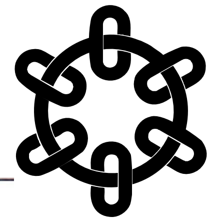
Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Oslo, 7 July 2009

**Discussion Paper, Leases: Preliminary Views**

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to respond to the Discussion Paper, Leases: Preliminary Views ("the DP" in the following).

**General comments**

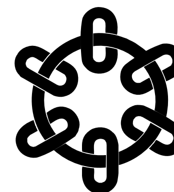
We believe that comparability (and hence usefulness) of financial statements will be enhanced if the differing treatments of operating leases and finance leases are replaced by an approach that applies the same requirements to all leases. We are therefore pleased with the efforts to develop a single approach to be applied to all leases, and support the decision to address lease accounting as a convergence project with the FASB.

We acknowledge the arguments for deferring lessor accounting and the importance of finalizing the standard within mid-2011. However, we are worried that the direction and fundamental principles of lease accounting are developed without a more comprehensive analysis of both lessee and lessor accounting. We are not convinced that all the preliminary views would have been the same had the Boards carried out a more comprehensive analysis of both perspectives. Even though we generally support convergence with US GAAP, we do not support convergence if the quality of accounting standards might be compromised for the purpose of reaching convergence.

**Scope**

Even though we do not object to the preliminary view to base the scope on the existing lease standards, we are concerned that there is uncertainty as to how to draw the distinction between lease arrangements within the scope of IFRIC 4, *Determining whether an Arrangement contains a Lease* and EITF Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease,* and other contractual arrangements such as off balance sheet executory contracts or intangible assets scoped under IAS 38 *Intangible Assets*.
An example is the purchase of rights to use future capacity of a given infrastructure, e.g. a transmission cable or a pipeline for transport of natural gas. Some would argue that the buyer purchases a contractual right that should be recognized as an intangible asset according to IAS 38 whereas others would argue that the capacity bought (which may be a small share of the infrastructure's total capacity) is a lease contract. Therefore we ask the Boards to clarify this matter. It is possible that a new leasing standard based on a contract approach might be seen as a "lex specialis" in relation to IAS 38. If this is the case, it should nevertheless be clarified in a new standard. Furthermore, we expect such contracts to become more of a challenge

Postboks 5864 Majorstuen, 0308 Oslo
Telefon +47 23 36 52 00 – Telefaks +47 23 36 52 02
E-mail: nrs@revisorforeningen.no – Web: www.regnskapsstiftelsen.no



under the proposed model, as the accounting for operating leases versus off balance sheet executory contracts changes substantially. We therefore urge the Boards to carefully reconsider the existing guidance in these interpretations, to ensure that the guidance is sufficiently robust to cope with the increased pressure on the scope as the distinction between operating and finance leases is eliminated.

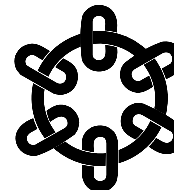
**Proposed model**

In summary, we support the general concept of providing for the recognition in lessees balance sheets of assets and liabilities arising from all lease contracts. However, we favor a component approach to lessee accounting and therefore disagree with the proposed single asset and single liability approach.

Our detailed comments are set out in the appendix to this letter. The basis for our rejection of the single asset and single liability approach is set out in our comment to question 5 and 13. The rest of the questions are answered under the premise of the proposed single asset and single liability approach. Under this premise, we broadly agree with most of the preliminary views expressed by the IASB, although we do not support some of the proposals, in particular:
We do not believe the obligation to pay rentals in general should be revised for changes in the incremental borrowing rate each reporting date.
We do not believe that the lease term should be the most likely lease term.
We propose a dual approach where changes in contingent rentals which affect the right-of-use asset is recognized as an adjustment to the right-of-use asset, while other changes (for example changes in indices or rates) are recognized in profit or loss.
It is our opinion that the right-of-use asset constitutes an intangible asset which subsequently should be measured consistently with the guidance in *IAS 38 Intangible Assets*.
Even though we believe information about the nature of the underlying asset should be disclosed, we believe the right-of-use asset should be presented separately as intangible assets in the statement of financial position.

