



September 12th, 2013

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Exposure Draft ED/2013/6 Leases**

Dear Board Members,

The Comissão de Valores Mobiliários – CVM (Securities and Exchange Commission of Brazil) welcomes the opportunity to comment on the Exposure Draft ED/2013/6 Leases.

Our comments and responses to the specific questions listed in the Exposure Draft (ED) are included in the following pages. Overall, we agree with the proposals of the ED, including the segregation of Leases in two types (A and B). However we think the draft should be altered in some very specific points. In general, we suggest:

1. To remove rationale for *properties* from the definition, making leases type A and B identified based only on the transfer of economic benefits and not because the asset is a *property*. The way the text is written, the automatic definition of *properties* as type B is innocuous, because it will always be necessary to analyze the economic characteristics of the contract (which we support). Moreover, the focus on *properties* brings complexity to the definition.
2. In relation to the disclosure in the lessee's income statement of the charges with leasing, we suggest segregating the amortization portion of the right of use from the financial charges not only for type A leases, but also for type B.
3. The trigger of 12 months for a lease to be eligible for the simplified treatment should be balanced properly, because a Company may have an operational cycle longer than 12 months. Relevance and materiality should be used in judging the proper accounting treatment.

In addition, we would like to highlight the following topics:

(a) Examples

The Exposure Draft is accompanied by illustrative examples. However, in our opinion the examples should be improved to provide better understanding of how the principles should be applied and which factors had more importance in reaching a conclusion.



(b) Fieldwork activities

The proposals for changes in lease accounting may have significant impacts in the preparation of financial statements of many entities across industries. In this sense, we strongly recommend the conduction of fieldwork activities in order to access these impacts.

The questions proposed by the Financial Accounting Standards Board (questions 9, 10 and 11) were not commented.

If you have any questions about our comments, please contact us at [snc@cvm.gov.br](mailto:snc@cvm.gov.br)

Yours sincerely,

José Carlos Bezerra da Silva  
Chief Accountant  
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### **Question 1**

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.

### **Response to question 1**

We recognize that the current proposed definition of a lease is an improvement when compared to the previous one included in the first Exposure Draft issued by the Board in 2010. However, we believe that such definition still need to be better explained in order to avoid misinterpretation on how it is supposed to be applied in practice. Such situation could occur in the accounting for executory contracts with asset identification. We believe that the improvement of the provided examples or the inclusion of an application guidance (AG) could be helpful.

### **Question 2**

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?

### **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?

### **Question 4**

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?

### **Response to questions 2, 3 and 4**



As stated above, overall, we agree with the proposals of the ED, including the segregation of Leases in two types (A and B). However we think the draft should be altered in some very specific points. In general, we suggest:

1. To remove rationale for *properties* from the definition, making leases type A and B identified based only on the transfer of economic benefits and not because the asset is a *property*. The way the text is written, the automatic definition of *properties* as type B is innocuous, because it will always be necessary to analyze the economic characteristics of the contract (which we support). Moreover, the focus on *properties* brings complexity to the definition.
2. In relation to the disclosure in the lessee's income statement of the charges with leasing, we suggest segregating the amortization portion of the right of use from the financial charges not only for type A leases, but also for type B.
3. The trigger of 12 months for a lease to be eligible for the simplified treatment should be balanced properly, because a Company may have an operational cycle longer than 12 months. Relevance and materiality should be used in judging the proper accounting treatment.

#### **Question 5**

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?

#### **Response to question 5**

We generally agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors.

#### **Question 6**

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?

#### **Response to question 6**

We support the proposals on the measurement of variable lease payments. Nevertheless, we think that variable payments, if extremely probable, should be accounted for. We also suggest improving the concept of *in-substance fixed payments*, as well explaining if it includes extremely probable variable payments.



### **Question 7**

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?

### **Response to question 7**

Regarding the transitional provisions for contracts existing at the date of transition but for which the remaining contractual term is equal or less than a **nonrenewable** 12 months period, lessees and lessors should be permitted to elect the application of simplified requirements as described in paragraphs 118 to 120.

### **Question 8**

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?

### **Response to question 8**

We agree with the proposed disclosure requirements for lessees and lessors.

### **Question 12**

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?

### **Response to question 12**

Yes, we agree with the proposed consequential amendments to IAS 40 if the leased property meets the definition of investment property.