

DP Leases Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

24 July 2009

Dear Sir/Madam,

Discussion Paper: *Preliminary views on leases*

Mazars welcomes the opportunity to comment on the Discussion Paper (DP) *Preliminary views on leases*. Our general comments are given below. Answers to the specific questions included in the DP are given in the Appendix.

We appreciate the work done by the IASB and believe that it is a useful contribution. We strongly support the recognition of a right-of-use asset and its related liability resulting from any lease contract, whether it is a finance lease or an operating lease under current IAS 17. We believe that this core principle will significantly reduce structuring opportunities.

However, we have serious concerns about the following points:

1. The DP does not include proposals on lessor accounting. We understand that the IASB does not intend to issue a discussion paper on lessor accounting but instead a single exposure draft on both lessee and lessor accounting. Nevertheless, we are of the view that a project on lease accounting should be undertaken on a comprehensive basis by analysing lease contracts and their accounting consequences for both lessees and lessors. Such an approach is the only way to make sure that the future Standard on lease accounting will be conceptually robust and provide consistent guidance for lessees and lessors. Therefore, we strongly recommend that, as a next step of this project, the IASB should issue a discussion paper, not an exposure draft, on both lessee and lessor accounting. In doing so, constituents would have the whole picture to comment on, still being at the discussion stage of the project.
2. The approach in the DP would result increasing pressure on scope issues, especially for lease contracts classified as operating leases in accordance with existing standards. We strongly recommend that the IASB should :
 - explain why, contrary to a service contract, a lease contract is not an executory contract;
 - review the principle underpinning IFRIC 4 and provide more robust guidance on how to distinguish between a lease contract and a service contract;

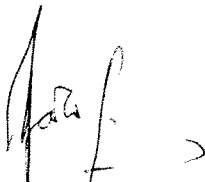


- provide guidance on how to distinguish payments for services from payments for the right to use an asset;
 - discuss the accounting for leases of intangible assets.
3. In accordance with the DP, when the lessee has an option to purchase the leased asset or to renew the lease and it is probable that the option will be exercised, the exercise price of the option or the rental payments for the optional period would be included in the measurement of the liability. As a result, the lessee would recognise liabilities that, in our view, do not meet the definition of a liability in the *Framework* and in IAS 32. Rather, we think that the lessee should strictly account for the rights and obligations arising from the lease contract. Options in the hand of the lessee are separate assets of the lessee (and should be accounted for separately from the right-of-use asset if they can be measured reliably) and do not create a liability until they are exercised. Therefore, we believe that the lessee should account for the amortised cost of its contractual obligation to pay rentals and the exercise price of renewal options should not be anticipated in measuring the liability.
4. We strongly disagree with the proposal in the DP to reassess the obligation to pay rentals at each reporting period with an adjustment to the right-of-use asset. We acknowledge that reassessment at each reporting period is necessary under the proposed model in which options of the lessee are included in the measurement of its obligation to pay rentals. However, we think that it significantly departs from the requirements of existing IFRSs for subsequent measurement of assets and liabilities at amortised cost. As said in the above paragraph, we support a measurement of an obligation limited to the rental payments over the contractual lease period. Under this view, reassessment at each reporting period would not be necessary, unless there is a significant change in the terms of the lease.
5. We believe that the discount rate used to discount lease payments should reflect the economics of the lease contract, ie the acquisition of a right to use an asset over a period of time and the obligation to return that asset to the lessor at the end of the lease (unless title transfers to the lessee). We are of the view that this discount rate should be determined at the inception of the lease and should not be remeasured. We believe that the discount rate should be the interest rate implicit in the lease contract when it can be determined. Otherwise, the lessee should use its incremental borrowing rate.
- Remeasuring the discount rate at each reporting date would result in introducing fair value in the remeasurement of a contractual liability, which we believe is not consistent with other standards.

6. Finally, we think that the obligation to pay rentals has the nature of a financial liability and the right-of-use asset should be presented according to the nature of the underlying leased asset. In both cases, we recommend presenting them as a separate line item, on the face of the statement of financial position or in the notes.