If the Boards decide to proceed with the single asset and single liability approach, the conceptual foundation behind this principle should be elaborated, especially with regards to how recognizing an obligation under a renewal option, which otherwise would not meet the definition of an obligation under the frameworks, can be justified (6.8). We also believe the Boards should consider the consequences of the single asset and single liability approach to options that can be more or less easily transferred to a third party.

Lastly, we believe the proposed accounting for operating leases raise fundamental questions on how to account for firmly committed executory contracts in general. We therefore urge the Boards to elaborate and clarify the fundamental distinction between operating leases and off balance sheet firmly committed executory contracts, such as a firm commitment to contract a vessel on explicit specifications from the customer. The Boards argue that the asset and the liability under a firmly committed operating lease contracts (simple lease contract) meet the definition of an asset and a liability under the frameworks. It is not difficult to agree with this analysis, as we believe an asset and a liability in general exist in under firm commitments. However, under present conventions, where all performance lies in the future, the buyer (lessee) of the goods or services to which the contract relates does not have a recognizable asset, nor a recognizable liability to pay for them until performance occurs (IAS 39 AG35b).



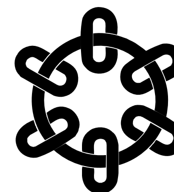
The basis for recognizing an asset and a liability under a firmly committed operating lease contract, but not for other firm commitments, must therefore rest on the distinction between executory contracts and non-executory contracts, that is, whether significant performance has occurred or not. The conceptual issue of when performance has occurred is therefore of vital importance for drawing the distinction between lease contracts, where an asset and an obligation is recognized, and off balance sheet executory firm commitments.

We are not convinced that performance in general should be deferred until delivery of an asset. For example, it is not clear that significant performance in a lease contract generally should be deferred to the time of delivery of the leased asset. Under the simple lease contract, this analysis is simplified by presuming that delivery of the leased item has occurred. The issue on when a contract ceases to be executory is therefore deferred to the question on timing of initial recognition (9.3-9.6). Should the Boards decide to recognize assets and liabilities originating from lease contracts which are executory or partially executory throughout the lease term, we question the implications for other executory contracts, such as firm commitments under consideration as part of the revenue recognition project. We would not support a model which results in inconsistent accounting for similar contracts with similar characteristics.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS



## Appendix A

## Chapter 2: Scope of lease accounting standard

### Question 1

*The boards tentatively decided to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards. Do you agree with this proposed approach?*

*If you disagree with the proposed approach, please describe how you would define the scope of the proposed new standard.*

We do not object with the Boards temporarily view basing the scope of the proposed new lease accounting standard on existing lease standards. Nonetheless, we believe that intangible assets should be included within the scope of the standard. We would therefore prefer that convergence with US GAAP is based on the broader scope of IAS 17 *Leases* ("right of use asset"), rather than the more narrow scope of SFAS 13 ("right to use property, plant and equipment").

Furthermore, the Boards should reconsider the current guidance in IFRIC 4, *Determining whether an Arrangement contains a Lease* and EITF Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease*. Although we believe these interpretations' underlying principles are appropriate, we are concerned that there exists uncertainty as to how to draw the line between service contracts and lease arrangements. Clear guidance on the distinction between off balance sheet executory contracts and lease contracts will be especially important as the pressure on accounting guidance shift from the distinction between operating and finance leases to the distinction between leases and non-lease service contracts.

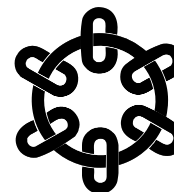
It is also worth noting that during the preparation of this comment letter, preparers have expressed concern with the complexity and costs involved in identifying and separating payments for services from payment for the right to use an asset under operating leases scoped under IFRIC 4 and EITF 01-08.

### 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.*

We believe that all material leases will be of interest to users of financial statements. Furthermore, from a conceptual point of view, similar contracts should be accounted for consistently. An exemption for short term leases and/or non-core assets, however defined, would be inconsistent with the fundamental approach of accounting for the assets and liabilities under the proposed model. Thus, short term leases or non-core assets should not be excluded from the scope of the proposed new standard. Rather than making exemptions or



explicit rules, the proposed model should apply where the effect is material, utilizing the existing guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Chapter 3: Approach to lessee accounting

### Question 3

*Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.*

We agree with the Boards analysis of the rights and obligations under the "simple lease contract".

