



Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

Geneva, 30 June 2015

Re: IATA IAWG - Letter concerning the lease project

Dear Mr. Hoogervorst,

We are writing on behalf of the IATA Industry Accounting Working Group (IATA IAWG) which is made up of senior finance professionals from major airlines and represents over 240 airlines. As such, we have been active in the standards setting process for years in order to help achieving the goal of a robust international set of financial reporting standards.

We have written to the IASB, to raise our concerns on the proposed leasing standard, on July 17th, 2009, December 15th, 2010, October 30th, 2012, March 11th 2014 and in our comment letter to the ED Leases dated September 13th, 2013. Furthermore, we have had a number of discussions with IASB representatives regarding leasing over the last few years with most recently Sue Lloyd and Patrina Buchanan, who received us in your offices for a meeting in November 2014.

We want to stress in this letter again an important issue most relevant to the airlines industry. The lease project is focussing on improving quality and comparability of financial reporting by providing greater transparency about the leverage, the assets used in operation and the risks associated with entering into lease transactions. By bringing the assets ("right-of-use") on the statement of financial position and not in an enhanced separate note as disclosure, volatility in the income statement is created due to the interest charges and the foreign exchange impact of revaluations compared to the current treatment of operating leases.

Airlines usually have entered in a significant number of lease contracts for aircraft. These leases are always denominated in US dollars whatever the functional currency of the subscriber is. Concerning airlines which are not establishing their financial statements in US dollars and are using IFRS rules, the future new lease standard would involve a huge mismatch issue and impact in the profit and loss.

You will find in the appendix to this letter a detailed description of the issue and a proposal to resolve it.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us (maren.pollmann@dlh.de and seguffroy@airfranceklm.com).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "M. Pollmann-Klein".

Maren Pollmann-Klein

Chairman, IATA IAWG

A handwritten signature in blue ink, appearing to read "S. Guffroy".

Séverine Guffroy

Vice-chairman, IATA IAWG



APPENDIX

1. Description of the issue

Airlines which are not establishing their financial statements in US dollars and are using IFRS rules, have entered in lease contracts concerning aircraft for a part of their fleet. Worldwide transactions for aircraft are made in US dollars.

According to the ED/2013/6, the right-of-use asset will be classified as fixed asset. The *Project Update* issued in March 2015 (“*Leases: Practical implications of the new Leases Standard*”) indicates that “a lessee would present lease assets on the balance sheet: (a) together with owned property, plant and equipment (if not presented as a separate line item); or (b) as their own line item(s) if that were relevant to understanding the lessee’s financial position”.

On one hand, the right-of-use asset being a non-monetary asset in foreign currencies, it must be measured using the exchange rate at the measurement date and is not revalued.

On the other hand, the lease liability will be classified as a monetary item. Then a revaluation at each closing date will be made through the income statement according to the exchange rates.

There will be a mismatch between the asset and liability with a huge impact on profit and loss.

In order to illustrate the issue, we take the example of Air France-KLM Group as of March 31, 2015.

As of December 31, 2014, the Group published its commitments concerning the future lease payments on flight equipment. Taking into account a discount rate of 6% and a US dollar rate of 1€=1.2141\$, we obtain an amount of \$6 261 million as the value of the lease liability:

<i>In million</i>	Flight equipment commitments in €	Discounted commitment in €	Discounted commitment in \$
2 015	1 041	1 011	1 228
2 016	1 009	925	1 123
2 017	960	830	1 008
2 018	818	667	810
2 019	704	542	658
> 2019	1 727	1 183	1 436
Total	6 259	5 157	6 261

As of March 31, 2015, the US dollar rate amounts to 1€=1.0759\$. The € value of the lease liability amounts to €5 819 million generating a foreign exchange loss of €662 million. This loss is equal to 1.13 times the result before tax of Air France-KLM.



2. Proposal of solution

Because the liability must be revalued at each closing date, we need to find a solution to also revalue the right-of-use asset.

In the ED/2013/6, the paragraph 43 indicates that “after the commencement date, a lessee shall remeasure the lease liability to reflect changes to the lease payments as described in paragraph 44 and changes to the discount rate as described in paragraph 45-46. A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset, except as follows: (a) a lessee shall identify the amount of the remeasurement arising from a change in an index or a rate (as described in paragraph 44(d)) that is attributable to the current period and shall recognize that amount in profit and loss”. The paragraph 44 indicates that “A lessee shall reassess the lease payments if there is a change in any of the following: (d) an index or a rate used to determine lease payments during the reporting period. A lessee shall determine the revised lease payments using the index or rate as at the end of the reporting period”.

Knowing that the aircraft market is a US dollar one, we could consider the change in US dollar value as an index, even if the rents are paid in US dollars and then use the paragraph 44 to revalue the right-of-use asset with the same rate as the lease liability.

This issue is different from an aircraft acquisition (which is also made in US dollar). When an airline acquires an aircraft, the financing is not necessarily correlated to the amortization duration. Moreover, the airline could finance the acquisition through a financing in another currency than the US dollar.

In the case of a lease contract, the amortization of the right-of-use asset will be done on the same duration as the lease liability reimbursement. The financing will be strongly linked to the right-of-use asset and will always be in US dollars. That is why we consider this issue as very specific for this asset type (the right-of-use asset) and we ask for the precision in the revised standard or through an illustrative example that the currency effect for such lease contracts must be treated according to the paragraphs 43 and 44.