We would be pleased to discuss our comments with you and remain at your disposal should you require further clarification or additional information.

Yours sincerely



Michel Barbet-Massin
Head of Financial Reporting Technical Support

Appendix to our letter to the IASB on the DP “Leases”. Answers to the specific questions raised in the invitation for comments

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 agree with the IASB and the FASB ('the Boards') that not reconsidering the scope of the existing lease accounting standards is a practical way for reaching a consensus on a timely basis. However, we point out that the approach in the DP would result in all contracts that are currently classified as lease contracts, whether finance or operating, being accounted for as a right-of-use asset and a related liability under the future standard. As a result, there would be increasing pressure on scope issues, especially for lease contracts classified as operating leases in accordance with existing standards, and we strongly recommend that the Board should thoroughly address these scope issues before moving on to the next steps of the project. In doing so, we think that the Board should:

- **Explain why, contrary to a service contract, a lease contracts is not an executory contract.** The DP does not include any discussion on this distinction, if any. Why does the fact that the lessee controls the right to use the asset differentiate a lease contract from an executory contract such as an employment fixed-term contract, an audit engagement, certain supply contracts or stand-by credit facilities?
- **Review the principle underpinning IFRIC 4.** Paragraph BC24 of IFRIC 4 states that '*dependence on a specifically identified asset is a feature that distinguishes a lease from other arrangements that also convey rights to use assets but are not leases (eg some service arrangements)*'. We are aware that, in practice, the implementation of IFRIC 4 proves to be difficult in many cases (eg when assets are fungible like cars of the same category within a fleet, right to capacity, right to use a portion of an asset) and we suspect that recognising all leases in the statement of financial position would put greater pressure on this guidance. Therefore, more robust guidance on how to distinguish between a lease contract and a service contract is essential to avoid divergence in practice and opportunities to structure.
- **Provide additional guidance on how to distinguish payments for services from payments for the right to use an asset.** In paragraph 2.6 (d) of the DP, the Boards acknowledge that there may be a need for guidance in this area. We think that such guidance will be essential to avoid contracts being analysed as full service contract while they also contain a lease.
We believe that this guidance should be consistent with the one regarding revenues.
- **Discuss the accounting for leases of intangible assets.** We note for example that certain leases of intangible assets are specifically excluded from the scope of IAS 17 but that the conceptual basis for that exclusion is not discussed in the DP. When reading

paragraph 2.20 of the DP, we understand that the boards intend to do so through the reconciliation of the scope of IAS 17 and SFAS 13. We think that the Boards should:

- i) deliberate the issue of how to account for leases of intangible assets in accordance with existing standards, and
- ii) consider whether exceptions in the new standard on leases are needed.

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.

No, the new standard should not introduce scope exclusion relying on the nature of the leased asset or the duration of the lease term. The distinction between core and non-core assets is subjective and the definition of a short-term lease is arbitrary. We believe that this issue should be dealt with through the overall principle of materiality. We encourage the Board to provide guidance on how the materiality principle could be applied to lease contracts.

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.

Yes, we agree that lessees should account for the right to use an asset and obligations to pay rentals. However, we believe that there may be a distinction that should be made between in-substance purchases and acquisitions of a right of use:

- Leases that are substantially equivalent to the purchase of a physical asset (eg leases that automatically transfer title of the leased asset to the lessee at the end of the lease) are in-substance purchase in the scope of the proposed new standard (see paragraph 2.11 of the DP). However, the term 'in-substance purchase' is not defined in the DP. We think that the Board should try to define it. If the Board cannot find a working definition of in-substance purchase, we suggest that the lessee should disclose relevant information in the notes.
- Leases that are not in-substance purchase but the acquisition of a temporary right of use for flexibility reasons. In such cases, the lessee should recognise an asset representing its right to use the leased asset and an obligation to pay rentals.

We consider that the IASB should develop criteria to help distinguish between these two categories of lease contracts, so that the future standard on leases will provide decision-useful information reflecting the economics of lease contracts in all cases.

Question 4

The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognize:

- (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.

