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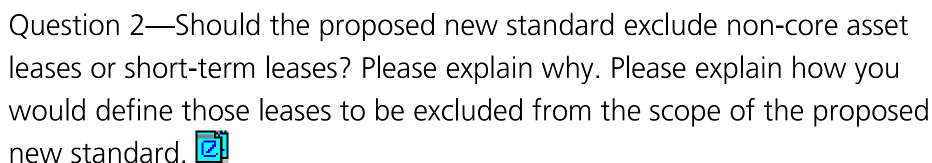
1.07.2009

Dear Sir or Madam,

On behalf of DZ BANK I appreciate the opportunity to comment on EFRAG's Draft Comment Letter (DCL) on the IASB/FASB Discussion Paper Leases.

In summary we do not believe that the proposed "right-of-use approach" is suitable for all leases. We further think that a linked approach to subsequent measurement of leases should be adopted. The accounting for leases with options and conditions would become far too complex, if a component approach to account for them were adopted. Please find our detailed comments in our answers to selected questions of the DP that are of special importance to us from our perspective as a preparer of financial reports in the paragraphs below.



Question 2—Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

The „right-of-use approach" requires all lease arrangements, all rental agreements and all hire arrangements to be treated in the same way, however short the lease/rental/hire period and regardless of whether the asset is a core asset. EFRAG is aware that some stakeholders are concerned about this because they doubt that the benefits that would arise from applying the approach to certain arrangements (perhaps short-term arrangements, or arrangements involving non-Core assets) justify the costs that would be involved in doing so (DCL A6).

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From our perspective as lessee of property, plant and equipment that we use in our day-by-day business activity as a bank, we hold the opinion that short-term leases and non-core assets should be exempted from capitalisation under a new standard. Subordinated items like printers or photocopiers are not of much concern to the users of our financial reports. Capitalising them would however produce a lot of extra work and effort. The proposed accounting treatment would therefore make leasing arrangements economically much less attractive.
We agree with EFRAG that this issue should be addressed in the next stage of the project. We are however doubtful about EFRAG's opinion that this is a materiality issue only. We rather think that the fact that the "right-of-use approach" is unsuitable for many everyday leasing arrangements justifies the assumption that it might not be a conceptually sound approach for all lease arrangements in the first place.

Question 4—the boards tentatively decided to adopt an approach to lessee Accounting that would require the lessee to recognise: (a) an asset representing its right to use the leased item for the lease term (the right-of-use asset) (b) a Liability for its obligation to pay rentals. Appendix C describes some possible accounting approaches that were rejected by the boards. Do you support the proposed approach? If you support an alternative approach, please describe the approach and explain why you support it.

In our opinion the existing approach is a pragmatic solution for lease accounting in most cases. We therefore favour to modify the existing approach in order to improve the present rules. We agree that the "right-of-use approach" seems sound in theory. We do however fear that it would be difficult to make it operational. This seems to be especially the case with regard to cost-benefit considerations. As mentioned above, we consider it too burdensome to require none-core assets and short-term leases to be capitalised in everyday practice.

Question 5—The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively decided to adopt an approach whereby the lessee recognises: (a) a single right-of-use asset that includes rights acquired under options (b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value
Guarantees. Do you support this proposed approach? If not, why?

EFRAG members are currently split on this issue and ask constituents to particularly comment on this issue (DCL A31ff).
Options and conditions are accounted for separately under some IFRS. On conceptual grounds it might appear that this principle should be followed for lease accounting as well. For pragmatic reasons it seems however necessary to consider them as part of the recognised asset or liability. The reasons are summarised in paragraph 32 of the DP.
Since options and conditions for non-financial assets are often difficult to measure in practise, we support the IASB's tentative decision not to adopt a component approach from our point of view as a preparer of financial reports.

Question 8—The boards tentatively decided to adopt an amortised cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset. Do you agree with this proposed approach? If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favour and why.

EFRAG notes in DCL A46 that adopting the approach to subsequent measurement favoured by the boards does mean that the asset amount and liability amount will not be the same (i.e. it means that subsequent measurement is not linked). However, the DCL does not elaborate on the question of whether or not a linked approach to subsequent measurement could have any merits. In a lease there is a link between the obligation to pay rentals and the
right-of-use asset. They arise from the same contract and do not normally exist independently of each other. The boards' decisions on initial measurement reflect this linkage. We think that subsequent measurement of the obligation to pay rentals and the right-of-use asset should be linked for operating leases.
We therefore favour a linked approach to subsequent measurement. This approach as outlined in paragraphs 5.4ff of the DP is based on the idea that there is a fundamental difference between a lease that is classified as an operating
lease and a lease that is classified as a finance lease in accordance with existing standards. If a delinked approach to subsequent measurement would be adopted, the carrying amounts of the right-of-use asset and the obligation to pay rentals would become very different over time. The accounting for those differences is not discussed in any detail by the DP. We think that this

aspect deserves more attention in the discussion, for we think that the accounting for the arising differences would be rather complex in practise.

Question 10—Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons. If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

EFRAG disagrees with the boards tentative decision and believes that the obligation to pay rentals should not be revised for changes in the incremental borrowing rate (DCL A50). . Among other things, EFRAG has concerns about the costs and the complexity for preparers of revising the obligation to reflect changes in its incremental borrowing rate (DCL A54). From our practical experience as preparer of financial reports we strongly support this argument. However, if the IASB decides to retain its current proposal, we believe like EFRAG that for pragmatic reasons revisions should be made to the obligation to pay rentals to reflect changes in the incremental borrowing rate only when there is a change in estimated cash flows.

Questions 25 to 29 deal with Chapter 10 of the DP which concerns lessor accounting.
Efrag is very concerned that the boards are proposing to take fundamental decisions about the future direction of lease accounting having considered the subject from only one perspective (the lessees.). We agree that, had the subject been considered from both perspectives, some of the proposals in this DP about the future direction of lease accounting might well have been different (DCL A107). Beyond that we see problems where a reporting entity acts as lessee and lessor in different parts of the group. Similar items would then be accounted for differently by the reporting entity. This would add undesirable ambiguity and complexity to the financial statements of that reporting group.

Kind Regards,
Rainer Krauser