



Françoise Flores
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
E-mail: commentletter@efrag.org

Dear Françoise

Re: EFRAG draft comment letter on the IASB ED/2010/9 Leases

The Confederation of Danish Industries (DI) appreciates the opportunity to comment on EFRAG's draft comment letter on the above exposure draft.

DI is the voice of Danish industry, representing more than 10.000 companies within manufacturing, trade and services. DI represents 25 percent of the companies listed on the Nasdaq OMX Copenhagen Exchange, including more than 50 percent of the large cap index.

First of all, DI finds the draft to be well written and in our opinion, the draft addresses all the major and relevant topics.

In our reading of the exposure draft and the EFRAG draft comment letter, we would like to highlight the following topics:

- The draft will increase the administrative burden of the preparers significantly, so the Cost-Benefit considerations should be addressed in dept and documented accordingly
- We are concerned that replacing IAS 17 with the current ED will not really decrease the complexity concerning accounting for leases, but just displace it to other areas such as
 - o Distinction between leases, service contracts and sales/purchases
 - o Handling of contingent rentals and options
- The exclusion of intangibles do not seem logic, since this will only make comparisons between companies more difficult
- We do not find that the suggested relief for short term is a real relief. Thus, we agree with EFRAG that short term leases should be treated as operating leases. We have commented on the definition of short term leases below.
- The disclosure requirements and notes are extensive. We find it important to stress that only significant or material information should be disclosed. This should be more clearly stresses in the standard, similar to IFRS7.

We support any effort to reduce the complexity in the area, but the proposed draft does not seem to do so. We recommend that the draft be supported by more examples and guidance in the complex areas.

DI is pleased that EFRAG shares our fundamental views on this ED. We therefore wish to voice our general support to the draft comment letter prepared by EFRAG, adding a few comments below which we find relevant for the final comment letter.

Short term leases

In the cover letter as well as in the specific answer to Question 3 (paragraph 26 – 31) EFRAG notes that there is “no real relief provided for short-term leases”. DI agrees, and would like to propose some amendments to the definition of short-term leases.

We suggest that short-term leases be defined as “leases of non-core assets with a contract period of less than 3 years”. Non-core would in our opinion be defined as “assets not directly related to the product/service the company provides”. We do agree with EFRAG that short term leases should be treated as operating leases according to the current standard.

The reasoning behind our proposal is similar to the reasoning in paragraph 28, namely that users do not seem to be concerned about short-term leases of non-core assets. In our opinion, companies usually lease photocopiers, computer hardware and company cars on 3 year leases. In reality the company are primarily interested in the functionality, for instance the access to a photocopier, and not in the specific photocopier. A short term lease for an office building would equally qualify as non-core for a manufacturing company but would usually be included due to the length of the contract.

Question 2 – paragraph 14

DI would like to note that it should be clarified in paragraph 14 that the comments only relate to “simple leases”, as the “unconditional right to use” is not the case when we are talking about for instance Time Charter arrangements on Drilling Rigs, Vessels and other assets, where the Lessor in some circumstances may restrict the access or use of the asset.

Question 4 – Definition of a lease

DI agrees with EFRAG concerning the need to further clarify and improve the criteria. DI would like to suggest that EFRAG either develops a decision tree or alternatively advises the IASB to develop one. In our opinion a Decision Tree would be a valuable tool for practitioners when deciding whether a contract is a lease or not. The decision tree should include short term leases as well.

Regarding paragraph 41, we find that a distinction is needed and would like to stress that a decision tree could be beneficial in this area as well.

Question 6 – Service and lease components

DI supports EFRAGs draft answer. DI would like to stress that a decision tree should include the identification of the predominant component at the appropriate point.

Regarding paragraph 61, DI agrees with EFRAGs suggestion.

Question 9 – Lease payments

Regarding EFRAG's question in paragraph 97, DI believes that contingent rentals in principal should be excluded. However, if they are included, it makes sense to separate them in different categories in order to match activities and costs in the different categories.

DI would like to note that especially contingent rentals linked to the usage of an asset first off all may be very difficult to estimate and secondly do not meet the definition of a current obligation because the variable part of a rent depends on future decisions. DI is aware of problems relating to shop rental, where a fair amount of the rent is calculated on the turnover in the shop. However, if the business is both subject to huge fluctuations in the monthly turnover (for instance because 50-70 percent of the turnover is in the 8 weeks of November and December) and the company itself experiences fluctuations between the different years, then the calculation of contingent rentals becomes very difficult. Further, if the company decides to relocate, push further sales to the internet or increase the marketing in the specific area then this will impact the turnover in the specific shops. Finally, the obligation to pay does not materialise without realised turnover in the same financial year. Therefore, it is not a current obligation. This underlines why DI in principal believes that contingent rentals should be excluded. If the Board decides to include contingent rentals, we would like to see some guidelines on how fluctuations should be treated.

Question 10 – Reassessment

DI agrees with EFRAG that a required periodic reassessment would be very onerous. DI could suggest approaching reassessment the same way impairments are approached. This would imply that reassessment is only necessary if there are indications that the present assessment is not longer valid.

Question 12 – Statement of financial position

Generally we do not agree with the performance obligation approach since it is not consistent with the treatment for lessee (right-of-use). However, if IASB retains the performance obligation approach we suggest that the leases are treated according to the present IAS 17, i.e. as operating leases. The suggested disclosure for lessors does not solve the inconsistency but is just adding non-value-adding disclosures.

Further, DI would like to stress that the relevance of separate information depends on the materiality of leases. Therefore, even though we may agree with BC144, we would suggest that the information may be disclosed in the notes. Today, fixed as-

sets are specified in the notes, and a right-of-use could be included in this specification.

Question 13 – Statement of comprehensive income

DI does not support the view expressed in paragraph 133. First of all, some of the information may not be relevant. Further, DI cannot see any logic behind why lease expenses should be singled out compared to other expenses. DI would like to see a greater emphasis on materiality. Information should only be singled out if material. Otherwise the information should be included in relevant line items.

Question 14 – Statement of cash flows

DI does not support the view expressed in paragraph 134. DI fails to understand why leasing has to be singled out in the cash flow statement when compared to other items. If this information has to be singled out, the same argument could be made on the next accounting standard that IASB discusses. We would suggest keeping the relevant information in the notes if material.

Question 15 – Disclosure

DI agrees with EFRAG in paragraph 137 that the IASB should state more clearly that the disclosure requirement should not be mandatory in all situations. We would suggest that the IASB includes some of the phrasing also included in IFRS 7, stating that the information should only be disclosed if material and the disclosure should be in logic groups. We do not favour a complete list as it is currently fleshed out since regulators would view the entire list to be material.

We hope that EFRAG will take our comments and suggestions into consideration and urge you to contact us if you wish to further discuss these.

Yours sincerely

Kristian Koktvedgaard
Senior Advisor, Tax and Accounting
The confederation of Danish Industries