



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

Reference: AEL's Comments on the IASB/FASB Leases Discussion Paper

Dear Sir/Madam

Kindly find the comments that the Asociación Española de Leasing (AEL) has collected from the insights of the Spanish industry in order to provide feedback about the Discussion Paper (DP). AEL considers the DP an attractive opportunity to provide feedback and inputs about the accounting standards from the Spanish industry.

The comment letter is structured in two sections. The first one introduces the general concerns and ideas taken from the investor's side meanwhile the second section answers the individual questions of the DP.

## **SECTION 1: MAIN CONCERNS**

Spain is already working under the current international standard for leases IAS17 and it is being well-accepted by the industry. Therefore, as the companies are comfortable with this accounting standard, AEL believes no changes should be carried out in our industry.

One of the main objectives of the leasing business is its simplicity when being accounted. However, from AEL's point of view, the new proposal would increase the complexity and the cost for the preparers, especially for the Small and Medium Enterprises (SMEs). Therefore, if this proposal continues, AEL suggests excluding SMEs from this new accounting standard.

If the operating (simple) lease is accounted as an asset, the companies would lose the commercial advantages and the Spanish industry is afraid of the possibility that the simple lease business disappears. Nowadays, the operating lease is recognised as a service contract and their rents are registered as an expense. As mentioned above, Spain is comfortable with this approach and would support the idea of remaining it as it is.

Regarding the kind of assets to be considered in the accounting standard (short-term and core), and having in mind the main goals of simplicity and common agreement, AEL considers that all leases must be subject to the same rules in order to avoid subjectivity. We would also like to clarify that those assets which are accounted in the balance sheet and are considered as "core" for a company (for instance an airline acquiring a private plane by a lease) are not the same that those assets also coming from a lease such as a photocopier. We consider that the solution for this issue is included in the debate between lease contracts and service contracts.

AEL believes and pretends to express that the assets only must gather all the circumstances which are certain at the inception of the lease, excluding all the rights that the lessee could benefit from at the end of the signed operation.

From the lessor accounting standpoint, AEL considers that the decision of deferring the lessor accounting and not including it into the June 2011 projects could be harmful for the industry. Firstly, some of the changes proposed for the lessee could be different depending on the decisions taken for the lessor, and secondly, as some lessor are as well lessees; it would provoke unbalances and complexity. Therefore, as we consider there is no reason of urgency to change the accounting standards for the lease, AEL would strongly recommend the Boards to further analyse this issue.

In conclusion, AEL, in accordance to the Spanish industry, would prefer to leave IAS 17 because it is already applied in Spain and the users are comfortable with it. Furthermore it is considered that the approval of the current DP would increase the complexity and cost of the accounting standard, especially for the Small and Medium Enterprises (SMEs). On the other hand, AEL prefers not to vary the operating lease accounting standard and recognise it as service contract, in other words, register their rents as an expense. Therefore, and taking into consideration that there is no urgency to renew the accounting standards without reviewing the lessor accounting standard, AEL believes that the proposed accounting standard will not be beneficial for the industry and recommends carrying out further analysis.

## **SECTION 2: DP'S QUESTIONS**

Once introduced the preamble and exposed AEL's main concerns, we proceed to answer the DP's questions.

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

Spain is already working with IAS 17, and therefore AEL agrees with basing the new standard on IAS 17 instead of SFAS 13. The members are comfortable with this approach and it would also reduce the complexity while changing the accounting standards in the country.

**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 AEL Accounting Board's members sustain different point of views and they are divided on this issue. However, in order to provide a response, and following the majority's votes, AEL recommends applying the same accounting standard for all leases and therefore not exemptions should be carried out.

### **CHAPTER 3: APPROACH TO LESSEE ACCOUNTING**

As mentioned above, the AEL Accounting Board's members believe that the accounting standard should remain as it is currently presented in Spain (under IAS 17), mainly because it is considered questionable the economic control of the lessee in most leases.

However, in order to provide feedback and taking into consideration our point of view, we proceed to answer the following questions as if we accepted the criteria of accounting as an asset any lease.

**Question 3 – Do you agree with the boards analysis of the rights and obligations, and assets and liabilities arising in an operating (simple) lease contract? If you disagree, please explain why.**

AEL agrees with the analysis of rights and obligations and assets and liabilities

**Question 4 – The boards tentatively decided to adopt an approach to lessee accounting that would required 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.**

From the operating (simple) leases standpoint, AEL proposes that the rental payments should be accounted as an expense because the operation is considered as a service arrangement. It is not purchased equipment but a service.

