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Mr. Russell G. Golden
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Geneva, 13 September 2013

Re: IATA IAWG - Comment letter to the Exposure Draft Leases (ED/2013/6)

Dear Mr. Hoogervorst and Mr. Golden,

We are writing on behalf of the IATA Industry Accounting Working Group (IATA IAWG) which is made up of senior finance professionals from major airlines and represents over 240 airlines. As such, we have been active in the standards setting process for years in order to help achieving the goal of a robust international set of financial reporting standards.

We have written to the IASB, to raise our concerns on the proposed leasing standard, on July 17th, 2009, December 15th, 2010, and October 30th, 2012. We also had the opportunity to engage in a number of discussions with IASB representatives regarding leasing over the last few years with most recently Darrel Scott attending our IATA IAWG meeting in December 2012.

We would like to thank the IASB and FASB for the opportunity to issue our comments to the revised Exposure Draft Leases (ED/2013/6), as well as the continuous dialogue the IASB has engaged in with our working group during the consideration of this project.

Airlines usually have entered in a significant number of lease contracts for aircraft and engines. The Airline industry has very often served as an example, even by IASB members, for structuring their aircraft lease transactions specifically to achieve an off-balance sheet treatment as an operating lease as the desired accounting outcome. We think this is a misinterpretation of our business, our industry practice and the economic drivers of leasing decisions. To support this, we have included below industry analysis of total aircraft fleet and the number of fleet units accounted for as operating leases in accordance with IAS 17.



OperatorArea	Aircraft in Fleet	Aircraft held via	
		Operating Lease	Share %
Africa	1289	298	23.1
Asia Pacific	6194	2178	35.2
Europe	6428	2648	41.2
Latin America and Caribbean	1829	716	39.2
Middle East	1062	340	32.0
North America	7767	1846	23.8
Unknown area	6	0	0.0
Total	24575	8026	32.7%

Source Ascend

Commercial airline fleet as at 31/12/2012

As you can see from the table above, operating leased aircraft do not form a major part of a portfolio management approach to aircraft and at 32.7 per cent by number do not form such a significant part that lease structuring drives the airline industry's approach to leases and lease accounting.

Rather the use of operating leases reflects that airlines use differing structures to procure aircraft with different ownership related risk profiles to execute on business plans in a dynamic industry that is regularly impacted significantly by global events.

IAS 17 remains appropriate supported by guidance and enhanced disclosure

As such, we reiterate our view that we do not see that the case for changing the current lease accounting requirements under IAS 17 has been made. Leases wherein all risks and rewards of usage fall to the account of the lessee and all risks and rewards of ownership remain to the account of the lessor are true operating leases. Such leases should not be capitalized on the balance sheet. Instead of addressing the issue through this ED, the auditing industry should be responsible for ensuring that true operating leases are correctly classified and remain off balance sheet. In our view, any concerns around the application and interpretation of the existing IAS 17 requirements could be addressed through additional guidance on lease classification and enhanced disclosure.

Notwithstanding this, assuming the IASB and FASB continue with the objective of recognizing all leases on balance sheet, this letter outlines our comments on the exposure draft and proposes an alternative model which, in our view, more appropriately reflects the economic difference between leases which are in effect a financing transaction and leases which are used to gain access to the use of an asset for a limited period of time.

Summary of feedback on exposure draft

In summary, we have the following comments on the exposure draft:

1. The proposals are overly complex and do not represent a significant improvement from current practice and disclosures
2. The proposals fundamentally ignore the economic difference between leases which are in effect a financing transaction and leases which are used to gain access to the use of an asset for a limited period of time.



3. The proposals introduce an unnecessary new classification between lease types when there is a well-established classification model in operation
4. The proposals make an arbitrary distinction between property and non-property leases rather than continuing with a principle based approach to lease classification
5. Assuming leases currently classified as operating leases are recognized on-balance sheet, the proposals do not appropriately acknowledge the inextricable link between the 'right of use asset' and the lease liability. This linkage should drive the identification of variables which require remeasurement of both the asset and the liability.
6. The requirements in relation to 'lease term' can result in the recognition of a liability even though the entity does not have a present obligation. This is inconsistent with the definition of a liability in the Framework and other existing accounting standards. The period beyond an extension option should only be included in the lease term where the entity has 'no realistic alternative but to make the payments'.

Lease classification

In our view, the proposals fundamentally ignore the economic difference between leases which are in effect a financing transaction and leases which are used to gain access to the use of an asset for a limited period of time.