### 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.*

*Do you support the proposed approach?*

*If you support an alternative approach, please describe the approach and explain why you support it.*

We support the proposed approach.

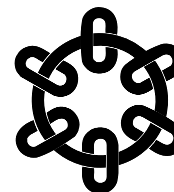
Recognizing the asset and liability incurred under the lease contract will increase comparability for financial statement users and reduce structuring opportunities resulting in unrecognized financing for operating leases. Furthermore, we believe the asset reflects the rights the lessee has required and the obligation reflects the obligations that the lessee has incurred.

### 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?*



We do not support the principle of a single right-of-use asset and a single obligation to pay rentals. An option to extend the lease term or an option to purchase the leased item may itself have a significant value at the beginning of the lease term. Where this is the case (assuming that the value can be ascertained with sufficient reliability), the option should be accounted for separately from the rights to use the asset for the non-cancellable period of the lease. Such options are in principle separate assets or liabilities which should be measured and accounted for separately. We believe separate accounting for these items would result in a more faithful accounting for the substance of the arrangement, compared to the outcome under the proposed single asset single obligation view.

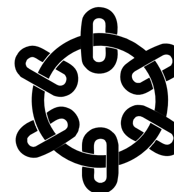
Under the component approach, the option gives the lessee a right, but not an obligation to purchase more capacity. The lessee has no liability in respect of the exercise of the option because no present obligations to make further payments relating to the optional renewal periods arise until the lessee exercises the option. We believe this approach is more in line with the conceptual framework, and more consistent with how purchased options are accounted for in other circumstances.

We also in general support standards based on principles which is applied consistently across standards. We observe that in connection with the revenue recognition project, the IASB in May 2009 tentatively decided that a "*renewal option should be accounted for as a performance obligation if the stand-alone selling price of that option can be determined without undue cost. Some of the consideration should be allocated to the option and recognized as revenue when the obligation is satisfied*" (IASB Update May 2009). If the IASB decide to apply a component approach in the revenue recognition project (see also insurance contract project), we question the application of a different principle in the lease project.

Furthermore, it is an important disadvantage of the single asset single liability view that it fails to recognize that features such as options are an important part of the financial flexibility that has been negotiated between the lessee and lessor. We believe the component approach would better reflect the negotiated allocation of risks and benefits between the lessee and the lessor.

We are not convinced that the complexity and costs of the component approach outweigh its potential costs. For example, the Boards could consider a similar approach to the one proposed in the revenue recognition project, requiring material options to be measured separately if it is possible without undue cost. Furthermore, depending on the measurement basis to be chosen, measuring a purchased option could be a onetime event under a component approach, compared to the proposed reassessment of purchased options under the proposed view. Also, during the preparation of this comment letter, preparers have expressed more concern with the complexity of applying the proposed model to operating leases within the scope of IFRIC 4, *Determining whether an Arrangement contains a Lease* and EITF Issue No. 01-8, *Determining Whether an Arrangement Contains a Lease*, than with potential measurement issues in relation to a component approach.

If the Boards decide to proceed with the single asset single liability approach, the conceptual foundation behind this principle should be substantiated. For example, an obligation under a renewal option would not meet the definition of a liability under the frameworks. However, in paragraph 6.8 of the DP it is argued that recognizing such an obligation could be justified



based on the single asset and single liability approach. We urge the Boards to elaborate on this analysis. Furthermore, the Boards should consider the consequences of the single asset and single liability view to options that can be more or less easily transferred to third party.

A premise for the single asset single liability approach must be that sufficient disclosures are required, enabling the user to differentiate between lease contracts which include or do not include features such as renewal options. The disclosures must clearly state the amount of the financial liability which is conditional on the option being exercised.

## Chapter 4: Initial measurement

### Question 6

*Do you agree with the boards' tentative decision to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate?*

*If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.*

We agree that the lessee`s obligation to pay rentals should be measured at the present value of the lease payments discounted using the lessee`s incremental borrowing rate. However, the Boards should consider providing guidance on how to determine the incremental borrowing rate to be applied.

