

RSM International Limited  
11 Old Jewry, London EC2R 8DU, England  
T +44 (0)20 7601 1080 F +44 (0)20 7601 1090  
www.rsmi.com

Sir David Tweedie, Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

15 December 2010

Dear Sir David,

**Re: Exposure Draft ED/2010/9 Leases**

We are pleased to comment on the Exposure Draft ED/2010/9 *Leases* (“the ED”). Overall, we support the efforts of the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) (together, “the Boards”) to provide a single source of comprehensive guidance on leasing. While we support the overall direction of the joint project, we do have certain specific concerns, as listed below.

In general, we support the Boards’ right-of-use approach for lessee accounting. We agree that lease agreements give rise to rights and obligations that meet the definitions of assets and liabilities, respectively, in the *Framework for the Preparation and Presentation of Financial Statements* (“the Framework”). However, we do believe that additional guidance is necessary to avoid introducing shortcomings within the new model. The concerns are discussed in our responses to the specific questions raised in the ED.

With respect to lessor accounting, we believe that the introduction of a hybrid model will create unnecessary complexity as well as structuring opportunities. Our preference would be for a single model for lessor accounting that is consistent with that proposed for lessee accounting.

**Question 1: Lessees**

***(a) Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?***

***(b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?***

We agree conceptually with the Boards’ conclusion that a lessee should recognise a right-of-use asset and a liability to make lease payments. We believe that the lessee’s rights and obligations under a lease meet the conceptual definitions of “assets” and “liabilities” found in the Framework and, accordingly, support their being recorded as such. The approach is also consistent with that taken in IFRIC Interpretation 12 *Service Concession Arrangements* (“IFRIC 12”).

# RSM International

global excellence in audit, tax & consulting

We also agree in principle that a lessee should amortise the right-of-use asset and recognise interest on the liability to make lease payments.

We are, however, concerned with the costs of compliance in applying these proposals and the complexity that may arise in performing calculations for relatively simple lease arrangements.

## Question 2: Lessors

***(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?***

As mentioned in our summary comments above, we would prefer a single model approach to be applied for the purpose of accounting by lessors. We are concerned that a hybrid approach would introduce unnecessary complexity, would not be consistent with lessee accounting and would make comparability of financial statements more difficult. We do, however, believe that there are conceptual issues with both models which we would encourage the Boards to resolve. Of the two models proposed, our preference would be for the application of the derecognition model as we believe the performance obligation approach could result in a perception of “double counting” of the underlying asset.

***(b) Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?***

We agree with the Boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches. However, we would ask the Boards to consider whether there should be an option to revalue the residual asset at fair value where that fair value can be reliably measured.

## Question 3: Short-term leases

***The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:***

- (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).***
- (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).***

***(See also paragraphs BC41–BC46.)***

# RSM International

global excellence in audit, tax & consulting

***Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?***

We agree with the proposed simplified accounting for lessors.

With respect to lessees, however, we believe that lessees should be provided with an option similar to that extended to lessors; that is, a lessee that has a short-term lease should be permitted to elect not to recognise a liability to make lease payments or a right-of-use asset but rather to elect to expense the lease payments.

As indicated in paragraph BC46 of the ED, the assets and liabilities that would arise from short-term leases (given the narrow definition of short-term leases in the Exposure Draft) are likely to be insignificant. However, this statement applies to both lessors **and** lessees. We do not believe the scope exception for lessees should differ from that being provided by the Boards to lessors.

We would also ask the Boards to consider investigating whether short-term contracts are more in the nature of service contracts as the interest of the lessee is more in the output of the arrangement rather than in the asset that produces those outputs.

## Definition of a lease

***The exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). The exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).***

## Question 4

***(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?***

We agree with the proposed definition of a lease. We do however ask the Boards to consider incorporating some of the guidance provided into the definition for clarity purposes. In addition, as noted at 4 (c) below, we would encourage the Boards to consider providing further guidance on the distinction between operating leases and executory contracts.

***(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?***

We agree with the criteria provided for making this distinction on the basis of transfer of control. This basis is consistent with the proposed revenue recognition criteria in ED/2010/6 *Revenue from Contracts with Customers*.