The different economic risks and benefits of these two forms of leasing are however appropriately acknowledged in the existing accounting requirements with the classification between finance leases and operating leases.

The 'asset' held by a lessee via a lease which transfers substantially all the risks and rewards of ownership is economically similar to the underlying asset and should be accounted for as such. The committed obligation to make future payments under such a lease is economically similar to secured financing, and should be accounted for as such.

Whereas the 'right of use asset' held by a lessee via a lease that does not transfer substantially all the risks and rewards incidental to ownership is economically different from the underlying asset and should therefore have different accounting outcomes. Likewise, the committed obligation to make future payments under such a lease is economically different from secured financing of the underlying asset, and more similar to a commitment to pay a future access fee. The liability should therefore have different accounting outcomes to secured financing.

By failing to distinguish between economically different leases appropriately, the new proposals do not provide users of financial statements with the necessary information to distinguish the economic benefits or exposures an entity holds through their leasing arrangements.

In our view, any proposed leasing model must differentiate between leases based on the risk and reward exposures of the lessee.

The proposals introduce an unnecessary new classification between lease types when there is a well-established classification model in operation. In addition, the proposals

make an arbitrary distinction between property and non-property leases rather than continuing with a principle based approach to lease classification.

In our view, the existing lease classification between finance leases and operating leases remain appropriate and reflect the economically different types of leases available to a lessee.

We therefore do not see it necessary for the proposals to introduce new requirements for lease classification.

By retaining the principle based approach of IAS 17 to lease classification, there would be no requirement to introduce an arbitrary distinction between property and non-property leases.

Re-measurement

Assuming leases currently classified as operating leases are recognized on-balance sheet, the proposals do not appropriately acknowledge the inextricable link between the 'right of use asset' and the lease liability. This linkage should drive the identification of variables which require re-measurement of both the asset and the liability.

Of particular consequence to our industry is the impact of changes in foreign exchange on the lease liability without a corresponding re-measurement of the 'right of use asset' where it is predominately denominated and transacted in that foreign currency.

As raised in our previous comment letters and during discussion with the IASB we have significant concerns with the impact of foreign exchange on leases which are economically different to financing transactions. In our view, where a lease does not transfer the significant risks and rewards of ownership to the lessee, the obligation to make lease payment and the 'right of use asset' obtained via that contract are inextricably linked.

Within our industry, aircraft purchases and aircraft leases are predominately denominated and transacted in United States Dollars (USD). Even if a contract is written in another currency, the quantum of that currency is predominately determined with reference to the USD equivalency.

As a monetary financial liability, is it appropriate and necessary to re-measure the lease liability for movements in foreign exchange rates where the lease payments are denominated in a currency other than the functional currency of the entity.

However, where the underlying asset is predominately denominated in foreign currency, the value of the 'right' to use the asset also varies as a result of movements in foreign exchange rates. This is an important distinction between ownership of an asset and holding a 'right' to use an asset.

It also appears inconsistent to require the re-measurement of the 'right of use asset' where there is a change in an index or a rate which impacts future lease payments without also requiring the re-measurement of the 'right of use asset' where there is a change in foreign exchange rates which impacts future lease payments. All of these changes are driven by external factors which result in a change to the future obligation of the lease but also reflect a change in the relative value of the 'right' as the right is reflective of the payments required to gain access to that right.



Therefore, in our view, foreign exchange rate changes in the lease liability should also require re-measurement of the right-of-use asset where the right of use asset is predominately denominated in foreign currency.

A key differentiator between an asset that is legally owned and an asset that is leased is the inextricable connection between the asset and the liability. Where an asset is owned, it is appropriate to consider any financing liability independently given there is no legal connection (even where the asset has been pledged as security for the loan). However, with a lease, the right of use asset only exists because there is a liability. As such, to reflect the economic differences between legal ownership and leasing, there has to be an acknowledgement of the connection between the asset and liability.

This is supported by the outcome if a lease is cancelled. Both the asset and the liability are extinguished upon cancellation.

As such, in our view, any changes in the lease liability are inextricably linked to the leased asset and should be treated as re-measurements.

Leases versus purchase

We are not comfortable with the proposals for distinguishing between a lease and a purchase or a sale. The previous Exposure Draft scoped out lease arrangements where a "bargain purchase" option existed at the inception of the lease as a purchase. In the current Exposure Draft, no such requirements are given but instead, reference to "transfer of control" and the new "Revenue Recognition Standard" is included. This may lead to a different accounting treatment of a finance lease arrangement and a purchase financed through secured debt, when Airlines in practice are indifferent to these two financing alternatives. We therefore suggest that the exception included in the previous Exposure Draft is reinstated to ensure that leases which are in-substance purchases are accounted for as purchases.