### Question 7

*Do you agree with the boards' tentative decision to initially measure the lessee's right-of-use asset at cost?*

*If you disagree, please explain why and describe how you would initially measure the lessee's right-of-use asset.*

We agree with the tentative decision. The initial measurement of the right-of-use asset is consistent with how most other non-financial assets are measured initially. However, the Boards should clarify the accounting for initial costs directly attributable to the lease contract.

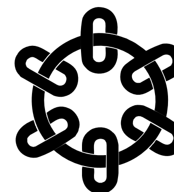
## Chapter 5: Subsequent measurement

### Question 8

*The boards tentatively decided to adopt an amortized 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.*



We agree that the obligation to pay rentals should be measured at amortized cost subsequently. The obligation to pay rentals meets the definition of a financial liability according to definitions in IAS 32 *Financial Instruments: Presentation* (4.4). Unless there are very good reasons to depart from how other similar obligations are measured, measurement should be consistent. Subsequent to initial recognition, we therefore agree that the financial liability should be measured at amortized cost.

Similarly, we see few arguments not to measure the non-financial right-of-use asset consistent with how other similar non-financial assets are measured. However, we believe the rights and obligations arising from the right-of-use asset are different from the rights and obligations arising from direct ownership of the underlying leased asset. Hence, we do not believe that the subsequent measurement of the right-of-use asset should depend on the characteristics of the underlying leased asset. Rather, it is our opinion that the right-of-use asset constitutes an intangible asset which should be measured consistently with the guidance in *IAS 38 Intangible Assets.*

## Question 9

*Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.*

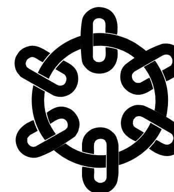
In a lease contract, the lessee has bought a right-of-use asset and is funding that acquisition with a financial liability to pay rentals. The arrangement is in substance similar to a secured borrowing. We therefore believe that the liability should be permitted measured at fair value, provided that the criteria's for applying the fair value option under IAS 39 *Financial Instruments: Recognition* is met. However, we do not believe the criteria for applying the fair value option will be met unless the corresponding right-of-use asset is measured at fair value. As stated under question 8, the right-of-use asset should be measured consistent with IAS 38 *Intangible Assets* subsequent to initial recognition. Hence, the fair value option should only be permitted when the corresponding right-of-use asset is measured at fair value according to IAS 38 *Intangible Assets*. We therefore do not support an approach to subsequent measurement of the right-of-use asset as expressed at the June 2009 IASB Board meeting, where the IASB decided to apply the revaluation model in IAS 38 *Intangible Assets* or IAS 16 *Property, Plant and Equipment* respectively, depending on the nature of the underlying asset.

If the Boards should allow for applying the fair value option to the obligation to pay rentals where the right-of-use asset is not measured at fair value, this might result in day one gains or losses unless the corresponding asset is also measured at fair value initially. Hence, the boards should consider prohibiting day one gains or losses, or explicitly require the asset initially to be measured at fair value (equal to the liability) where the liability is measured at fair value.

## 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.*

Although revising the incremental borrowing rate in certain arrangements might provide more relevant information, we do not agree that the incremental borrowing rate in general should be



revised each period. Such a requirement would be inconsistent with the amortized cost approach (5.23c) to subsequent measurement (as chosen by the Boards), as well as how other similar non-derivative financial liabilities are measured according to IAS 39 *Financial Instruments: Recognition and Measurement* (5.23a). As stated, we believe that similar liabilities should be measured consistent, unless there are good reasons for choosing another principle. Furthermore, we believe that revising the incremental borrowing rate each period would be more costly and complex, and increase rather than reduce the complexity in measuring financial liabilities across standards, contradictory to the aim of reducing complexity in accounting for financial instruments. If the Boards still choose to require reassessment of the incremental borrowing rate, the Boards should explain the basis for why revision of the discount rate is required for financial lease obligations, but not for other financial liabilities.

