[Attachment]

14 December 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Sir David,

AOSSG Islamic Finance Working Group comments on
IASB Exposure Draft ED/2010/9 *Leases*

The Asian-Oceanian Standard-Setters Group ("AOSSG") is pleased to provide comments from its Islamic Finance Working Group to IASB ED/2010/9 *Leases*.

Introduction

The AOSSG's Islamic Finance Working Group ("AOSSG IF WG") was set up to provide input and feedback on the adequacy and appropriateness of proposed and existing IFRS to Islamic financial transactions and events. The AOSSG IF WG comprises staff from the standard-setters of Australia, Dubai, Indonesia, Korea, Malaysia, Pakistan, and Saudi Arabia.

The working group had mainly discussed ED/2010/9 in the context of transactions and events based on Ijarah.

The comments are additional to the AOSSG Leases Working Group's comments on IASB ED/2010/9 dated 15 December 2010, and focus only on issues that are specific to Islamic finance. The AOSSG Islamic Finance Working Group had sought comment and feedback from AOSSG members prior to finalising this letter, and has not received any substantial contrary views from AOSSG members.

The working group's comments are accompanied by a brief overview of Ijarah for the reader to better appreciate its many uses, its similarities and differences with leases, and the related accounting issues.

What is Ijarah?

1 Ijarah can be described as a contract of exchange in which a party transfers the usufruct[1][2] of an item to another party in return for a consideration. Ijarah is sometimes referred to as 'Islamic leasing', but this appellation may be somewhat misleading because there are many possible uses for Ijarah, as described below.

Lease

2 Some Ijarah contracts would be straightforwardly and unambiguously leases as it would be understood in conventional finance, for example the conveyance of the right to use of a tangible item such as property, plant or equipment. However, there are Shariah rules that apply to Ijarah that may not necessarily be required of a conventional lease. For example:

(a) *The underlying Ijarah asset and the usufruct transferred must be specified.*

In Ijarah, the asset must be specified. An arrangement where the asset is not specified at inception would not be considered a valid Ijarah contract. The lessee's manner of use and purpose of use must also be specified. In addition the asset and the use of it must not be contrary to Shariah. We note that the guidance given in paragraphs B2-B3 for a specified asset would be congruent with Shariah rules.

(b) *The lessee's use or enjoyment of the usufruct must not alter or diminish the essence of the item.*

The usufruct of an item does not include consumption of the item because it is necessary for a valid contract of Ijarah that the corpus of the leased asset remains in the ownership of the lessor during the lease itself. For example, conventionally, a lessee's lease of a fruit orchard may include the right to consume the fruit therein, but some believe that in Ijarah, the lessee's right to access the orchard may not include a right to consume the fruit, and a sale of fruit from the orchard owner to the lessee would be required. We note the scope exclusion in paragraph 5(b) for leases to use minerals, oil, natural gas and similar non-regenerative resources would be congruent with Shariah rules.

(c) *The lessor has an obligation to maintain the asset for the lessee's use.*

Under the classical rules of Shariah, the lessor must bear the risks associated with permanent impairment (for example, a house under Ijarah being destroyed in an

[1] **u·su·fruct** [yoo-z*oo*-fruhkt, -s*oo*-, yooz-y*oo*-, yoos-] *–noun Roman and Civil Law*. The right of enjoying all the advantages derivable from the use of something that belongs to another, as far as is compatible with the substance of the thing not being destroyed or injured. *Origin:* 1620–30; < LL *ūsūfrūctus,* equiv. to L *ūsū,* abl. of *ūsus* (use (n.)) + *frūctus* (fruit)
(Source: "usufruct", *Dictionary.com Unabridged*, Random House, Inc. Available on http://dictionary.reference.com/browse/usufruct, accessed 2 December 2010.)