Proposed alternate model

As outlined above, in our view the case for change to the current Lease accounting standards has not been made. However, should the IASB and FASB continue with the objective of recognizing all leases on balance sheet, we propose an alternate model for lessee accounting which is summarized as follows:

1. Lease classification remains as per IAS 17 which is a well-established test that is based on the principle of risk and reward transfer.
2. Leases classified as 'Finance leases' are accounted for as per 'Type A' leases in the exposure draft.
3. Leases classified as 'Operating leases' are accounted for as per 'Type B' lease in the exposure draft (subject to the comments in this letter regarding balance sheet classification of the ROU asset and the payment obligation associated with the lease payments).
4. The 'Type B' lease model includes the remeasurement of the 'right of use asset' for changes in foreign exchange rates where the underlying asset and leases for that underlying asset are predominately denominated and transacted in that foreign currency.



5. The lease term should only include periods covered by an option to extend the lease if the lessee has no realistic alternative but to extend the option and make the payments.

A detailed outline of our alternative model is contained within our response to Questions 2 and 5 in the appendix to this letter.

Details response to Questions

The feedback from airlines on the specific questions raised in the revised Leases Exposure Draft, are enclosed in appendix 1 to this letter.

It is our strong view that the objective of the Boards to issue a high quality standard that will demonstrably improve financial reporting has not been met. The proposed requirements do not appropriately distinguish the economic differences between leasing and ownership, are too complex, are impractical in some key aspects and will be costly to implement for little or potentially negative outcomes for preparers and users. The proposed changes will further increase variability between financial statements and will neither improve the quality of the information made available to the users of the accounts nor make them better informed. We recommend that the new standard is not issued as currently drafted.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us (IAWG@iata.org).

We look forward to discussing our concerns with you further.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Aleks Popovich", with a long horizontal flourish extending to the right.

Aleks Popovich
Senior Vice President
Financial and Distribution Services
IATA

A handwritten signature in blue ink, appearing to read "M. Pollmann-Klein", with a long horizontal flourish extending to the right.

Maren Pollmann-Klein
Chairman
IAWG



Appendix 1: Comments to the Leases Exposure Draft (ED/2013/6)

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 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.

The proposed definition does not contain some of the necessary characteristics inherent in a lease which are detailed elsewhere in the exposure draft. In our view, these are imperative to the identification of a lease and should therefore be included in the definition.

Our feedback on the components of the definition is outlined below:

- 1) 'A contract' - We agree, there must be a contract in order for there to be a lease;
- 2) 'conveys the right to use an asset' - In our view, this proposed wording is insufficient to define a lease. The exposure draft outlines several key characteristics that are necessary for the identification of a lease, the complexity of which is not appropriately referenced in the definition.

For example, the proposed definition does not reflect the dependency on an identified asset as required by paragraph 7(a), the specificity of the identified asset as required by paragraph 7(b), the 'control' of the asset as required by paragraph 7(b), the ability to derive benefits from the use of the asset as required by paragraph 18, or the distinction of a lease from a service contract as contemplated by paragraphs 19 and 20.

Therefore, we believe this part of the definition should read 'the fulfillment of which is dependent on an identified asset, conveys the right to control the use of the specifically identified asset (the underlying asset) and derive the benefits from the use of this asset, which does not represent a contract for service'.

- 3) 'for a period of time' - We agree that a lease definition should include reference to time;
- 4) 'in exchange for consideration' - We agree.

We therefore propose a definition of ‘A contract, the fulfillment of which is dependent on an identified asset, conveys the right to control the use of the identified asset (the underlying asset) and derive the benefits from the use of this asset, for a period of time in exchange for consideration, which does not represent a contract for service’.

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?

We agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases. However, we do not agree that the current differentiator which is dependent on whether the lessee is expected to consume more than an insignificant portion of the benefits embedded in the underlying asset is the most appropriate test.

In our view, the introduction of this threshold test is not appropriate and is inconsistent the reporting outcomes of the different lessee accounting models.

The key difference between the accounting models for Type A leases and Type B leases is the timing of recognition of expense through the Income Statement. The model for Type A leases results in an expense profile consistent with the interest expense profile of amortizing debt, whereas the model for Type B leases results in a straight line expense profit more consistent with a service cost.