***(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?***

Paragraphs B1-B4 carry forward the guidance included in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Although this guidance has existed for some time now, we find that it is still difficult to apply in practice at times. We believe that, under current lease accounting, the issues are not as readily apparent because the accounting for operating leases and executory contracts are generally similar. However, the model proposed under the ED would introduce a far greater difference between operating lease accounting and the accounting for executory contracts. Consequently, the issues will be far more significant if the proposed model is finalised.

We recommend that the Boards provide several additional examples of implementation guidance for these and other “real life” arrangements to help assess whether they would in fact be considered lease contracts within the scope of the ED. We also recommend the Boards conduct additional outreach activities to determine whether there are additional practice issues that require clarification in addition to the ones identified above.

## Scope

### Question 5: Scope exclusions

***The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).***

***Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?***

We question whether it is appropriate to distinguish between leases of intangible assets and leases of other assets. We note that in the existing IAS 17 *Leases*, only certain intangible assets are scoped out of the requirements. Our view is that there is not a conceptual basis for excluding all intangible assets and that the definition of a lease should be sufficient for determining whether they should be appropriately accounted for as a lease.

### Question 6: Contracts that contain service components and lease components

***The exposure draft proposes that lessees and lessors should apply the guidance in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:***

***(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.***

***(b) The IASB proposes that:***

***(i) a lessee should apply the lease accounting requirements to the combined contract.***

***(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.***

***(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in Revenue from Contracts with Customers.***

***Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?***

# RSM International

global excellence in audit, tax & consulting

We disagree with the proposal to introduce a rule for applying lease accounting to the entire contract whenever it includes both a lease and non-distinctive service component. In such situations, an entity should look at the economic substance of the transaction. A lessee should identify the predominant component and treat the whole contract accordingly. This is due to the fact that for a lessee the information required to separate the components will be difficult to obtain. For lessors we would expect that they are generally able to determine the information required to account for the services and lease components of a contract separately, because they need the information on the cost of all service components to price their contracts and handle a much larger volume of transactions than lessees.

Also, we are concerned with the inclusion of items such as maintenance, insurance and taxes in executory costs. We believe that those (and similar) items should be excluded from the lease component regardless of whether the executory costs are identified as distinct components of the contract.

Many real estate leases are billed gross of executory costs. However, it is sometimes difficult to identify specific services associated with the inclusion of executory costs. It would appear that the proposal in the ED would result in capitalisation of certain executory costs that likely would not be capitalised if the asset were purchased.

If the Boards elect not to provide an exception for executory costs, we recommend that the Boards include adequate examples on how to account for such costs (including, specifically, how to identify the distinct service component with respect to maintenance, insurance and taxes), even though those costs are not separately identified).

## Question 7: Purchase options

***The exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).***

***Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?***

We do not see a significant difference between a purchase option and an option to extend the lease over the entire economic life of the related asset. Consequently, we believe that purchase options should be accounted for in the same manner as extension (or termination) options. Therefore, we disagree with the proposal that purchase options should be accounted for only when exercised.

## Measurement

***The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:***

- (a) assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).***
- (b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an***

# RSM International

global excellence in audit, tax & consulting

***expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131).***

***Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be reliably measured.***

- (c) is updated when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 39, 56 and BC132–BC135).***

## Question 8: Lease term

***Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?***

We agree with the proposal related to determining lease term.

## Question 9: Lease payments

***Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?***

### Contingent Rentals, Residual Value Guarantees, and Term Option Penalties

We agree conceptually that contingent rentals and expected payments under residual value guarantees should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique. However we would ask the Boards to consider including the ‘reliably measurable’ requirement for lessee accounting in the same way as it is proposed to apply to lessor accounting. We also question how such measurements could be performed in practice where the contingent rentals are based on such factors as usage which will be heavily reliant on management forecasting and expectations. This could create uncertainty in measurement. We also believe the additional cost for entities in gathering and analysing information for this purpose would be in excess of the benefits obtained from the process.

Our preference would be for the Boards to apply a ‘most likely outcome’ or ‘best estimate’ approach rather than the proposed ‘expected outcome’ approach.

