



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

Geneva, 11 December 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 already sent you a letter on June 30, 2015 on the same topic but we really want to stress this point which will create a huge volatility in our financial statements following the implementation of IFRS 16 Leases.

The IASB decided that lessees should be required to recognize assets and liabilities arising from all leases on the statement of financial position. The model reflects that at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. Therefore, both right and obligations must be recorded on the face of statement of financial position.

Due to the fact that foreign currency measurement is outside of the scope of IFRS 16 we are referring to the current version of IAS 21 "Foreign Exchange Differences" (hereinafter referred to as "IAS 21") to forecast the impact that the new standard might have on a company that operates under foreign currency risks.

In accordance with the requirements of IAS 21:

- 1) A lease liability is a monetary instrument which means that the lease liability should be translated into functional currency at the end of each reporting period while exchange rate difference will be recorded in profit or loss. WHEREAS
- 2) The related lease asset is a non-monetary item. Which means, that it should be translated using the historical rate prevailing at the transaction date. Therefore such assets will not be revaluated and the change in foreign currency would not have any impact on profit or loss.

As a result a significant accounting mismatch arises due to the new lease standard. The mismatch would be extremely material for those businesses which report in national currency and have material foreign currency denominated lease balances.



The IASB started the development of the new lease standard as the old one failed to capture all material information which has a negative impact on decision making processes. Because of the accounting mismatch we believe that the new leasing model does not present the economic substance of the transaction and, thus, some corrections should be added.

The IASB believes that the nature of leasing is to obtain financing in order to get a right to use assets. Under a finance lease almost all risks and rewards related to ownership of the asset under consideration are transferred from a lessor to a lessee. Therefore, finance lease assets are recorded on balance sheet of the lessees. The nature of these assets is similar to those of property plant and equipment. That is the reason that no foreign currency translation is made for finance lease assets.

However, under operating lease contracts assets are rented on much shorter terms and the significant part of risks and rewards associated with the ownership of the asset was not transferred. It means that measurement rules adopted by IAS 16 "Property, plant and equipment" should not be applied to leased assets. In our view under the new standard the lease liability and the lease asset are connected to each other and represent two sides of one transaction. It means that certain changes in lease liabilities should be reflected in the related assets.

In case the value of the liability changes due to exchange rate translation most likely the value of the related assets will reflect the change. If the primary market for an asset is denominated in the same currency as the related lease liability the change in the foreign currency rate will certainly have the same impact on both the assets and the liability.

Therefore, we propose to make further capitalization in case of foreign currency effect on a lease liability. Any foreign currency increase/decrease would be capitalized to the value of the assets and subsequently depreciated along the useful life of the asset or for the period of lease.

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