As mentioned in our answer to question 3, we agree with the proposed approach but we think that:

- i) a distinction should be made between leases that are in-substance purchase and leases that correspond to the acquisition of a right of use, and
- ii) the IASB should clearly establish the distinction between a service contract (executory) and a lease contract.

That said, we agree with the Board that none of the alternative approaches set out in Appendix C (the whole asset approach, the executory contract approach, and the approach adopted in existing standards) are appropriate for all leases and have more robust conceptual basis than accounting for the rights and obligations arising in lease contracts.

Question 5

The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the board tentatively decided to adopt an approach whereby the lessee recognizes:

- (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?

No, we do not support the proposed approach of "a single asset and a single liability". We think that the lessee should account only for the rights and obligations arising in the lease contract, and not for the contingent right of use and the contingent obligation to pay rentals that may result from the lessee's future decision to exercise a renewal option.

We are concerned that the approach proposed in the DP would result in the recognition of liabilities that do not meet the definition of a liability in the *Framework* or in IAS 32, for example when they include payments for an optional period or for the exercise price of a purchase option. We point out that an option to renew a lease or purchase the leased asset is an option in the hand of the lessee, not the lessor. Therefore, the lessee has no obligation until it exercises its option.

From the lessee's perspective, options acquired in a lease contract are the result of an economic decision as they provide additional flexibility or potential access to an extension of a lease in favourable terms. Such options meet the definition of an asset and, in our view, should be accounted for separately from the right-of-use asset if they can be measured reliably. We acknowledge that in some circumstances, such options cannot be measured reliably. In this case, they should not be separated from the right-of-use asset, only disclosed in the notes.

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.

No, we disagree. We believe that the discount rate used to discount lease payments should reflect the economics of the lease contract, ie the acquisition of a right to use an asset over a period of time and the obligation to return that asset to the lessor at the end of the lease (unless title transfers to the lessee). The interest rate implicit in the lease meets this requirement.

However, we acknowledge that, in some circumstances and especially for leases classified as operating leases under the existing standard, it may be impracticable to determine the implicit interest rate. In this case, we are of the view that the lessee should use the incremental borrowing rate as a discount rate.

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.

Yes, we agree with the Board's proposal.

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 this proposed approach?

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

Yes, we agree with the Board's proposal.

We note that paragraph 5.40 of the DP states that 'Amortised cost-based measurement requires the lessee to amortise the right-of-use asset over the shorter of the lease term and the economic life of the leased asset. For leases of items in which it is expected that the lessee will obtain title at

the end of the lease term, the amortisation period would be the economic life of the leased item. Amortisation would be based on the pattern of consumption of economic benefits embodied in the right-of-use asset.' (emphasis added)

We think that the Board should provide guidance on how this amortisation principle should be applied. For example, a lessee has access to a newly-constructed office building, starts paying rentals but cannot use it until some significant fitting work has been completed. In this case, should the right-of-use asset be amortised from the beginning of the lease or from the point at which the lessee can use the asset as intended in the lease?

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.

No, we do not support a fair value option for the obligation to pay rentals as we are not convinced that fair value would bring useful information for users of financial statements in the case of liabilities arising from lease contracts.

Moreover, we do not believe that the liability arising from a lease contract would meet the criteria for the use of the fair value option under IAS 39.

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.

No, we believe that the lessee should not remeasure at each reporting date its obligation to pay rentals to reflect changes in borrowing rates.

As discussed in question 6, we favour the use of the lease's implicit interest rate for discounting the rental payments. This implicit interest rate does not normally change over the lease period.

When it is not practicable to determine the implicit interest rate, we agree that the lessee should use its incremental borrowing rate. However, in an amortised cost model, we see no conceptual reason to reassess the discount rate at each reporting period. We note that, as lease payments generally do not fluctuate with changes in market conditions, they are analogous to fixed rate borrowings and, when accounting for fixed rate borrowings, amounts are not remeasured to reflect changes in the incremental borrowing rate or 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.

In our view, the alternative approach to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities, such as IASs 32 and 39, would lead the lessee to recognise financial liabilities that are limited to the contractual obligation to deliver cash. Therefore, we believe that this alternative approach is not consistent with the model developed in the DP.

