



30 August 2013

Our ref: ICAEW Rep 116/13

Mme Françoise Flores  
Chair  
European Financial Reporting Advisory Group  
13-14 Avenue des Arts  
B-1210 Brussels

Dear Mme Flores

**ED/2013/6 Leases**

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the International Accounting Standards Board Exposure Draft ED/2013/6 *Leases*.

Rather than respond to each of the individual 'question for constituents' set out in EFRAG's draft response we have instead set out our high level thoughts – and where they differ from EFRAG's – in the attached appendix. Please refer to our response to the IASB, a copy of which is attached to this letter, for our detailed views on the IASB's proposals.

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## APPENDIX

### Our overall assessment of the proposals

1. Like EFRAG, we recognise the need to develop a new approach to lease accounting and remain supportive of the IASB's leases project. We also note that the boards have, after extensive redeliberations and consultation, addressed many of the concerns – including those relating to optional renewal periods, variable lease payments, short-term leases and lessor accounting – that we and many other commentators raised about the earlier exposure draft. We therefore regard the latest exposure draft as a significant improvement on its predecessor.
2. Like EFRAG, we agree that not all leases are the same and that different types of lease should be accounted for differently. However, unlike EFRAG, we continue to believe that all leases – other than short-term leases – should be recognised on-balance sheet. We do not share EFRAG's concerns about whether the right-of-use model should be applied to all leases. Moreover, we disagree with EFRAG's assertion that the right-of-use model and the notion that an asset is a bundle of rights have never been debated at a conceptual level. We accept that there are certain matters that the IASB should consider during its current conceptual framework project, including not just the definition of an asset but also liability recognition, which will have a bearing on both lease term and the accounting for variable rents. However, we believe it is incorrect to claim that the notion of an asset as a bundle of rights has never been debated.
3. Like EFRAG, we recognise that the proposed dual approach to the recognition of lease expenses by lessees and income by lessors has a number of conceptual weaknesses and that 'bright lines' and structuring opportunities remain. However, while it is not something to which we can offer our unqualified support, it nonetheless offers a pragmatic solution that – unlike EFRAG – we are willing to accept. We do, however, recognise that the consumption principle is a difficult one to apply in practice and believe that further work is needed to make the proposals operational.

### We propose an alternative solution

4. In practice it is hard to draw a clear dividing line between those leases that do and do not involve consumption of a more than insignificant part of the underlying asset. While it is true that most leases of equipment or vehicles involve a more than insignificant degree of consumption of the underlying asset, while most property leases do not, this is not always the case. In truth, the economic characteristics of leases lie along a continuum. However, we accept that a single model accommodating different degrees of consumption would be difficult to define and highly complex in practice. Some sort of dividing line would seem to be necessary. We appreciate what the boards are trying to achieve but feel that their proposals introduce too much complexity.
5. While we accept that the current dividing line between finance leases and operating leases is not perfect, it does at least have the benefit of being well established and well understood. Accordingly we recommend that the boards simply carry forward the criteria from IAS 17, with leases that qualified as finance leases under the old standard being classified as Type A and those that qualified as operating leases being classified as Type B.

### We do not support EFRAG's interim 'disclosure only' solution

6. While we acknowledge that the IASB's work on its conceptual framework is relevant to a number of aspects of the leasing project, not least the definition of a liability, we do not believe that the leases project should be 'moth balled' until further progress is made on the former. After more than a decade of work, we believe that the boards should draw their lease project to a conclusion as soon as possible. We therefore do not support EFRAG's suggestion that the boards should simply enhance disclosures while further deliberations are on-going. However, we do encourage the boards to return to the subject of leasing once the conceptual framework has been finalised.