*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.*

We believe the financial liability should be measured as consistent as possible with how other financial liabilities at amortized cost are measured. We therefore disagree that the incremental borrowing rate should be revised where there is no change in the cash flows of the contract. However, we agree that revising the incremental borrowing rate might be relevant in certain situations where there is a change in the cash flows of the contract. Changes in the incremental interest rate might for example be relevant where the lease payments are contingent on changes in market interest rates.

**Question 11**

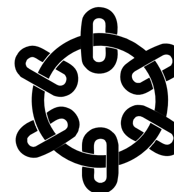
*In developing their preliminary views the boards decided to specify the required accounting for the obligation to pay rentals. An alternative approach would have been for the boards to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities.*

*Do you agree with the proposed approach taken by the boards?*

*If you disagree, please explain why.*

We do not object to the preliminary view to specify the required accounting for the obligation to pay rentals. However, we believe as mentioned before, that the Boards should aim to account for financial liabilities as consistent as possible across different standards. This would also contribute to the objective of reducing complexities in accounting for financial instruments. We are in general supportive of the efforts to converge IFRS and US GAAP. However, convergence on measuring financial liabilities should be reached as part of the financial instrument project(s) and not as part of the lease project.

**Question 12**



*Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortization or depreciation in the income statement.*

*Would you support this approach? If so, for which leases? Please explain your reasons.*

We do not support this approach. We believe that amortization or depreciation will follow as a consequence of recognizing the right-to-use asset at the balance sheet. If the proposed standard distinguishes between leases, it would reduce comparability and increase complexity.

## Chapter 6: Leases with options

### Question 13

*The boards tentatively decided that the lessee should recognise an obligation to pay rentals for a specified lease term, ie in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term.*

*Do you support the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.*

As explained in our response to question 5, we do not support the single asset single liability approach.

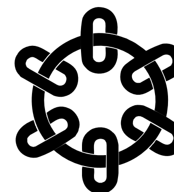
Under the assumption that the Boards decided to reject the component approach, under the proposed model, the liability should be recognized based on the most likely lease term. We notice that this seems to be inconsistent with the approach selected regarding measurement of contingent rentals and residual value guarantees. We suggest that the same measurement method should be used for measuring both groups of liabilities. The method selected should be consistent with IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

### Question 14

*The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognised as an adjustment to the carrying amount of the right-of-use asset. Do you support the proposed approach?*

*If you disagree with the proposed approach, please describe what alternative approach you would support and why.*

*Would requiring reassessment of the lease term provide users of financial statements with more relevant information? Please explain why.*



We agree that the lease term should be reassessed at each reporting date on the basis of any new facts and circumstances.

Further we support that the changes in the obligation to pay rentals should be recognized as an adjustment to the carrying amount of the right-of-use asset, since the value of the right-of-use asset most likely will correspond to the changes in recognized liability due to changes in lease terms.

We believe these requirements would give the users more relevant information since the liability recognised would be more consistent with new estimates over lease payments to be paid. In addition we believe the right-of-use asset that includes these required reassessments better reflects the value of the right-to-use-asset than if the changes had not been made to the asset.

Some of our constituents have concerns about the practicalities of continuous reassessment. We suggest the IASB further research this area to ensure these requirements are not unnecessary burdensome

***Question 15***

*The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease. Do you agree with the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.*

We agree. A purchase option is in substance similar to an ultimate extension option to extend the lease term, and consequently should be treated equal.

## Chapter 7: Contingent rentals and residual value guarantees

### Contingent rentals

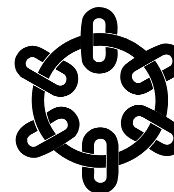
### Question 16

*The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Do you support the proposed approach?*
*If you disagree with the proposed approach, what alternative approach would you recommend and why?*

We agree with the proposed approach. We believe the obligation should include a best estimate of the cash flows to be paid similar to how financial liabilities are measured at amortized cost under IAS 39 *Financial Instruments: Recognition and Measurement*.

### Question 17

*The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable.*



*The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes.*

*Which of these approaches to measuring the lessee's obligation to pay rentals do you support? Please explain your reasons.*

We support the IASB approach.

We believe that the obligation to pay rentals should be measured using a probability-weighted estimate of the rentals payable. Even if we agree that the FASB approach may give rise to a more intuitive understandable liability in certain situations, we believe that the IASB approach is more consistent with the principles that IASB has used in recent IASB standard setting.