As mentioned in our answer to question 5, we think that lessees have an obligation to pay rentals only for the non-cancellable lease term and that any options to renew or purchase create additional rights but does not create additional obligations. Under our view, it would be logical for lessees to account for the amortised cost of the obligation in accordance with IAS 39.

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.

No, we do not support this approach as we consider that recognising a rental expense in the income statement would not adequately reflect the fact that the lessee purchased a right-of-use asset, subsequently measured on an amortised-based cost approach. In addition, we suspect that those Board members who support this approach would fail to distinguish between leases for which the decrease in value of the right-of-use asset should be described as rental expense from the others.

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.

No, we disagree. We are of the view that the lessee should recognise an obligation to pay rentals only for the minimal rental period (non-cancellable lease term) and that renewal and purchase options should be accounted for separately from the right-of-use asset if the value of these options can be measured reliably (for example, we believe that there must be a presumption an option to renew can be measured reliably when rentals for the second period are less than rentals for the first period). Therefore, in our view, the exercise of such options should not be anticipated as they are in the hand of the lessee. Any liability arising from the exercise of an option should be recognised only when the option is exercised.

If the Boards reaffirm their views that the lease term should be the most likely lease term, we believe that they should discuss lease contracts in which lessors have an option to terminate a lease. How such an option in the hand of the lessor should be taken into account by the lessee in the determination of the most likely lease term?

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.

No, we disagree. We are of the view that the lease term is the minimal rental period (non-cancellable lease term) and therefore it does not need to be reassessed.

We agree that under the Board's view of a "single asset and single liability" reassessment of the lease term is necessary at each reporting date. Nevertheless we have the following concerns:

- The reassessment is unavoidable when it leads to an increase of the lease term. Indeed, the useful life of the right-of-use asset increases, and so does the obligation to pay rentals during the new useful life.
- When the reassessment leads to reducing the lease term, we believe that adjusting the carrying amount of the right-of-use asset is not consistent with the provisions in IAS 16 or IAS 38 regarding reassessment of the useful life of an asset: such a reassessment does not lead to a change in the carrying amount of the asset, but to a remeasurement of the residual value at the end of the useful life.

- What if the lessee has the option to renew the lease endlessly? In this case, does it mean that the lessee has a right to use the asset over its entire economic life?

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.

Yes, we agree with the argument set out in paragraph 6.56 of the DP that purchase options can be viewed as the ultimate renewal option. However, in our view, purchase options should be accounted for separately from the right-of-use asset, in the same manner as renewal options.

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?

On initial measurement, we support the view that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. In exchange for the right to use an asset, the lessee has the obligation to pay rentals that it cannot avoid, even if they are contingent. The issue of contingent rentals is a measurement issue, not a recognition issue.

However, we think that the subsequent measurement of contingent rentals should differ depending on the nature of contingencies. We are of the view that a difference should be made between contingent rentals that are based on a rate or index and those that are based on the lessee's performance derived from the leased item or based on usage.

In respect of contingent rentals that are based on a rate or index, we support the tentative view of the FASB that the lessee should initially measure the obligation to pay rentals using the index or rate existing at the inception of the lease. We believe that the subsequent changes in the index represent an additional cost for the entity that do not indicate any corresponding increase in the value of the right-of-use asset. Therefore, changes in amounts payable arising from changes in the indexes should be recognised in profit or loss. Nevertheless we believe that the discount rate used in the initial measurement of the rental liability should take into account the existence of contingent rentals based on an index.

In respect of contingent rentals that are based on the lessee's performance derived from the leased item or based on usage, we agree with the Boards that the lessee should remeasure its obligation to pay rentals for changes in estimated contingent rental payments. In our view, the right-of-use asset should be remeasured when there is a significant change in estimates. Consequently, we support the view that such changes should be recognised as an adjustment to the carrying amount of the right-of-use asset.

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 agree with the FASB that a lessee should determine the most likely amount of the obligation by considering the range of possible outcomes because the most likely amount is in many cases easier to determine and generally more meaningful than the weighted average sum of the possible outcomes. In addition, we believe that the most likely amount is consistent with IAS 37 when a single obligation is being measured (see paragraph 40 of IAS 37).

