



13 September 2013

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom
iasb@iasb.org

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Meritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
rgolden@fasb.org

Also delivered to - director@fasb.org

Aviation Working Group and IATA IAWG – Comments on Leases Exposure Draft ED/2013/6

Dear Mr. Hoogervorst and Mr. Golden:

The Aviation Working Group (**AWG**) is an industry group whose members consist of the leading manufacturers, lessors and financiers of aircraft and aircraft engines. The IATA Industry Accounting Working Group (**IATA IAWG**) is a group of senior finance professionals from major airlines and represents over 240 airlines.

AWG and IATA IAWG have been closely following and reviewing with interest the leasing project activities of the FASB and IASB (the **Boards**). We will be submitting separate comment letters on the Leases Exposure Draft ED/2013/6 (the **ED**). Both comment letters address a number of issues related to the ED. While the AWG letter is predominantly written from the

lessor perspective and the IATA IAWG letter is predominantly written from the lessee perspective, both comment letters identify a number of common issues the groups have with the lease accounting proposals in the ED. In particular, we have both noted:

1. The proposals are overly complex and do not represent a significant improvement from current practice and disclosures.
2. The proposals fundamentally ignore the economic difference between leases which are in effect a financing transaction and leases which are used to gain access to the use of an asset for a limited period of time.
3. The proposals introduce an unnecessary new classification between lease types when there is a well established classification model in operation.
4. The proposals make an arbitrary distinction between property and non-property leases rather than continuing with a principle based approach to lease classification.
5. Assuming leases currently classified as operating leases are recognized on-balance sheet, the proposals do not appropriately acknowledge the inextricable link between the 'right of use asset' and the lease liability. This linkage should drive the identification of variables which require re-measurement of both the asset and the liability.
6. The requirements in relation to 'lease term' can result in the recognition of a liability even though the entity does not have a present obligation. This is inconsistent with the definition of a liability in the Framework and other existing accounting standards. The period beyond an extension option should only be included in the lease term where the entity has 'no realistic alternative but to make the payments'.

We both also believe that lessor and lessee accounting could be based on an alternative model. The critical elements of that model are:

1. Lease classification remains as per IAS 17 which is a well established test that is based on the principle of risk and reward transfer.
2. Leases classified as 'Finance leases' are accounted for as per 'Type A' leases in the exposure draft.
3. Leases classified as 'Operating leases' are accounted for as per 'Type B' lease in the exposure draft.
4. The lessee 'Type B' lease model includes the re-measurement of the 'right of use asset' for changes in foreign exchange rates where the underlying asset and leases for that underlying asset are predominately denominated and transacted in that foreign currency.
5. The lease term should only include periods covered by an option to extend the lease if the lessee has no realistic alternative but to extend the option and make the payments.

We would be pleased to discuss these comments further with the Boards and their staff.

Respectfully,

Handwritten signature of Jeffrey Wool in blue ink.

Jeffrey Wool
Secretary General
Aviation Working Group

Handwritten signature of Aleks Popovich in blue ink.

Aleks Popovich
Senior Vice President,
Financial and Distribution Services
IATA