As such, in our view, the driver of classification between Type A and Type B leases should be consistent with the outcomes that result from the differential classification. That is, if a lease is most appropriately considered a debt financing transaction, then the lease should be classified as a Type A lease. If the lease is most appropriately considered an agreement to gain access to the use of an asset for a limited period of time, then the lease should be classified as a Type B lease.

As outlined in our introduction, in our view, the classification of leases in IAS 17 between finance leases and operating leases reflects this differentiation. The requirement for finance leases to transfer substantially all the risks and rewards incidental to ownership of an asset appropriately identifies leases which are economically similar to ownership and therefore, the finance lease liability is economically similar to secured financing. The identification of operating leases appropriately identifies leases which are economically different to ownership and therefore finance lease liabilities that are economically different to secured financing.

As such, we recommend that the existing lease classification in IAS 17 is retained. We do not see any significant benefits being derived from introducing new classification criteria where the existing criteria is well established and has been operating effectively.



Within our industry, there are leasing opportunities that are for longer than one year (so they do not meet the exception requirements) but are very different from a debt financing transactions and more appropriately represent a commitment to payment for access to the use of an asset for a period of time. These are currently classified as operating leases and are fundamentally economically different from leases which are essentially secured financing activities which gain access to substantially all the risks and rewards of ownership.

We therefore proposed that finance leases be accounted for via the 'Type A' model and operating leases be accounted for via the 'Type B' model (subject to the feedback in this comment letter).

Finance leases will therefore be recognized, measured and presented consistently with other assets that are owned via secured financing.

Operating leases, which have different economic exposures to risks and rewards, will therefore be recognized, measured and presented differently to financing transactions. In our view, the 'right of use' asset in a Type B lease should not be presented in the Balance Sheet with the corresponding underlying assets – instead it should be presented as a separate intangible asset. Likewise, the lease obligation of a Type B lease should not be presented with secured financing, but instead presented elsewhere in the balance sheet as a deferred payment obligation.

Proposed alternative lessee model

- IAS 17 lease classification between operating leases and finance leases should remain for purposes of profit and loss reporting classification
 - Well established approach to lease classification
 - Principle based reflecting the economic differences between the risks and rewards of leasing and ownership
 - Commentary around the leasing project has not highlighted that there is a fundamental flaw with the application of the lease classification requirements. The objective of the leasing project is about recognition and measurement.
- Finance leases should continue to be recognized as per IAS 17. This is essentially consistent with 'Type A' leases in the new proposals
 - The leased asset should be reported together with similar underlying assets in the Balance Sheet
 - The leased asset should be amortized/depreciated consistently with similar underlying assets in accordance with IAS 16
 - The leased asset should be split into components consistent with similar underlying assets in accordance with IAS 16
 - The liability should be accounted for consistent with secured financing
 - The liability should be amortized on a principle and interest basis consistent with secured financing in accordance with IAS 39



- Operating leases should be recognized as per 'Type B' leases in the new proposal amended as follows:
 - The 'right of use asset' should be classified as an intangible asset separate from the underlying asset in the Balance Sheet
 - The committed obligation should be classified separately from secured financing in the Balance Sheet

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 material issue to the IATA Industry Accounting Working Group is lessee accounting and therefore this comment letter has not addressed Lessor accounting.

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?

No. We do not agree that a distinction between lease classification depending on a 'rule' with respect to property is appropriate and we do not understand the rationale behind the new lease classification test.

The classification should be principle based and reflect the economic differences that the lessee models represent. As per Question 2 above, the key difference between Type A leases and Type B leases is a decision as to whether the transaction represents a secured financing arrangement or whether it is committed obligation to make payments to access the use of an asset.

It may well be expected that most property leases (land, buildings, part of a building or both) would be Type B leases, but there appears to be a somewhat arbitrary view that property leases of real estate would be accounted for using the straight-line model of expense recognition in the income statement. There are also a wide array of other leases which have the same economic exposures as property which should be treated as Type B leases.

In our view the current criteria for distinguishing between operating and financing leases based on transfer of substantially all the risks and benefits is well understood and should be retained as the basis of lease classification.

Please refer to our response to Question 2 above.

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 proposals in relation to lease term in the exposure draft represent a significant improvement from the previous exposure draft. We agree that the lease term should be the non-cancellable period of the lease and also take into account options to extend or options to terminate in certain circumstances. However, we disagree with the factors assessed when considering these options.