**Question 5 – The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively 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?**

AEL agrees with the DP and supports the idea of only accounting those components which are certain at the inception of the lease. We recognize the right-to-use the asset but we do not agree with taking into consideration the facts that may happen at the end of the term of the contract.

## **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.**

AEL supports this proposed approach.

**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.**

AEL supports this proposed approach as the cost is the most common measure used in the initial valuation.

## **CHAPTER 5: SUBSEQUENT MEASUREMENT**

**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 the proposed approach? If you disagree with the boards’ proposed approach, please describe the approach to subsequent measurement you would favour and why.**

AEL agrees with the proposal, but recommends considering the accounting and taxability of each country. For instance, using the straight-line amortisation method it would be very different.

**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.**

AEL believes that there should not be an option for the lessee to measure a lease obligation 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.**

**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.**

AEL agrees with the proposed approach of not revising the obligation. However, in case this issue is accepted, the Accounting Board’s members consider that the obligations to pay rental should be revised only when there is a change in the estimated cash flows.

**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, explain why.**

AEL agrees with the Boards' proposed approach which is to identify the required accounting obligation to pay rentals separately from the normal financial liabilities.

**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 amortisation or depreciation in the income statement. Would you support this approach? If so, for which leases? Please explain your reasons.**

AEL believes that the decrease in value of the right-of-use asset would be better presented if it was accounted as a depreciation or amortisation.

## **CHAPTER 6: LEASES WITH OPTIONS**

**Question 13 – The boards tentatively decided that the lease should recognise an obligation to pay rentals for a specified lease term, i.e. in a 10 years 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 what alternative approach you would support and why.**

AEL members do not support the proposed approach, believing it would force to the lessee to recognise as liabilities amounts that are not enforceable obligations. Therefore, in the example, AEL would only account the obligation for 10 years.

**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 recognise as an adjustment to the carrying amount of the right-of-use asset. Do you support 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.**

AEL supports both proposals. It is considered advisable to reassess the lease term with any fact or circumstance happened after the inception of the lease to ensure the proper presentation of the asset and liability.

**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 you would support and why.**

As AEL considers both options have the same nature, they should be accounted for in the same manner and thus, the Accounting Board's members agree with the proposal.

## **CHAPTER 7: CONTINGENT RENTALS AND RESIDUAL VALUE GUARANTEES**

**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?**

AEL supports this proposed approach.

**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 to 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.**

AEL understands and agrees with the two possible approaches. However, the members are split and they cannot reach any specific conclusion. The main concern arisen is how to measure the contingent rentals for the non-corporate assets.

**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.**

AEL believes that as the contingency is the change in the price or index, when measuring the obligation to pay rentals it should be taken into consideration the change in the index or rate in order to reflect the current economic conditions.

**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.**

AEL supports this proposed approach. As previously mentioned, AEL agrees with the proposal of reassess the lease term in order to better reflect current market condition and later happened facts. Therefore, this decision would be consistent with the previous one.

**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, or (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.**

AEL would firstly identify the impact of the change in the obligation to pay rentals. Those changes affecting the right-of-use asset should be accounted as an adjustment to the carrying amount of the asset. On the other hand, the other changes should be recognised in profit or loss.

**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 values 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?**

AEL supports this proposed approach.

## **CHAPTER 8: PRESENTATION**

**Question 22 – Should the lessee obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons. What additional information would separate presentation provide?**

As the proposed and supported accounting for recognising separately the lessee obligation to pay rentals from the other financial liabilities, AEL agrees with the proposal of presenting them in a different manner.

**Question 23 – This chapter describes three approaches to presentation of the right-of-use asset in the statement of the financial position. How should the right-of-use asset be presented in the statement of the financial position? Please explain your reasons. What additional disclosures (if any) do you think are necessary under each of the approaches?**

Spain is already presenting the asset according to the nature of the underlying lease and the AEL Accounting Board’s members are reluctant to any change. As it is considered a fair and reliable approach, AEL proposes the first approach.

## **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.**

AEL does not have any new issue to add to the DP.

## **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.**

**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.**

**Question 27 – Should the boards explore when it would be appropriate for a lessor to recognise income at the inception of the lease? Please explain your reasons.**

**Question 28 – Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons**

**Question 29 – Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues**

AEL considers that the lessor accounting should remain the same and be accounted as it currently is, following the IAS 17. If there is an unavoidable new proposal, AEL would prefer to delay the comments in order to have a deeper analysis and understanding of the proposed accounting standards.

However, AEL considers there is no reason of urgency to only focus on the lessee and postpone the analysis of the lessor accounting standard.