We believe the IASB approach to measure lessee's obligations is consistent with the principles used in revised IFRS 3 *Business Combinations*, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 36 *Impairment of Assets*. In most situations we also believe the IASB approach is consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, however IAS 37 may give another answer measuring a single obligation where the individual most likely outcome, according to IAS 37, may be the best estimate of the liability. However we notice that the IASB approach seems to be consistent with the principles discussed in ED Amendments to IAS 37.

Generally we believe that obligations of uncertain amounts should be measured by the same principles independently of which standard that regulates it.

### Question 18

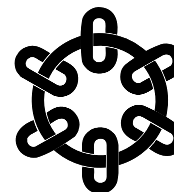
*The FASB tentatively decided that if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease.*

*Do you support the proposed approach? Please explain your reasons.*

As discussed above we believe that the leasing obligation should primarily be treated as an IAS 39 *Financial Instruments: Recognition and Measurement* obligation. The value to include in the measurement of the obligations from the indexes should be the best estimate of index rate at inception of the lease. (Normally this would be a forward curve.) Subsequent changes in for example a consumer price index will lead to changes in the liability similar to other changes in estimated cash flows.

### Question 19

*The boards tentatively decided to require remeasurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments. Do you support the proposed approach? If not, please explain why.*



We agree with proposed approach. Even if it adds complexity to the accounting we believe the benefits from the increased information value outweighs the drawbacks. In addition the requirement to remeasure is consistent with the treatment of similar obligations in other standards. E.g. IAS 39 *Financial Instruments: Recognition and Measurement requires remeasurement* following new cash flow estimates, and revised IFRS 3 *Business Combinations* requires remeasurement of contingent liabilities.

### Question 20

*The boards discussed two possible approaches to recognising all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:*

*(a) recognise any change in the liability in profit or loss*

*(b) recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset.*

*Which of these two approaches do you support? Please explain your reasons. If you support neither approach, please describe any alternative approach you would prefer and why.*

We believe it is not an obvious answer to this question. Theoretically we believe that some changes in the obligation affect the right-to-use asset and others do not change the right-of-use asset. A change in the obligation due to a change in for example a consumer price index would normally not affect the asset, however a change in obligation due to increased usage of the asset, normally would affect the right-of-use asset. Consequently the change in obligation due to change in the consumer price index should be recognised in profit or loss, and the change in liability due to change in usage-dependent payment should be recognised as a change in the carrying amount of the right-of-use asset.

We believe these principles could be implemented without introducing too much complexity into the standard.

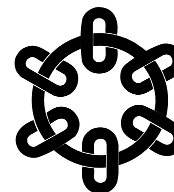
### Residual value guarantees

### Question 21

*The boards tentatively decided that the recognition and measurement requirements for contingent rentals and residual value guarantees should be the same. In particular, the boards tentatively decided not to require residual value guarantees to be separated from the lease contract and accounted for as derivatives.*

*Do you agree with the proposed approach? If not, what alternative approach would you recommend and why?*

We agree with the approach.



## Chapter 8: Presentation

### Question 22

*Should the lessee’s obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons.*

*What additional information would separate presentation provide?*

Consistent with the view that the obligation to pay rentals is a financial liability, we support the IASB’s tentative decision not to require separate presentation of the lessee’s obligation to pay rentals. As argued above we also believe that the measurement should be in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, and consequently this liability will be presented together with other amortised cost liabilities. Still, we believe that an entity should be permitted to present the liability separately.

However, if the IASBs suggested approach on measurement is chosen this may lead to another conclusion, since the measurement approach seems not to be consistent with other financial liabilities. IAS 1 *Presentation of Financial Statements* paragraph 59 require separate line items for liabilities with different measurement basis. Provided that the measurement of the liabilities is not in accordance with IAS 39, IAS 1 may require a separate presentation of the liabilities.

