International Accounting Standards Board
30 Cannon Street
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E-MAIL

EACB comments on the IASB/FASB Discussion Paper on Leases

Dear Sir/Madam,

On behalf of the European Association of Cooperative Banks we are writing to comment on the IASB and FASB Discussion Paper on Leases issued in March 2009.

The members of the EACB 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 for us from a preparer perspective of financial reports in the paragraphs below.

<u>Question 2</u> ***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 treaty in the same way.

From our perspective as lessee of property (i.e.: 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. Furthermore, when the lessor and the lessee are in the same group and report under IFRS at their levels, the new standard would create a lot of work, while these operations have to be eliminated in the consolidated group statements. Capitalising them would however produce a lot of extra work and effort. The proposed accounting treatment would therefore make leasing arrangements economically less attractive.

We rather think that since the "right-of-use approach" is unsuitable for many everyday leasing arrangements, it might not be a conceptually sound approach for all lease arrangements in the first place.

<u>Question 4</u> ***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 in most cases a pragmatic solution for lease accounting. Therefore, we 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. However, we 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 this proposal to be too burdensome if it requires none-core assets and short-term leases to be capitalised in daily practice.

<u>Question 5</u> 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?

Options and conditions are separately accounted 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. From our preparer of financial reports point of view, 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.

<u>Question 8</u> 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.

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.

Therefore, we 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 because the accounting for the arising differences would be rather complex in practice.

<u>Question 10</u> 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.

From our practical experience we have concerns about the costs and the complexity for preparers of revising the obligation to reflect changes in its incremental borrowing rate. However, if the IASB decides to retain its current proposal, we believe 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.***

We are 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.). If the subject were considered from both perspectives, some of the proposals in this DP about the future direction of lease accounting could be different. 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 differently by the reporting entity. This would add undesirable ambiguity and complexity to the financial statements of that reporting group.

Kind regards,

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General Manager

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Head of Unit