

15 December 2010

Sir David Tweedie

Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers) represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 26 member organisations representing more than 14,000 investments professionals. Its Accounting and Financial Analysis Commission represents analysts, fund managers and investment professionals in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

In particular, Financial Analysts have the utmost interest in the Lease Accounting as it has a direct impact on the Financial Statements.

For this reason, our Society, through its Accounting and Financial Analysis Commission has reviewed the ED Leases.

We agree with IASB that Leasing Accounting should be properly addressed, especially when considering the size of the leasing activity (US\$ 640 bn in 2008 according to the World Leasing Yearbook 2010). We are however not convinced that operating leases being not classified within the balance sheet as opposed to finance lease is in itself such a significant drawback. We consider indeed that if there is a difference in the substance of the leases, it should lead to different accounting methods, provided they give a fair view of the economic substance of the lease.

In addition we do not think that the fact that users of financial statements are making adjustments is a convincing argument to include the leases in the balance sheet. It is true that in specific industries (e.g. transportation, lodging...) analysts often restate the companies' financial statements. However we would underline that such adjustments or restatements are only relevant for some industries and not for all companies. And, as far as we know, most analysts are currently rather comfortable with the current information provided by IAS 17. Moreover, as we will explain hereunder, we consider that the proposition of the ED *Leases* is far from being convincing and will not really help users of financial statements when analyzing companies.

While it is true that operating and financial leases are important sources of financing for companies, they concur in different ways to the need of companies to make use of assets in order to perform their business. Assets under financial lease are usually expected to be bought by the company at the end of the lease, which is not the case for those under operating lease. In addition, the duration of operating leases are much shorter; they offer companies the flexibility they need in order to adapt to a potentially fast moving environment which reflects its risk management policy. In an operating leases, the lessor is intended to keep more risks (e.g. value of the assets when returned by the lessee) than in financial leases. Moreover, from a solvability perspective it is not equivalent to use an asset under financial lease or an asset under operating lease. Additionally, in the past, assets were recorded on the balance sheet with the corresponding liabilities. We understand from the IASB proposal that companies would firstly record a liability and then an asset (the "right of use assets") which initially matches the liability ("the right-of-use asset would originally be recorded at the present value of the lease payments"). Such a concept is far from users needs.

In our view, accounting of leases should properly differentiate the difference in economic substance of the various leases. We do not consider that operating lease and financial lease are similar transaction, and therefore we consider that financial lease should be accounted as financial lease and operating lease as operating lease. Financial analysts would be more comfortable would the IASB have taken the route to reduce the potential flexibility the companies may currently have when accounting leases as operating or financial leases.

We are indeed comfortable with the current practice (when applied correctly) which leads assets under financial lease to be recognized on the balance sheet (parallel with the case of a company that bought the assets). In addition we consider that there is some merit of having operating leases (also when applied correctly) to be considered as rentals in P&L. Differentiating the use of such asset between an amortization of a right of use and a financial cost will be considered by a lot of users (those who really work with the numbers to take investment decisions) as an academic concept whereas they understand the operating lease as an operating cost. Hereagain, we stress the need to correctly differentiate financial lease and operating lease, based on their respective purposes and characteristics.

We consider that there should be more information related to operating leases in the notes, including yearly rentals, renewable options, contingent rentals... Such information would help users to assess companies' performance and expected evolution. It should also provide users with the necessary information about companies operating flexibility which in the past proved to be very useful in some cases: we could miss it if the "right of use" approach is retained. The question, is not only what the value of the operating leases is as of today (the company could disclose it in the notes), but what are the companies' expected operating income and cash flows depending on the circumstances.

We understand that some users are interested in having a valuation of the assets under operating lease as well as the related liabilities. We would therefore suggest IASB to require companies to provide this information in the notes, so that such users of financial statements are able to make the necessary adjustments they potentially need.

Users of financial statements we surveyed were uncomfortable with the fact that many other contracts (electricity, sewage, telecom and even personnel...) were in fact very close to some property operating leases. By retaining IASB underlying concept, we would wonder if companies should not record these contracts in the balance sheets, would the Board decide to implement the proposed ED! Such concept would also apply to office rentals which would go far beyond the term of the lease, based on the assumption that at the end of the lease, the company is practically in the obligation to relocate its employees (going concern principle)! The Board will easily understand that such consequences are far from what users are looking for in companies' financial statements.

There is also a general agreement with the dissenting views of Steven Cooper that a company should not capitalise optional leases and all contingent rentals, as it reflects the flexibility the company has sought compared to full ownership or financial leases.

More generally, we consider that the calculation of both assets and liabilities includes a significant level of judgment (discount rate, probabilities of scenarios, estimates of management ...), thus reducing the comparability between companies, which is one of the main qualitative characteristics users are looking for. We also feel that the probability of using an option may change from one period to another, leading to some significant loss of comparability over time and adding volatility to financial statements. In fact, we fear that some of the flexibility between the operating and financing leases may simply be transferred in the assessment of options and other features.

From the users perspective, the proposed accounting of a performance obligation in the lessor's accounts is also counterintuitive, as the same underlying assets will be accounted twice: as a tangible asset but also as an intangible one ("Right to receive lease payments"). A lot of users, who are not accountants and therefore are looking for understandable and robust accounts, will most probably be disturbed by such a complex balance sheet. We would suggest IASB to take into account the necessary education process toward the user community.

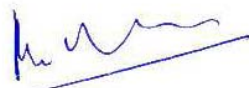
As a conclusion, we consider that the proposed approach which aims at accounting both finance and operating leases under the same accounting methods doesn't prove to be a convenient solution for users of financial statements. It adds some potential judgement in the value of assets and liabilities to be added on the companies' balance sheets, while it doesn't differentiate between the different natures of finance lease as compared to operating lease. We believe IASB would better help users of financial statements by improving the current IAS 17 standard in establishing a more robust frontier between both kind of leases and by improving current disclosure (value of future rentals, disclosure about optional or contingent rentals).

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting and remain available for any further information.

Yours faithfully,



Jacques de Greling
Co-Chairman of Accounting
and Financial Analysis Commission
jdegreling@sfaf.com



Bertrand Allard
Co-Chairman of Accounting
and Financial Analysis Commission
ballard@sfaf.com

SFAF – Société Française des Analystes Financiers

24, rue de Penthièvre

75008 PARIS

France

Tél : +33 (0) 1 56 43 43 10

www.sfaf.com