[2] For the purposes of this letter, the words "usufruct" and "right-to-use" are used interchangeably.

earthquake); and, in the case of such impairment, the lessor must either offer the client a similar asset to use for the remainder of the contract or refund part of the lease rental. The lessor must also bear major repair costs. There are differing views as to whether these responsibilities can be transferred in whole or in part to the lessee.

Service

3 Ijarah can be used to engage for services such as maintenance, consultancy, etc. as well as services ancillary to a lease of an item.

Employment

4 Linguistically, payment of wages to a person for their employment could also be deemed Ijarah.

Intangible rights

5 The underlying asset need not necessarily be something that is tangible. Ijarah can also be used to convey the right to a patent, copyright, trademark or other rights over a period in return for consideration.

Ijarah Muntahia Bittamleek (Ijarah ending with ownership)

6 Ijarah Muntahia Bittamleek (sometimes referred to as Ijarah Wa Iqtina) is Ijarah accompanied by an arrangement to convey ownership of the asset to the lessee by, or at, the end of the lease. In some jurisdictions, the arrangement may be similar to a hire purchase transaction where title passes to the lessee at the end of the hire with only some minimal formality. However, not all Shariah scholars agree with this method of conveying ownership because of a Shariah prohibition that two agreements, e.g. hire and purchase, cannot take place within one contract. The Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") in its Financial Accounting Standard 8 (FAS 8) *Ijarah and Ijarah Muntahia Bittamleek* recommends the following four ways to transfer ownership of an asset in Ijarah Muntahia Bittamleek:

(a) Transfer through gift

(b) Transfer through sale for a token consideration or other amount as specified in the lease

(c) Transfer through sale prior to the end of the lease term for a price equivalent to the remaining Ijarah instalments

(d) Transfer through gradual sale of the leased asset

It may be noted that at the inception of the Ijarah, the arrangement to transfer ownership is not contractual, but usually takes a form of *wa'd*, or a unilateral promise – either the lessor would promise to sell the underlying asset to the lessee, or the lessee would promise to buy the underlying asset from the lessor. Although some question whether *wa'd* creates a legal obligation in the way conventional options do, the majority view is that it does in circumstances where the promisee would suffer loss as a result of failure to fulfil the promise. At the very least, it could be said that there would be a constructive obligation on the part of the promisor.

7 Ijarah Muntahia Bittamleek may be used to approximate what in the conventional world would be financing transactions. For example, in a car financing or a mortgage, the bank may buy the asset and lease it to the customer, with an option for the customer to buy it in one of the ways set out above.

8 In jurisdictions that follow an AAOIFI financial reporting framework, the Ijarah and the transfer of ownership are accounted for as separate transactions, and are not deemed as linked transactions. Thus, Ijarah Muntahia Bittamleek may not be deemed to be an in-substance sale or purchase of the underlying asset. [See paragraph 46, *'AAOIFI requirements'* for further explanation.] Moreover, the current drafting of the ED may also result in some Ijarah Muntahia Bittamleek not being recognised as a sale or purchase, despite the fact that it is an arrangement to transfer ownership by or at the end of the lease. [See paragraphs 24-29 for further explanation.]

Sukuk Ijarah

9 Sukuk is the plural of sakk, which is Arabic for a legal document, cheque, or deed. In current usage, sukuk commonly refers to a financial instrument that purportedly represents a proportional ownership in an asset or business venture along with the cash flows and risks associated with that ownership. Sukuk is often likened to bonds or securitisation, and can either be asset-backed or 'asset-based', i.e. the cash flows are referenced to an underlying asset but the sukukholder does not have recourse to the underlying asset.

10 In accordance with Shariah requirements, sukuk must be based on permissible contracts. AAOIFI describes 14 types of sukuk structures, one of which is Sukuk Ijarah. There are variations among individual structures, but the basic mechanism of Sukuk Ijarah involves an entity selling an asset through a special purpose entity ("SPE"), which in turn would collect the sale proceeds from investors, and issue sukuk to represent the investors' proportional ownership in the asset. The asset is then Ijarah to the originating entity, and the investors, called 'sukukholders', would receive periodic Ijarah rentals. Note that in some cases the asset transferred may itself be a usufruct, and it may be possible for Sukuk Ijarah to take the form of a long lease and a shorter leaseback. For example, an originator may grant a 50-year lease to the SPE, and then take a 5-year lease from the SPE. At the end of the sale and leaseback

(or lease and leaseback), the originating entity would repurchase the asset from the sukukholders.

