

**OFICIO nº 007/2013**

São Paulo, September 13<sup>th</sup>, 2013.

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

Ref.: Exposure Draft – ED/2013/6 Leases

Dear Board Members,


ABEL – Associação Brasileira das Empresas de Leasing (Brazilian Association of Leasing Companies) as a representative entity of both the Lessor and the Multiple Banks with Leasing Portfolio in the Brazilian market, in accomplishment to the abovementioned concerning a Exposure Draft ED/2013/6 Leases, respectfully provides hereby the enclose comments.

We understand that this is the appropriate time for establishing a strong and accurate guideline to a new accounting model for leasing agreements without, of course, disregarding the tax characteristics and legally standards, maintain, be compliance and adherence of each country, but allowing the comparison and transparency required for that business, and thus avoiding any arising of unexpected risks.

If you have any question about our comments, please, do not hesitate in contact us at [abel@leasingabel.org.br](mailto:abel@leasingabel.org.br).

Looking forward to hearing from you.

Regards,



**ABEL – ASSOCIAÇÃO BRASILEIRA DAS EMPRESAS DE LEASING**  
**OSMAR RONCOLATO PINHO**  
Chairman

## Question 1: identifying a lease

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

### Response to Question 1

The new lease definition represent an improvement when compared to the ED2010, although we understand that the definitions to identify if in fact the lessee has the control of underlying assets still remain so subjective, allowing that service contracts might be framed as lease and vice versa, depending on the observer interpretations. Thus, we believe that the treatment given to lease contracts should privilege the Right-of-Use, in the true sense of the word, as way to turn easier to get clear interpretations about lease, avoiding ambiguous treatment to the lease contracts that transfer to the lessee the capacity to direct the use of an identified asset.

## Question 2: lessee accounting

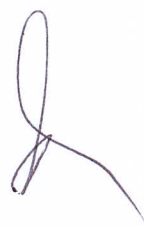
Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

### Response to Question 2

We do not agree that to get the benefits wanted in this Exposure Draft is needed to segregate the recognition, measurement and presentation of expenses and cash flows arising from a lease in Type A, B and Short Term.

The rules necessary to segregate the different types of lease introduce complex and subjective concepts, hard to be applied by lessees and lessors, whose implementation will request time and money and the benefits will not justify the investments necessary to their production and control.

Therefore, the implementation and dissemination of the new model will be easier and feasible if were recognized the Right-of-Use based on performance approach. That way, lessee would recognize the Right-of-Use the specified asset over the lease term and the obligation to make lease payments, taking into account the availability of this asset to obtain the economic benefits, so, the financial statements would capture such rights and obligations that nowadays are “out of balance”.





We also believe that if the lease is not segregated among Type A, B and Short Term, nor the expense recognition should be, then, the entire incurred expense by the lessee should be classified as Operating Expenses.

The combination of these two factors (Right-of-Use and Operational Expense) will eliminate any asymmetric among accounting approach used by lessors and lessees. Will increase the comparability of statement of financial position, statement of profit or loss, other comprehensive income and expense, and statement of cash flow by financial statements users.

In other words, to segregate lease among Types (A, B and Short Term) was needed to build a series of rules for the sole purpose of preventing operations of a particular type being identified as having another type. We believe that the cost of compliance with these rules does not justify the benefits that the financial statements users could earn.

### **Question 3: lessor accounting**

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

### **Response to Question 3**

We do not agree that the lessor should apply different accounting approach to different types of leases. On the contrary, we understand that the use of a single accounting approach will improve the transparency of information provided to users of financial statements about a lessor's exposure, beyond unburden the entire production chain, reducing the compliance cost with the standard.

Whereas the lease met all required requests to have the revenue recognition based on the Performance Obligation satisfied over the time as described in the paragraphs 32 – 35 of [Draft] IFRS Revenue from Contracts with Customers, we are proposing its adoption of a single approach to be applied to all leases, including Short Term Leases.

In this sense, the lessor without to derecognize the underlying asset, and, using a net asset and liability approach, as described in the paragraph BC77 of this Exposure Draft, in which the lessor would recognize the Right to Receive the Lease Payments (Asset) and an Obligation to permit the lessee to use the underlying asset (Liability), and present those amounts together on a net basis in the lessor's statement of financial position. Particularly in Brazil, the adoption of this approach will not generate conflicts and will maintain symmetry in accounting, especially in the consolidated financial statements, where the consolidated net worth must reflect the individual financial statements.





#### Question 4: classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

#### Response to Question 4

No, we do not agree because the lease segregation in Type A, B and Short Term, do not should affect the essence of lease and, in any case the lessee will pay exclusively by the Right-of-Use of the underlying asset. Regardless of consume during the lease term a portion more than insignificant, or not, of the economic benefits of the underlying asset.

We understand that once identified that we are facing a contract that contains a Lease, as per defined in the paragraphs 6-19, of this Exposure Draft, regardless of term, or if the lessee will "amortize" an insignificant portion, or not, of the Underlying Asset, throughout the lease term, as defined in the paragraphs 28-35 and 118-120, of this Exposure Draft, we always should have just one accounting approach, to lessors and lessees, able to recognize the Right-of-Use of the Underlying Asset conveyed to the lessee by the lessor through the Lease Contract, as well as the obligation to pay by the respective conveyance of the Right-of-Use asset, without prejudice to the legal right of ownership of the underlying asset by Lessor.

