear principles are established that can be applied across IFRS.

(43) Additionally, we believe that further clarification is required with respect to the concept of "in-substance fixed payments". In our view, it is not sufficient to explain that concept through examples. Further, Example 17 provided in the Illustrative Examples does not serve to illustrate the concept since it illustrates situations involving a known minimum amount (minimum sales or minimum index) and concludes that the minimum amounts should be recognised as a liability because they represent payments that are in-substance fixed payments. However, this example does not provide clarity since it illustrates payments that are *actually* fixed (not only *in-substance* fixed).

Question 7: transition

Paragraphs C2-C22 state that a lessee and a lessor would recognise and measures 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?

(44) We support the IASB's proposals to simplify the transitional requirements.

(45) We believe that it would be more consistent to require the use of the lessee's incremental borrowing rate at the beginning of the earliest comparative period.

(46) Furthermore, entities should not be required to recognise lease liabilities and right-of-use assets for leases previously classified as operating leases, if the term has ended before the end of the period in which the new Standard is applied.

(47) As an additional simplification measure for lessees, we suggest that regardless of the type of lease, a lessee should be allowed to measure the ROU asset at the same amount as the liability. This choice should be available on a lease-by-lease basis.

(48) As an additional simplification measure for lessors, we suggest that for leases previously classified as operating lease, the lessor should be allowed to measure the lease receivable and the residual asset using the discount rate as determined at the effective date of the new standard and not at the commencement date of the contract.

(49) In addition, we would like to note that the ED does not explain the transition requirement for leases that are classified as finance leases under IAS 17 but will be classified as service arrangements as a result of the revision to the criteria of IFRIC 4. This should be clarified.

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 leases 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?

(50) We believe that the list of requirements is extensive and that it should be clearly stated that not each of them will be needed in all situations.

(51) Also, we believe that care should be taken to ensure there is no duplication between the information required by IFRS 7 *Financial Instruments: Disclosures* and those that will be introduced by the new standard on leases.

(52) In addition, we still regret the absence of an overarching framework for disclosures that would define criteria for inclusion and exclusion of information in the annual and interim financial statements. Many standards tend to define very prescriptive and rule-based disclosure requirements which have resulted in information overload.

Question 12: Consequential amendments to IAS 40

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

(53) We believe that the fair value measurement of a right-of-use asset classified as investment property should be limited to circumstances when the fair value can be realised by the lessee. While the transfer of ownership at the end of the lease is one circumstance where this would occur, there are other potential circumstances. Indeed, in some jurisdictions, sales of lease contracts are common transactions. Fair value measurement would also be appropriate in such circumstances.

Appendix 2 – Additional comments

(54) As indicated in our response to question 3, the ED should define the conditions under which a lessor would be required to include or exclude an expectation of variable lease payments when assessing the discount rate.

(55) Furthermore, the ED should explicitly indicate whether the costs necessary to bringing the underlying asset in the specified conditions and location at the end of the lease term represent an element of the initial measurement of the right-of-use asset.

(56) We believe that whether or not the residual asset should accrete is a question that must be addressed as part of the conceptual work to be performed on such assets. Under the accounting proposed for Type-A leases, it appears to be an unavoidable consequence of the initial separation of the leased assets.

(57) We question the appropriateness of presenting lease receivables and residual assets as a single amount in the lessor's statement of financial position since these assets appear different in nature.

(58) With respect to the perceived conflict between the treatment of contingent payments in IAS 34 and in the ED, it seems that the requirement in the ED on contingent payments based on usage or performance are similar to what is currently required under IAS 17. Hence, we question whether this perceived conflict is a consequence of the ED and, if not, whether a change to IAS 34 is required since we are not aware of difficulties in practice with this issue.

(59) We agree with EFRAG's recommendations with respect to the consequential amendments to IFRS 3 *Business Combinations*: (i) paragraph B54B of IFRS 3 should refer to "leases that if assessed at acquisition date would meet the definition of short-term leases" and (ii) the acquirer should be allowed not to recognise those contracts but should not be prevented from doing so.