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Geneva, 11 March 2014

IATA IAWG - Redeliberations of Proposals included in the Exposure Draft Leases

Dear Mr. Hoogervorst and Mr. Golden,

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 are closely monitoring the redeliberations of the proposals included in the Exposure Draft Leases issued May 2013 (ED/2013/6).

We have previously submitted comment letters, to raise our concerns on the proposed leasing standard, on July 17th, 2009, December 15th, 2010, October 30th, 2012, and most recently our comment letter to the ED Leases dated September 13th, 2013. We also had the opportunity to engage in a number of discussions with IASB representatives regarding leasing over the last few years.

However, we do not find our concerns and proposed solutions represented in the Boards' discussions currently taking place. Therefore, we would like to bring our issues again to your attention:

- We accepted that the IASB and FASB continue with the objective of recognizing all leases on balance sheet. However, we have never agreed to the right-of-use asset accounting model to be applied similarly for all types of arrangements that are referred to as leases.
- IAS 17 remains appropriate to differentiate the economic difference between leases which present a debt financing transaction and those which are used to gain access to an asset for a limited period of time. Any concerns or (industry) misunderstandings could be addressed by additional guidance on lease classification and by enhanced mandatory disclosures. We received feedback from our analysts supporting this issue. Analysts usually make only adjustments to the asset base and to net debt by using approximations like 7 times the annual (straight line) operating lease expense in the income statement as a "rule of thumb" for adjusting the balance sheet.
- The proposals in ED/2013/6 Leases are overly complex and do not represent a significant improvement from current practice and disclosures. The rationale of the new classification (Type A/ B) between leases and the different expense recognition in the income statement is not comprehensive and has little conceptual basis.



- In case that all leases should be accounted for on-balance sheet, two approaches exist in the airline industry:
 - Some airlines agree to distinguish two types of lease and to use two accounting models. However as they consider Type B has no consistent basis, they prefer using only one model (Type A). But if another model is proposed, they are open to think about it;
 - In contrary, other airlines, as mentioned in our previous letter, think that leases classified as “operating leases” should be accounted for as per Type B lease in the ED, however in a manner that takes into account the inextricable link between the right of use asset and the lease liability. It is this link that represents the difference of this type of lease with the “in substance purchase” arrangement with a secured debt financing for which the model Type A appears to be the more fitting accounting treatment.

Therefore, we do not agree that most airlines prefer Type A accounting for all of their lease obligations.

- Both positions, the right-of-use asset and the liability to make lease payments are mainly denominated in USD within the aviation industry. Each month, the financial debt is revalued at the closing exchange rate. In order to avoid any mismatch and any impact in the profit and loss, we welcome the proposal to recognize the asset as a prepaid expense which could be revalued in consistency with the value of the financial debt. Its reversal would be done on a straight line basis over the lease term.
- The term “significant economic incentive” is too complex as a decision base whether to consider the option to extend or to terminate the lease contract. This results in a broad range of interpretation of the correct lease term. We suggest to replace the term “significant economic incentive” by the term already used in the current standard “reasonably certain” to determine the present obligation of the lease contract. Otherwise the requirements in relation to the lease term can result in the recognition of a liability even though the entity does not have a present obligation.
- The disclosure requirements of lease liabilities are more onerous than those of the non-lease liabilities. If all the leases are accounted in the balance sheet, we suggest to reduce the lease liability disclosures within the ED.

We keep a focus on the amendments of the lease accounting standard as airlines usually have entered in a significant number of lease contracts for aircraft and engines, but also for property. The Airline Industry has very often served as an example, even by IASB members and staff, for structuring their aircraft lease transactions specifically to achieve an off-balance sheet treatment as an operating lease as the desired accounting outcome. We think this is a misinterpretation of our industry practice and the economic drivers of leasing decisions. Therefore, we hope this letter helps to clarify some of the misinterpretations.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us (IAWG@iata.org). We look forward to discussing our concerns with you further.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Aleks Popovich".

Aleks Popovich
Senior Vice President
Financial and Distribution Services
IATA

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

Maren Pollmann-Klein
Chairman
IATA IAWG