We also understand, that expense recognition should not be segregated among interest and operating expenses, as established in the paragraphs 42 (a), 47 – 48, nor the payments related to the Right-of-Use of the Underlying Asset has any link to the ownership of referred Asset. The ownership only will be transferred to the lessee, if, at the end of lease, he, the lessee, exercise the purchase option of the Underlying Asset, otherwise, will be negotiated the conveyance of the Right-of-Use for a new period of time, and therefore we will have a new Lease (renewal), or the Asset will be returned to lessor, that would lease it to a new lessee, or dispose of the asset through sale. Not having, however, to talk about amortization of economic benefits embedded in the Underlying Asset, by the lessee during the lease term, being it, more than an insignificant portion, or not.

If at the end of the lease term the lessee exercises the purchase option, this will be the amount by which the Underlying Asset will be included in the lessee Fixed Asset, and will be amortized over the remaining economic life of the Underlying Asset in accordance with IAS 16.

As mentioned in response to the question 3, lease, as defined in this Exposure Draft contains all requirements requested by paragraph 35 of [Draft] IFRS X Revenue From Contracts with Customers, to be framed as Performance Obligations satisfied over time. In this way, we are proposing its adoption as the unique approach applicable to the Lessor's revenue recognition.



The use of Obligation Performance approach as unique applicable approach to the revenue recognition of all and any contract that has lease, as defined in the paragraphs 6 – 19 of this IFRS [draft] X Leases, will eliminate the necessity to separate the contracts in Lease and Non-Lease components, as requested in paragraphs 20 – 24, as well as the necessity to segregate the lease in Type A, Type B and Short Term, as established in paragraphs 28 – 35 and 118 -120, as well as all effects linked to this segregation, simplifying the recognition, measurement, presentation and disclosures of the financial statements, and as consequence its use by the stakeholders.

The adoption of a unique approach to the lease measurement for lessees and lessors would avoid excessive complexity and subjectivity that are raised by the use of different approach to Type A, B and Short Term, such as:

- Subjectivity in applying concepts to determine if we are facing a Lease Type A, B (paragraphs 29 (a) and (b), 30 (a) and (b), and 31), or Short Term Lease (paragraphs 118 – 120);
- Subjectivity to determine the lease term (paragraphs 25 – 27);
- Subjectivity to determine the residual asset (paragraphs 71 – 75);
- Elimination of the possibility to inflate the statement of financial position of lessees with assets arising from property rental, without any interest into buying the underlying asset at the end of the lease term, where: the lease term, or, the Present Value of lease payments, refers to more than an insignificant portion of the remaining term of useful life, or the fair value of the property at the lease commencement, respectively (paragraph 30 (a) and (b)).

Lease Agreements Indexed to Foreign Currency or Consumer Price Index or Market Interest Rate, especially in emerging markets, like Brazil, where volatility is large and there are restriction to the recognition of revenues with assets reassessment, the revaluation of those indexes predicted in the contract, will make arise an unwanted asymmetry in the recognition of revenue and expenses, because obligations to pay the lease will be revaluated, without the consequent revaluation of the Right of Use.

#### **Question 5: lease term**

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?



## **Response to Question 5**

We believe that with the end of lease segregation among Types A & B and Short Term, the lease term definition might be simplified, referring exclusively to the non-cancellable period defined in the lease contract.

## **Question 6: variable lease payments**

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

## **Response to Question 6**

Yes, we agree, however, we understand that the expression. “In- substance fixed payments” is too subjective and should be redefined, because it allows multiple interpretations regarding what might be considered variable lease payments with characteristics of fixed payments.

## **Question 7: transition**

Paragraphs C2–C22 state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the boards should consider? If yes, what are they and why?

## **Response to Question 7**

We believe that privileging the Right-of-Use, in the true sense of the word, and using a single accounting approach to lessors and lessees, will simplify the whole transition process, as it explained in the previous responses.

We also believe that we should use just one retrospective approach. In this way, we ensure the comparability between Financial Statements of all entities.

We are proposing the exclusive adoption of modified retrospective approach, because it is easier to be applied.

## **Question 8: disclosure**

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments;



reconciliations of amounts recognized in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

### **Response to Question 8**

Yes, we agree that should have exigency to the disclosures. Nevertheless, we ratify that the use of a single accounting approach to classify a leasing contract, without any segregation, simplifies the financial statements disclosure, facilitates reading by users of this information and streamlines decision-making.

### **Question 9 (FASB-only): nonpublic entities**

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

(a) To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.

(b) To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

### **Response to Question 9**

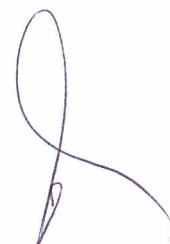
Yes, we totally agree with the relieve proposal.

### **Question 10 (FASB-only): related party leases**

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

### **Response to Question 10**

Not applicable under the Brazil Central Bank, this is not a lease, so should not be considered into this Exposure Draft.



### **Question 11 (FASB-only): related party leases**

Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

### **Response to Question 11**

Not applicable under the Brazil Central Bank, this is not a lease, so should not be considered into this Exposure Draft.

### **Question 12 (IASB-only): Consequential amendments to IAS 40**

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

### **Response to Question 12**

Yes, we agree that the right-of-use of the Underlying Asset should be within the scope of IAS 40 if leased property meets the definition of investment property.