11 In a typical Sukuk Ijarah structure, the basic Ijarah contract is supplemented by several other contracts which enable the economic substance to approximate more closely to a conventional bond. A recent manual on sukuk structuring indicates 5 additional agreements that would normally be present, in addition to those required to establish a trust structure for the SPE.

Accounting issues relating to Ijarah

12 This ED is an important one from the standpoint of Islamic finance, because of the frequent use within Islamic finance of the Ijarah contract. As explained in earlier paragraphs, the concept of Ijarah is wider than that of leasing and can, for example, be applied to contracts for service and employment. The ED therefore appears to apply only to a subset of Ijarah contracts.

13 However, due the current drafting of the ED, there are some Ijarah transactions – in particular, Ijarah Muntahia Bittamleek - for which clarification is needed as to how they would be treated under the ED. In answering the questions posed in the ED, the working group had focused primarily on issues specific to Islamic finance, and our answers comprise explanations of those issues.

Q1: Lessees

14 The ED's requirement for a lessee to recognise a right-of-use asset and a liability to make lease payments would more appropriately reflect the rights and obligations of a lessee in Ijarah.

15 The current IAS 17's 'bright line' distinction between operating and finance leases has caused much consternation among preparers, users and standard-setters involved in Islamic finance. The finance lease classification was largely thought to be inappropriate for Ijarah because it would ignore the lessor's ownership of the underlying asset and the obligations related to that ownership, as well as being presented similar to interest-based borrowings. Thus some in the industry had preferred to classify Ijarah as operating leases to give cognisance to the lessor's retention of ownership. However, the operating lease classification had the unwanted effect of ignoring the lessee's right-of-use, which under Shariah would be an asset in itself; as well as obscuring the lessee's obligation for making lease payments. In addition, the presence of side agreements to a base Ijarah contract meant that many transactions, when considered as a whole, hover close to the boundary between operating and finance leases, forcing judgement calls as to their treatment. The ED is thus helpful in removing the distinction between a finance lease and an operating

lease, which has been a source of difficulty in Islamic finance, and introducing a single lease accounting model.

16 The working group has no objection to the lessee amortising the right-to-use asset. However, there may be some resistance by some to the recognition of 'interest' on the liability to make lease payments. We believe that some may prefer to present an item of 'pure rental' without reference to any interest rate. Others have suggested the use of more congenial terminology in describing references to rates of return.

Q2: Lessors

17 Under the classical rules of Ijarah, the lessor would have a duty to maintain the usufruct of the asset for the benefit of the lessee. This would include responsibility for major maintenance, and for replacing the asset if it could not provide the usufruct contracted to the lessee. These obligations could be regarded as evidence of the lessor retaining "exposure to significant risks and benefits associated with the underlying asset".

18 In some jurisdictions it may be possible to vary the classical terms of an Ijarah contract such that costs related to responsibilities usually held by the lessor are instead paid for by the lessee. For example, the Shariah Advisory Council of Bank Negara Malaysia ("BNM SAC") allows this arrangement on the basis that:

(a) a lessee may pay for such costs on behalf of the lessor, and subsequently these costs would be deducted from the selling price when the underlying asset is sold to the lessee at the end of the Ijarah (i.e. in an Ijarah Muntahia Bittamleek contract); and

(b) it is permissible for a contracting party to waive the other's obligations towards the first party, where there is mutual agreement.