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.

Yes, we agree. In respect of contingent rentals that are based on a rate or index, we support the tentative view of the FASB that the lessee should initially measure the obligation to pay rentals using the index or rate existing at the inception of the lease (see our answer to question 16).

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.

Yes, we agree with the boards that the lessee should remeasure its obligation to pay rentals for changes in estimated contingent rentals. For further details, please refer to our answer to question 16.

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.

As explained in our answer to question 16, we are of the view that a difference should be made between contingent rentals that are based on a rate or index and those that are based on the lessee's performance derived from the leased item or based on usage:

- *Contingent rentals that are based on a rate or index.* We support the tentative view of the FASB that the lessee should initially measure the obligation to pay rentals using the index or rate existing at the inception of the lease. Changes in amounts payable arising from changes in the indexes should be recognised in profit or loss.
- *Contingent rentals that are based on the lessee's performance derived from the leased item or based on usage.* We agree with the Boards that the lessee should recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

For further details, see our answer to question 16.

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?

Yes, we agree that the recognition and measurement requirements for contingent rentals (other than those based on a rate or index) and residual value guarantees should be the same. In both cases, the lessee has an obligation that should be recognised in the financial statements. In the case of a residual value guarantee, the lessee commits itself to pay a difference of value if the value of the leased item at the end of the lease is below a specified value. Consequently, the lessee cannot avoid paying this amount when the criteria specified in the contract are met. We also think that the residual value guarantee is in practice one of the components of the cost of the right-of-use asset and as such, should not be accounted for separately from the contract as a derivative.

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?

We agree with the FASB that the lessee's obligation to pay rentals should be presented separately in the statement of financial position.

As explained earlier, we are concerned that the approach proposed in the DP would result in the recognition of liabilities that, in our view, do not meet the definition of a liability in the *Framework* or in IAS 32 for example when they include payments for an optional period or for the exercise of a purchase option. If the IASB reaffirms its views that the lessee's liability is the obligation to pay rentals over the most likely lease term, at least presenting this liability separately would avoid mixing together liabilities with very different measurement attributes.

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?

We support the presentation of the right-of-use asset according to the nature of the underlying leased item. For example, a lease of a motor vehicle would be presented with other motor vehicles. However, we think that rights to use motor vehicles under lease contracts should be presented as a separate line item from owned motor vehicles in the notes to the financial statements.

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.

As detailed in our answer to question 8, we believe that further guidance is needed on how the amortisation principle should be applied.

Chapter 10: Lessor accounting

Question 25-29

We are concerned that the DP does not include proposals on lessor accounting. We also understand that the IASB does not intend to issue a discussion paper on lessor accounting but instead a single exposure draft on both lessee and lessor accounting.

Paragraph 30 of the IASB Due Process Handbook states that *'Although a discussion paper is not a mandatory step in its due process, the IASB normally publishes a discussion paper as its first publication on any major new topic as a vehicle to explain the issue and solicit early comment from constituents. If the IASB decides to omit this step, it will state its reasons.'*

We are of the view that a project on lease accounting should be undertaken on a comprehensive basis analysing lease contracts and their accounting consequences for both lessees and lessors. Such an approach is the only way to make sure that the future Standard on lease accounting will be robust and provide consistent guidance for lessees and lessors.

We also note that, at its May 2009 meeting, the IASB tentatively decided to develop an approach whereby the lessor retains the leased item in its statement of financial position and recognises:

- an asset for its right to receive rental payments from the lessee; and
- a liability for its performance obligations under the lease.

In our view, this tentative decision is contrary to the general principle set out in the DP that the lessee acquires a right-of-use asset from the lessor at the inception of the lease and illustrates the dangers of considering related issues in pieces.

Therefore, we strongly recommend that, as a next step of this project, the IASB should issue a discussion paper, not an exposure draft, on both lessee and lessor accounting. In doing so, constituents would have the whole picture to comment on, still being at the discussion stage of the project.