### Question 23

*This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position. How should the right-of-use asset be presented in the statement of financial position? Please explain your reasons.*

*What additional disclosures (if any) do you think are necessary under each of the approaches?*

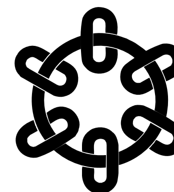
Conceptually the suggestion to classify the right-of-use asset as an intangible asset is the most appealing alternative, and consequently we support this approach. However we believe these assets should be presented separately from other intangible assets.

This said, we agree that information regarding what kind of asset that leased may give relevant information and consequently see the merits of the alternative to present the leased asset in accordance with the underlying asset. However we believe this information should be presented in disclosures instead.

## Chapter 9: Other lessee issues

### Question 24

*Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.*



Answering the questions above we have pointed at certain areas that should be further elaborated. Beyond this we choose not to comment on this issue.

## Chapter 10: Lessor accounting

### Question 25

*Do you think that a lessor's right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.*

We believe that a lessor's right to receive rentals under a lease meets the definition of an asset since the right is unconditional. However as discussed above the board should clarify the basis for recognizing an asset under a lease contract, but not for other firm commitments.

### Question 26

*This chapter describes two possible approaches to lessor accounting under a right-of-use model:*

*(a) derecognition of the leased item by the lessor or*

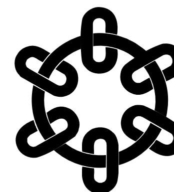
*(b) recognition of a performance obligation by the lessor.*

*Which of these two approaches do you support? Please explain your reasons.*

Due to the fact that the DP only provides a short analysis of the lessor accounting and that the Board has not reached any preliminary views of any of the issues involved, we choose not to indicate any preferred approach at this stage. However we would like to give some initial thoughts on lessor accounting and the models proposed.

Generally we believe it is important that the approach used in a leasing standard regarding lessor accounting is consistent with the outcome from the revenue recognition project. Any differences must be due to differences in the underlying facts and circumstances of the revenue to be recognised. It may be argued that it is more important for lessor accounting to be consistent with other revenue recognition principles that with the principles on which lessee accounting is based upon. In addition there may be similar issues discussed in the ED Derecognition that should be taken into account when considering the lessor accounting for derecognising leased assets.

Alternative (a) above has certain advantages, particularly when applied to leases that in the existing accounting standard is treated as financial leases. If the lessor has performed an in-substance sale it makes sense to derecognise the leased asset. However this model gives less intuitive answer applied on certain "operating" leases. According to this model a short term rental of a building would require the lessor to derecognise parts of its building. In addition it is in not obvious to us that the criteria for derecognising some or all of an asset is satisfied due to an "operating" lease. We ask the Boards to elaborate on the reasoning behind this if this model is selected.



We understand that alternative (b) seems to be most consistent with the lessee accounting model, but as said above that should not be a important criteria. Even if this may be a model that theoretically may coincide with the framework and the asset and liability definition, we do have major concerns regarding the comprehensibility of this approach. Recognising an asset representing the future rental value from an asset (e.g. a building) in addition to the asset that already is booked in the statement of financial position may not be easy to comprehend for the reader of the financial statement.

**Question 27**

*Should the boards explore when it would be appropriate for a lessor to recognize income at the inception of the lease?*

*Please explain your reasons.*

Yes, we believe that this should be elaborated further.

Generally we believe the current IAS 17 *Leases* deals with this question in a good manner. However given that the split between operating and financing lease is likely to be removed the question should be elaborated further, based on the models discussed in this DP. As pointed out above, these principles should be consistent with a revised revenue recognition model

**Question 28**

*Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons.*

We generally prefer that all lessor accounting is regulated by one standard and based on the same principles, consequently this would also comprise operating leases of investment property. On the other hand that the current IAS 40 *Investment Property* seems to function well, and we are not convinced that removing the option to apply fair value is a good solution. The alternative to allow fair value accounting for lease accounting for the lessor has not been sufficiently discussed in the DP, but tentatively we do not believe that is a good approach to allow all leases to be accounted for at fair value at this stage.

Based on the above, we suggest that in the accounting for investment property it should still be an option to apply fair value accounting. If an entity elects to account for investments properties at cost, we believe that the principles in a new leasing standard should be applied.

**Question 29**

*Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues.*

We choose not to comment on this question.