



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES

IASB  
30 Cannon Street  
London EC4M 6XH  
UK

**Re: Recent Decisions on the Leases Project**

Paris, July 1, 2011

Dear Mr. Hoogervorst,

We are writing to express our grave concerns about the significant changes in the direction of this project that were decided upon during the main IASB/FASB meeting in May. To be specific, the areas of our concern are the decision to impose a single model for all leases in the lessee's books, the apparent lowering of the threshold for the inclusion of options in the assessment of the lease term, and the stark divergence between the two Boards on the number of models required for the lessor. In addition, we are still troubled by the tendency expressed at the May meeting by a majority of Board members to eliminate any form of relief for preparers from using the one model, even though this has been slightly mitigated for the time being by the tentative decision taken in June to reinstate the relief for short-term leases.

You will find attached to this letter a short discussion of ACTEO, AFEP and MEDEF's technical position on the issues mentioned above, but the principal concern that we would wish to bring to your attention is the doubt we have about the fundamental direction of this project and the justification for it. These individual changes of direction lead us to an overarching concern that the two Boards do not have a clear view or common understanding of the objectives of this project. We think it is now an opportune time to pause and reconsider the objectives of the project and reexamine the conceptual justification for the assets and liabilities that the proposals would require to be recognised. In our view it would be unacceptable to impose a new standard motivated by anti-abuse concerns without having reconfirmed that its conceptual basis is sound, its approach is practical and the information it provides represents the best combination of cost to preparers and usefulness to users.

Finally, we are concerned that the Boards' changing decisions during the redeliberation period may be an indication that constituents' comments are being disregarded and wonder what the implications of this are in the area of transparency and the respect of due process.

In view of this, we are firmly of the opinion that it is imperative that the objectives be clearly articulated, and that the final proposals be thoroughly tested to ensure that they are practical and then re-exposed before becoming mandatory.

As we have previously mentioned, our members would be very pleased to continue to assist the Board and the staff in this project.

Should you wish for any supplementary comment or explanation, please do not hesitate to contact us.

Yours faithfully,

ACTEO




Patrice MARTEAU  
Chairman

AFEP



Alexandre TESSIER  
Director General

MEDEF



Agnès LEPINAY  
Director of economic  
and financial affairs

## ATTACHMENT

Please find below our principal comments regarding the main three areas of our concern resulting from recent Board decisions on the Leases project.

### The lessee accounting model

The Leases exposure draft (the ED) proposed two models for the lessor's accounting for lease contracts, thus reflecting the Boards' acknowledgement that there are different types of lease arrangement. The FASB continues to recognise this in its retention of the finance lease/operating lease models for the lessor in its redeliberations. In contrast, both Boards have reverted to the ED's single approach to lessee accounting.

We think that it is clear that there are at least two different types of lease arrangement, in addition to service contracts which make use of an asset, and, as stated above, the Boards (and many commentators) appear to agree. The fundamental question which has to be answered, therefore, is what is the most relevant information that needs to be provided and what accounting method best and most faithfully represents these different situations. We cannot accept that the best approach is to treat all the different types of arrangement as if they are purchases of assets using financing. Financial reporting is most useful when it allows entities to be compared by highlighting what is similar and what is different between them. It is much less useful when it renders all transactions uniform.

In addition, we understand that the Boards are trying to limit the impact of the imposition of a single model for lessees by trying to limit the range of transactions that fall within the definition of a lease. We do not think that the modification of the definition of a lease is the appropriate vehicle for setting the scope for the accounting and we are not convinced that the latest iteration of the definition that we have seen achieves the limitation of the number of transactions affected. The current definition of a lease contained in IAS 17 and IFRIC 4 is not perfect but in practice appears to capture the essential of lease transactions. It is however only the first step in the accounting model which recognises as a second step two different economic approaches to leases: the financing of the purchase of an asset (with the transfer of substantially all risks and rewards of ownership) and the purchase of a service which represents the flexibility provided by a rental without the transfer of all the risks and rewards of ownership. What we think is missing from the latest decisions on this project is this second step.

Major groups of companies typically engage in thousands of contracts for the use of minor assets for reasons of flexibility or economy. The latest iteration of the lease proposals will require all these contracts to be analysed and a large amount of data-gathering, computation and accounting entries to be carried out for the consolidated financial statements.

There is no doubt that this will result in significant additional cost to the preparer, but the information that is really required by the user is ill-defined and its benefit to the user remains unclear. In our own discussions with users we have noted that there is not a clear consensus on the accounting approaches, and that what users really seem to want is sufficient information to allow them to model the economics of the entity in their own way. The requirements of users are, however, frequently cited as the justification for the requirements in the proposed accounting standards. We think it would be very helpful to this project for the Board to identify clearly what users need and to identify with preparers the most efficient way of satisfying these needs. Such a discussion may lead to a common agreement on the way forward. Finally, the basis for conclusions of any final proposals must include a comprehensive and transparent explanation of the needs of users and how the proposals respond to these in the most efficient way.

### **Optional lease periods**

We agree with the alternative view of the ED in respect of the approach to be taken to options. The current lease-term definition in IAS 17 (“reasonably certain”) represents a high threshold and that of “a significant economic incentive” appeared to represent a similar threshold, although it was expressed in terms which were less well understood. However, the recent decisions about the factors to be taken into consideration in assessing the lease term have, in our view, introduced a high degree of subjectivity and doubt, particularly in the area of the consideration of business factors and management intent, and have lowered the threshold back towards that of the ED. This will have the effect of imposing the recognition of liabilities which we think do not meet the framework criteria and making the accounting less comparable between entities.

### **The lessor accounting model**

We are also very concerned about the lack of agreement between the two Boards on a converged approach to lessor accounting. We believe that the current standard for lessor accounting is not flawed, because it recognises the different natures of lease arrangements and is consistent with current lessee accounting. If lessee accounting is to be changed, lessor accounting must be dealt with in a manner that is consistent with the revised lessee accounting.. Given the genesis of this joint project in the Memorandum of Understanding, we would find it incomprehensible and unacceptable for the Boards to decide upon standards which were neither converged nor internally consistent in fundamental areas such as this.

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