

Dr. Alexander Schaub
Director General
European Commission
Directorate General for the Internal Market

1049 Brussels

15 February 2005

Dear Mr. Schaub,

Adoption of IFRIC 4 *Determining whether an Arrangement contains a Lease*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRIC 4 *Determining whether an Arrangement contains a Lease* (IFRIC 4), which is based on IFRIC D3 and finally published by the IFRIC on 2 December 2004.

EFRAG welcomes the objective of IFRIC 4 to provide guidance for determining whether an arrangement is, or contains a lease, that should be accounted for in accordance with IAS 17 *Leases*. It further provides guidance when an assessment or re-assessment should be made. It does not provide guidance for determining how such a lease should be classified under IAS 17.

EFRAG supported the objective of the draft interpretation IFRIC D3 in general but raised several issues to IFRIC to be considered when finalizing the interpretation. The final interpretation addresses the main concerns raised by EFRAG and can be seen as a step towards convergence to US GAAP.

IFRIC 4 becomes effective for annual periods beginning on or after 1 January 2006.

EFRAG has evaluated IFRIC 4 based on input from standard setters and market participants in accordance with EFRAG's due process.

EFRAG supports the new interpretation and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 4 *Determining whether an Arrangement contains a Lease* and, accordingly, EFRAG recommends its adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman