

12th Sept 2013

IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear IASB,

The Financial Reporting and Analysis Committee (FRAC) of the Chartered Financial Analyst Society of the UK (CFA UK) would like to respond to the exposure draft on leases. Our views from our previous response in December 2010 have not changed, therefore please also refer to that paper for more information.

CFA UK represents more than 10,000 investment professionals working across the financial sector. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee.

Question 1 – identifying a lease

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?

In principal we agree with the definition of a lease. However, there are concerns that by moving from two types of lease to three, as well as having separate definitions for lessors and lessees, you are potentially providing companies with a way round disclosing numbers. We were happy with the definition on the previous draft in December 2010 and do not believe that this new definition helps users of accounts.

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?

No. As we wrote in our previous response: “As an investor organisation we view assets and liabilities on the balance sheet as a series of future cash flows that accrue to the entity, or that the entity is obliged to pay. These cash flows arise either via productive use of an asset or via a contractual series of cash flows due from another party i.e. a financial asset. All assets should represent the NPV of future cash flows. Accordingly, we agree with recognising on a lessee’s balance sheet right-of-use assets and liabilities to pay for them.” Therefore, we do not believe that there should be a distinction between different leases.

Question 3 – lessor accounting

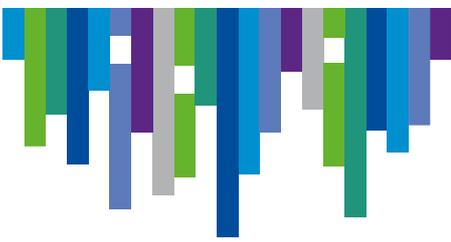
Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

No. We think that there should be one approach to leases and that ‘Type A’ leases apply to both.

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 with the look through to the underlying asset approach.



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?

We believe that these requirements are quite onerous and we would not want to place undue burden on preparers by including too much material. Preparers were concerned that they would have to jump over several hurdles with these changes going through a portfolio of leases. The principles seem fair but there is little scope to provide information on the portfolio.

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?

We believe the same thing about variable lease payments as above – that this would place undue burden on the preparers.

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 believe that it should be subject to negotiation between the preparers and the IASB.

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 disclosure requirements seem sufficient. However, it would also be useful to know how much of the balance sheet is not under the lessor's control.

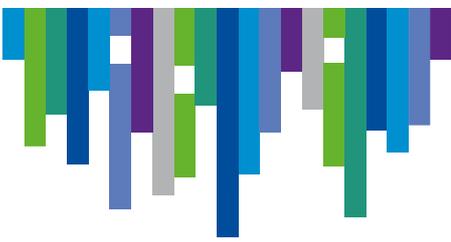
Questions 9 – 11 – FASB only

Not applicable.

Question 12 – consequential amendments to IAS 40

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?

We 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. It may be useful if related parties need leasing disclosed.



We look forward to discussing the issues raised in this response.

Yours sincerely,



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About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

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