Moreover, from a consumer viewpoint, this results in cheaper pricing. In these circumstances, one could clearly conclude that the lessor has transferred all significant risks or benefits associated with the underlying asset to the lessee. Most Middle Eastern jurisdictions, however, would not permit the classical terms to be varied in this way, and they may be adjudged to retain significant exposure in the terms of B22-B27 of the ED.

19 However, some lessor entities may take on the responsibility for maintenance of the underlying asset but factor in the expected costs into the rental rates or, in the case of Ijarah Muntahia Bittamleek, into the sale price at the end of the Ijarah. Staff of the Malaysian Accounting Standards Board ("MASB") believe that passing on the costs to the lessee may be an indirect transfer of risks and rewards from the lessor to the lessee. Staff of the Dubai Financial Services Authority (DFSA"), however, do not believe that charging higher rental or a higher purchase price represents a transfer of

risks and rewards - rather it is compensation for retaining them - unless the higher price is explicitly linked to the costs actually incurred.

20 It seems that while the ED has succeeded in a more appropriate treatment for Ijarah lessees from a Shariah perspective, the proposed treatment for lessors has received a mixed reception. Some industry practitioners have lauded the IASB's proposed two approaches for lessor accounting. We note that their reasoning is somewhat similar to paragraphs BC25 and BC27 of the ED's Basis for Conclusions.

21 Working group members believe that there is merit in applying a single approach to lessor rather than introduce a new area of subjective judgement about how far risks and rewards have actually been transferred. Not only has the ED has not removed the 'bright line' distinction of whether a lessor's risks and rewards have been transferred, it has also substituted the examples and indicators in paragraphs 10-11 of IAS 17 for making that distinction with new factors in paragraphs B22-B27 that may result in markedly different conclusions as to whether a lessor has retained significant risks and rewards.

22 Moreover, for many of the Ijarah contracts where the lessor transfers risks and rewards, they are likely to be classified as sales. This means that there will be relatively few contracts to which the derecognition approach would apply. Thus, there is some debate within the industry as to whether the derecognition approach is worth retaining. Some, as described in paragraph 20, believe there is a sufficient difference in economic substance to justify maintaining two different lessor accounting treatments. Others believe that there is merit in applying a single approach to lessor accounting rather than introduce a new area of subjective judgement about how far risks and rewards have actually been transferred. On balance, working group members prefer the second position, which will allow a greater degree of comparability.

Q3: Short-term leases

23 [The working group has not identified any issues specific to Islamic finance to date.]

Q4: Definition of a lease

24 The definition of a lease given in the ED accords with the usual description of Ijarah. However, paragraph 8 and the Application Guidance would mean that some types of Ijarah would fall within the scope of the ED, and others, such as Ijarah for employment, would not. There are also some Ijarah contracts for which the case requires further clarification – in particular, Ijarah Muntahia Bittamleek.

25 Ijarah Muntahia Bittamleek is Ijarah accompanied by an arrangement to transfer ownership of the underlying asset by or at the end of the lease. If such a transaction is

to be construed as a contract that represents, in substance, a purchase or sale of an underlying asset, instead of a lease, then the current wordings of paragraph 8 and paragraphs B9-B10 may not effectively convey that point.

26 Paragraphs 8 and B9 characterises a contract that represents a purchase or sale as one where "all but a trivial amount of the risks and benefits" are transferred to another entity. In many Ijarah Muntahia Bittamleek transactions, the lessor would bear much of the maintenance costs, insurance etc related to the underlying asset throughout the Ijarah period, thus the risk and rewards remaining with the lessor are far from 'trivial'.

27 We note that paragraph B10 requires an entity to consider all relevant facts and circumstances when determining whether control of an underlying asset is transferred. However, paragraph B10 also states that control is transferred when the contract:

(a) automatically transfers title to the underlying asset at the end of the contract term; or

(b) includes a bargain purchase option

In Ijarah Muntahia Bittamleek, there are five ways to convey ownership in the underlying asset – none of which is 'automatic' but would require formally entering into a sale and purchase contract, or at the very least some formalities related to transfer of title. Additionally, in at least two of the five methods of transfer, the sale is not transacted at a 'bargain' price, but the cash flows from the Ijarah and sales transactions as a whole amounts to substantially all of the fair value of the leased asset. Thus, paragraph B10, as currently worded may allow some Ijarah Muntahia Bittamleek contracts to be within the scope of this ED, instead of another more appropriate standard e.g. as a sale under IAS 18 or financing under IAS 39 / IFRS 9.