We also recommend that the Boards explain what is meant by the term “term option penalties.” Also, we note an apparent inconsistency in the treatment of term option penalties. Paragraph 14 of the ED indicates that a lessee should include expected payments (based on probability) from term option penalties in the expected cash flows. However, the example in paragraph B19 indicates that expected payments arising from term option penalties would not be included in the expected cash flows. Instead, in that example, the lessee first determines the lease term (which would include an assessment of the likelihood of termination of the lease and the related incurrence of the term option penalty). The lease term, in turn, leads to the measurement of the lease liability.

We recommend that the Boards clarify this inconsistency.

# RSM International

global excellence in audit, tax & consulting

## Rentals Contingent on an Index or Rate

We believe that some clarification is needed with respect to the proposed accounting for rentals contingent on an index or rate.

Paragraphs 14(a), 35(a), and 52(a) of the ED indicate that readily available forward rates should be used in measuring contingent rentals that are based on an index. Paragraph BC131 further indicates that “if forward rates...are readily available for the period of the lease term (for example, from a government department or public service agency), using such forecasts would limit costs to adjusting the available rates or indices while providing better information to users of financial statements.” We request that the Boards clarify whether the intent of this statement is to indicate that forward rates can only be considered to be “readily available” if published by a government department or public service agency, or if forward rates could be considered “readily available” if issued by non-governmental entities.

Paragraph BC131 also reads, in part, “Therefore, the exposure draft proposes that if lease payments are contingent on changes in an index or rate, such as the consumer price index or the prime (basic) interest rate, the entity should measure the present value of lease payments using readily available forward rates or indices.” This statement implies that a forward rate or index is readily available for the consumer price index. We do not believe this to be the case. We recommend, therefore, that the Boards clarify this statement.

***Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?***

We agree that lessors should only include contingent rentals and expected payments under residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured. However, we request that the Boards clarify the meaning of the term “reliably measure” in paragraph 35.

## **Question 10: Reassessment**

***Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?***

We agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period.

The Boards may wish to consider whether guidance should be provided to address situations in which the amount of a reduction in the liability exceeds the carrying amount of the right-of-use asset.

Additionally, we recommend the Boards define whether a change in the expected amount of a residual value guarantee should be considered a change that relates to the current period (as that is

# RSM International

global excellence in audit, tax & consulting

when the expected value of the underlying asset decreased) or relates to a future period (because that is when the amount payable is determined).

## Sale and leaseback

***The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents a sale of the underlying asset, the leaseback also would meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).***

## Question 11

***Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?***

We agree that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset.

We do not object to the additional criteria to help distinguish whether continuing involvement in a sale-leaseback transaction should preclude sale treatment; however, we believe the criteria in paragraph B31 require clarification.

## Presentation

***The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).***

## Question 12: Statement of financial position

***(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?***

We agree that right-of-use assets should be presented separately from owned items. However, we believe entities should be provided the option of doing this either on the face of the statement of financial position or in the notes.

We question whether presenting the lessee's obligation to pay rentals separately in the statement of financial position provides an incremental benefit in most circumstances. Consequently, we do not believe separate presentation should be required. Entities could separately report this information if they choose to do so.

**(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

As noted earlier, we do not support the performance obligation approach. However we do agree that if it was applied, a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability.

Additionally, we believe that entities might benefit from guidance on the following topics:

- How the information should be broken out for presentation in classified balance sheets
- How to aggregate (can net lease assets be combined with net lease liabilities, etc.)

**(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We agree with the proposed distinct classifications: rights to receive lease payments are separate from other financial assets and residual assets are a separate classification within property, plant, and equipment. We do believe, however, that whether these items are required to be separately disclosed in the statement of financial position should be considered under general IAS 1 principles rather than being prescribed by the proposed standard.

**(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

We agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position. Again we believe that whether these items are required to be separately disclosed in the statement of financial position should be considered under general IAS 1 principles rather than being prescribed by the proposed standard.

## **Question 13: Statement of comprehensive income**

**Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?**

We agree that lessees and lessors should present lease income and lease expense separate to other income and expenses, however we believe that whether these items are required to be separately disclosed in the statement of comprehensive income should be considered under general IAS 1 principles rather than being prescribed by the proposed standard.

