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Françoise Flores, Chair
European Financial Reporting Advisory Group (EFRAG)
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Dear Ms Flores,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on EFRAG's Questionnaire on the revised IASB Exposure Draft *Leases*. Principal authors of this comment letter were Gerhard Marterbauer, Günter Schmidt and Raoul Vogel.

GENERAL REMARKS AND SUMMARY

We believe that EFRAG's Questionnaire on the revised IASB Exposure Draft *Leases* addresses important aspects of lease accounting by

(1.) contrasting the newly proposed IASB approach with the FASB approach that reverts to some ideas included in the present IASB leasing standard IAS 17, and

(2.) providing the opportunity to express and explain a preference for one of the two approaches.

In this comment letter, we argue that the FASB approach is preferable to the IASB approach, as it better reflects the economic substance of different lease transactions.

SPECIFIC REMARKS

Identification of a lease

Q1 You are invited to provide examples of transactions that would qualify as leases under the proposals, but you consider to be in substance services.

Q2 For these transactions, please specify the following:

a. Why should this transaction not be treated as a lease and recognised by a lessee?

b. What changes could be made to the definition and/or criteria to identify a lease, to exclude this transaction from the scope of the proposals?

c. How common in practice is this type of transaction?

Answer to Q1 and Q2:

In principle, the treatment of service contracts in the revised ED is as under IFRIC 4 at present. We therefore assume that it should be possible to distinguish between a lease and a service contract since there are no major changes. However, it would be helpful to have additional guidance as to what is meant by "the supplier would (not) benefit from substituting an asset".

Alternative approaches

Q3 Assuming that the Boards confirm the scope of application and the guidance to identify a lease, which of the approaches described above in paragraphs 14 to 21 do you prefer? Please explain the reasons for your views.

We definitely prefer the FASB approach that distinguishes between two different presentations in the P&L, which is more or less the same as in IAS 17. We feel that this approach better reflects the economic situation than the newly proposed IASB approach. From our point of view, there is no single approach that fits all leasing transactions and, therefore, the distinction between financial and operating leases could very well be retained. Comparing a full-pay out 5-year lease contract for a machine with a bargain purchase option, say, with a 5-year rental contract for an office without any options, it seems obvious that it is inappropriate to treat these two transactions in the same way. Classifying the second case as a financing transaction, as suggested by the IASB's leasing model, seems obscure. Also, the analysis of financial statement ratios may lead to wrong conclusions under the newly proposed IASB approach when it comes to the financing part of a lease transaction that is classified as an operating lease under IAS 17.

Q4 Based on the description above, which of the two approaches you believe to be less complex and costly to implement? Please explain the reasons for your views.

The IASB approach is more costly and complex, because when it comes to cases that are classified as operating leases under current standards, the lessee needs additional information that allows splitting the leasing instalment into an interest and a principal part. Especially in cases of combined lease and service contracts such a split could be impracticable, particularly if the lessor does not provide the necessary information to the lessee (e.g., in a special type of car leases according to Austrian tax regulation the lessor is not allowed to disclose any aspect of the calculation of the residual value to the lessee in order to establish an operating rather than a financial lease). What aggravates the problem of (not) splitting the interest from the principal part is that if such a split cannot be accomplished this would result in declining expenses also for the service part of leases that are classified as operating ones under IAS 17. Again, this does not reflect the real economics of these transactions, because the service part is typically consumed uniformly in each period.

Kind regards,

Romuald Bertl

Chairman