The assessment of 'significant economic incentive' will be challenging to interpret and apply in practice. The complexity of interpreting this requirement could lead to inconsistent interpretation and application and in doing so reduce the usefulness and comparability of financial statements to users.

Furthermore, as this ultimately impacts the measurement and presentation of a financial liability on the balance sheet, the 'positive' test of 'significant economic incentive' is inconsistent with the recognition of a liability elsewhere in the financial statements.

The Framework outlines that an essential characteristic of a liability is that the entity has a 'present obligation' and requires recognition of a liability where 'it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation'.

Paragraph 61 of the framework actually describes the difference between a present obligation and a future commitment. It describes an arrangement where 'the irrevocable nature of the agreement means that the economic consequences of failing to honor the obligation, for example, because of the existence of a substantive penalty, leave the entity with little, if any, discretion to avoid the outflow of resources to another party.

This concept of the obligation being 'unavoidable' is consistent throughout the accounting standards. The definition of a financial liability in IAS 32 requires 'contractual obligation'. IAS 37 only allows the recognition of a provision when 'an entity has a present obligation as a result of a past event'. Paragraph 17 of IAS 19 provides some interpretation of 'present obligation' by stating it exists when, and only when, the entity has 'no realistic alternative but to make the payments'.

As such, in our view, the requirement for the recognition of a liability for extension options should not be that there is a 'significant economic incentive' to extend as this does not mean that the liability cannot be avoided. Instead, options to extend a lease should only be included in the lease term where the entity has a present obligation meaning that it 'has no realistic alternative but to extend the option'.



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?

No. In our view, foreign exchange rate changes should also be included as a reason for remeasurement of the lease liability which should be recognized as an adjustment to the right-of-use asset where the right of use asset is predominately denominated in foreign currency.

As a monetary financial liability, is it appropriate and necessary to remeasure the lease liability for movements in foreign exchange rates where the lease payments are denominated in a currency other than the functional currency of the entity.

However, where the underlying asset is predominately denominated in foreign currency, the value of the 'right' to use the asset also varies as a result of movements in foreign exchange rates. This is an important distinction between ownership of an asset and holding a 'right' to use an asset.

It also appears inconsistent to require the remeasurement of the 'right of use asset' where there is a change in an index or a rate which impacts future lease payments without also requiring the remeasurement of the 'right of use asset' where there is a change in foreign exchange rates which impacts future lease payments. All of these changes are driven by external factors which result in a change to the future obligation of the lease but also reflect a change in the relative value of the 'right' as the right is reflective of the payments required to gain access to that right.

A key differentiator between an asset that is legally owned and an asset that is leased is the inextricable connection between the asset and the liability. Where an asset is owned, it is appropriate to consider any financing liability independently given there is no legal connection. However, with a lease, the right of use asset only exists because there is a liability. As such, to reflect the economic differences between legal ownership and leasing, there has to be an acknowledgement of the connection between the asset and liability.

This is supported by the outcome if a lease is cancelled. Both the asset and the liability are extinguished upon cancellation.

As such, in our view, any changes in the lease liability are inextricably linked to the leased asset and should be treated as re-measurements.



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?

We agree that it is appropriate to provide the option of full retrospective recognition for preparers who are able to access the required information particularly those with larger operating leased asset bases by value. In addition, we think a modified retrospective option is also important as given the current rules of IAS 17 there will be the vast majority of preparers who have not captured the necessary information at the commencement of a lease to make a full retrospective adjustment.

However, we note that this will lead to a disparity between different companies and subjectivity in accounts preparation as it will be open to variable assumptions.

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?

In our view, one of the key principles of the exposure draft is that leases represent a financial liability. As a result, we believe that there should be no additional disclosures in relation to the lease liability other than those already required by IFRS 7 for other financial liabilities.

In addition, there are already disclosure requirements in IAS 1 in relation to significant judgments and estimation uncertainty. In our view, a new individual standard should not introduce additional prescriptive disclosure requirements where the principles of these disclosures are already contained within existing disclosure requirements.



Question 9 (FASB-only): nonpublic entities

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

- (a) To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.
- (b) To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

This question is not applicable to our working group.

Question 10 (FASB-only): related party leases

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

This question is not applicable to our working group.

Question 11 (FASB-only): related party leases

Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

This question is not applicable to our working group.

Question 12 (IASB-only): 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?

This question is not applicable to our working group.