



International Accounting Standards Board
30 Cannon Street
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OPINION

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EXPOSURE DRAFT ED/2013/6 – LEASES

Confederation of Finnish Industries (EK) is the leading business organization in Finland. Our main task is to create an internationally attractive and competitive business environment for companies operating in Finland. We represent and defend the interests of the Finnish business community – both on the national level, as well as in the EU.

General comments

We think that the ED is still quite complicated, for example in relation to definition of leasing, re-assessment, classification and disclosure. We are of the opinion that there is only limited development in a better direction since the previous consultation of the previous ED in 2010.

As a result of the proposed revision, there will be accounts that are less understandable and comparable than today since the amount of subjective factors has increased. We think that the aim to increase the transparency in accounting will not be fulfilled. We also think that the proposed definition of the lease is not consistent enough. It is also to be pointed out that an impact assessment should have been conducted in order to assess the costs and benefits of the proposed revisions. This is of particular interest for lessees, which amongst other, would need to make probability assessments of their various intentions under leasing contracts.

We think that the introduction of Type A and Type B -leases does not reflect their economic nature and goes against the long-stated objective of removing lease classification. It is important to note that the majority of leases are not structured big ticket leases that the standard setters are concerned of. As a result the ED makes the supply of financing more difficult and companies may try to find other ways of financing. It should be pointed also that leasing as an financing option

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is very important to SMEs as it is usually accessible to these companies.

We think that a better direction in achieving a standard that meets the needs of both users and preparers of financial statements would be exempting leases of non-core assets from the new standard. We also think that a better way for development would be through improvements introduced into the disclosures under current IAS 17.

Detailed Comments to the specific questions

Question 1: Identifying a lease

We consider that the lease definition is too much open to interpretations in many areas such as identifying a lease where differences are perceived between the ED and IFRIC 4, defining an identified asset, applying the definition to assets controlled by employees. It will be extremely burdensome to identify and separate service and leasing components. Moreover, certain parts of the ED on the definition of a lease are unlikely to be interpreted consistently, resulting in a potential lack of comparability.

Based on the ED, contracts that are shorter than 12 months would not have to be recognized in the balance sheet. In practice it is uncertain that how many lease contracts would be considered as short term contracts. These short term contracts should also be recognized in the balance sheet so that the accounting practice company has chosen would not affect to the comparability between companies.

There should be a model in the lease accounting where company could choose the depreciation method for the leased item similarly as if the item would be bought for the company. In the P&L the cost would be recognized as a rent cost, in the balance sheet it would be recognized as an asset item and financing debt. In cash flow statement it would be recognized in the cash flow of the business.

The determination of the discounting rate in lease agreements is problematic. The rate of the company's additional credit, by which company is able to obtain financing from the market could be used as the discounting rate. This would make it easier to determine the discount rate and in certain lease agreements the discount rate would no longer have any relevance when drafting a lease agreement.

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Question 2: Lessee accounting

The approach is somewhat problematic. If the economical nature of the contracts is different from each other, why the right of use -model is applied to both type A and type B –contracts?

The classification is against IASB's goals to reduce the significance of the subjective assessment and the artificial structuring aspirations in order to fit different lease contracts in certain types. We believe that IAS 17 much better reflects, both from a balance sheet and P&L perspective, the real economic difference between lease contracts.

It is uncertain, whether type B leases are considered as being financing items or not. Based on the profit and loss statement they are not, but based on the notes to the accounts they are considered as financing items. It is also to be pointed out that the negative impacts of the front-loading lease expenses for type A leases have not been considered or solved in the ED.

Question 3: Lessor accounting

We believe that the receivable and residual model has improved compared to the first ED, particularly in terms of introduction of accretion for residual assets.

The accounting for Type B leases from the lessor's point of view is inconsistent with the Type B lessees recognising an asset, since when lessor has transferred a valuable right to a lessee, the lessor still retains the entire value of the underlying asset on its books.

Another point to be made is that since in the future the lease receivable does not contain residual value (as it contains according to current IAS 17), this will affect the amount of the impairment losses to be recognized. The impairment rules will apply to a different unit of account than they do today. If the lessor under the new standard is not allowed to the same, this will result in a lessor being forced to recognise impairment losses that it actually does not have in cases where the value of the leased asset covers any credit loss.

Question 4: Classification

The suitability of the criterion "consumption of the economic benefits" is questionable, since the right of use will be consumed in both contract types.

We also think that the term "insignificant par" is open to interpretations as it considerably changes the present financing lease - operating

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lease allocation. Should the classification be considered necessary, it should be based on the current IAS 17 allocation.

Question 5: Lease term

The new assessment criterion “significant economic incentive” is better than the former but its application to the different situations in practice is somewhat problematic. Is the application threshold meant to be high or rarely used – the ED does not answer to this. The reassessment obligation during the lease contract should be an exception.

We think that lessees should recognise only their contractually committed (enforceable) payments, representing their effective liability. This would include any amounts that are required to be paid by the lessee either to obtain the ability to extend the lease term beyond the initial contractual term or to obtain the ability to purchase the asset at the end of the contract in addition to any amounts the lessee is required to pay if the lease contains a renewal or purchase option but where the lessee does not renew the lease or purchase the asset.

Question 6: Lease payments

We are of the opinion that the rate or index as regards the changes in amounts payable should be recognized in the profit & loss statement only in the period in which they occur, since this would be consistent with the treatment of other financial liabilities.

The ED’s requirement to recognize these changes as an adjustment to the carrying amount of the right-of-use asset causes complexity for lessees and it does not bring any additional benefit in terms of additional information.

Question 7: Transition

We believe that there is a need to consider transitional requirements for sale and lease-back transactions that were previously classified as “operating” lease-backs and would no longer qualify as “sales” under the new proposals.

Question 8: Disclosures

The disclosure requirements are too heavy and burdensome. There is a risk that the relevant and essential information will no longer be easily available. It is to be mentioned here that one of the core goals of this exercise was to avoid this.

The most burdensome requirements are the reconciliation requirements in ED §61 and §64, which effectively attempt to

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approximate the disclosure requirements for owned assets while being more complex. Given that an entity that leases is not in the same position nor exposed to the same risks as an entity that owns an asset, we feel that such requirements should not be maintained in any final standard.

For further information, please contact

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