## Question 14: Statement of cash flows

***Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?***

We agree that cash flows arising from leases should be presented separately from other cash flows either on the face of the statement of cash flows or in the notes to the financial statements. We note however, that the classification of cash payments for leases entirely as financing activities is inconsistent with the treatment of interest payments on other financings as operating cash flows. We believe that the current practice should be retained; that is, cash flows from loan payments received by a lender (lessor) should be apportioned between investing (for the principal repayments) and operating (for interest) activities.

## Disclosure

### Question 15

***Do you agree that lessees and lessors should disclose quantitative and qualitative information that:***

***(a) identifies and explains the amounts recognised in the financial statements arising from leases; and***

***(b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?***

***(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?***

We agree that lessees and lessors should disclose quantitative and qualitative information that:  
(a) identifies and explains the amounts recognised in the financial statements arising from leases; and  
(b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows.

## Transition

### Question 16

***(a) The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?***

***(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?***

***(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?***

We believe the following issues are not addressed by the transition guidance:

#### Sale Leasebacks

We request that the Boards include guidance on whether entities are required to revisit sale-leaseback transactions that occurred in prior periods using the revised sale-leaseback guidance in the

# RSM International

global excellence in audit, tax & consulting

proposed standard. We also request that transitional guidance be provided on the treatment of deferred gains from previous sale-leaseback transactions.

## Lessor: Determination of Which Model to Apply

The ED does not state on which date a lessor should determine whether they apply the performance obligation approach or the derecognition approach for a lease transaction (that is, at inception of the lease or as of the date of initial application).

We are of the view that full retrospective application of lease accounting requirements should be permitted as an option.

## **Benefits and costs**

### **Question 17**

***Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?***

We would encourage the Boards to undertake further outreach activities and investigations to determine the costs of compliance for a variety of leases and a variety of entity sizes as we are concerned that these may be quite high.

## **Other Comments**

### **Question 18**

***Do you have any other comments on the proposals?***

We believe entities would benefit if the Boards provided additional guidance in the following areas:

- Lease incentives
- Build to suit transactions
- Lease modifications

### *Lease Incentives*

Presently, SIC Interpretation 15 *Operating Leases – Incentives* provides some guidance on accounting for lease incentives in an operating lease. While we acknowledge that the concept of an operating lease will be eliminated if the proposed standard is finalised, it is likely that lease incentives will continue to be offered by lessors. We believe that lessees and lessors would benefit from guidance as to how to account for incentives.

- Should lessors account for the incentives as initial direct costs? If so, how do incentives meet the “recoverable” requirement? If not treated as initial direct costs, should they be treated as a reimbursement by the lessor of a portion of the overall payments owed under the lease?
- Should lessees account for lease incentives as reductions in lease payments?

# RSM International

global excellence in audit, tax & consulting

## *Build to Suit Transactions*

Paragraph BC65 of the ED states, “The exposure draft proposes that a lessee should measure the liability to make lease payments at the present value of the lease payments at the date of inception of the lease.” This language implies that lease payments would be required to be discounted to the date of inception of the lease, rather than to the date of commencement of the lease. We believe the Boards’ intent was for lease payments to be discounted to the date of commencement of the lease; however, this should be clarified within the final standard (and the ambiguous wording cited above should be clarified in the Basis for Conclusions to avoid confusion).

We acknowledge that, in many cases, these two dates will be very close, but situations could arise in which substantial time passes between the two dates (for example, when a lease agreement is signed before commencement of construction of the asset to be leased). We believe entities that enter into such arrangements would benefit from guidance in this area.

## *Lease modifications*

We believe that the final standard should address the topic of lease modifications, which is not specifically addressed in the ED. The final standard should make clear whether the prohibition in paragraph 29 against changing the lessor accounting approach after the date of inception of the lease applies even if a lease has been modified substantially – or whether there are any situations where a substantial modification may warrant a change in the lessor accounting approach.

We would be pleased to respond to any questions the Boards or their staff may have about any of the preceding comments. Please direct any questions to Robert Dohrer, Chair of the Transnational Assurance Services Executive Committee of RSM International (tel: +1 919 645 6819; email: [robert.dohrer@mcgladrey.com](mailto:robert.dohrer@mcgladrey.com)).

Sincerely,



**Jean M Stephens**  
**Chief Executive Officer**  
**RSM International**