28 In this instance, the wording of the current paragraphs 10(a) and 10(d) of IAS 17 for a finance lease may be better than the wordings of paragraph B10 to describe a transaction which is, in substance, a sale and purchase, i.e.

- "the lease transfers ownership of the asset to the lessee by the end of the lease term"; and
- "at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset".

29 We thus consider that many transactions based on Ijarah, but used to finance a purchase, ought under the ED to be treated as contracts of sale. However, the main point in the present context is that this is likely to give rise to many difficult judgement calls on the extent to which risks have been transferred. We should, at minimum, like to see much more guidance on how such calls should be made. Additionally, however, their treatment under the revenue standard is likely to pose a number of questions for that standard. As with other Islamic contracts, decomposition into a sale and a financing component will be unacceptable to some, and there will be

issues about the timing of revenue recognition. We hope to offer further comments on this in due course.

Q5: Scope exclusions

30 As mentioned in paragraph 2(b) above, the exclusion of leases to use minerals, oil, natural gas and similar non-regenerative resources in paragraph 5(b) would be congruent with Shariah rules on Ijarah.

Q6: Contracts that contain service components and lease components

31 [The working group has not identified any issues specific to Islamic finance to date.]

Q7: Purchase options

32 The ED proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase when the purchase option is exercised. This may be problematic for Ijarah Muntahia Bittamleek arrangements where there is a 'gradual sale and purchase' of the underlying asset. Should the contract be further stratified into individual sub-contracts of leases and sales and purchases?

33 An additional, though secondary, issue is how to account for the options for early termination within such a contract. This will be most significant where the contract is used to approximate a conventional mortgage, because it is quite likely that over the period the client will opt to move house, and therefore exercise the option. However, to assess the period over which the contract is more likely than not to run implies taking a view on residential (or commercial) mobility over, say, a 20-year period. The practicality of this is arguable.

Q8: Lease term

34 [The working group has not identified any issues specific to Islamic finance to date.]

Q9: Lease payments

35 [The working group has not identified any issues specific to Islamic finance to date.]

Q10: Reassessment

36 [The working group has not identified any issues specific to Islamic finance to date.]

Q11: Sale and leaseback

37 Sukuk Ijarah commonly takes the form of a sale and leaseback and would therefore be treated in accordance with paragraphs 66-69 of the ED. They are often accompanied by a repurchase agreement. Most such transfers will not meet the conditions for being treated as a sale. (See in particular paragraph B31 of the ED.) The transferor must therefore account for the contract as a financing and may not derecognise the asset. This is entirely justifiable in terms of the economic substance of the transaction, and in such an example, involving multiple contracts, it would be very difficult to argue for a "form over substance" approach in which each of these contracts is treated separately.

38 As mentioned in paragraph 10, some sukuk transactions take the form of a (long) lease and (shorter) leaseback. The ED should be extended to deal with such transactions. In principle, there is no reason why these too should not be treated as financings, and it would be anomalous if that were not the case.

Q12: Statement of financial position

39 Some would prefer presenting a lessee's right-of-use asset as an item of intangible asset. Although not accounting in nature, classical *fiqh* texts do discuss the differences between ownership of usufruct and ownership of tangible items.

Q13: Statement of comprehensive income

40 [The working group has not identified any issues specific to Islamic finance to date.]

Q14: Statement of cash flows

41 The requirement in paragraph 27 of the ED for a lessee to classify cash payments for leases as financing activities may be inappropriate as it would mean that payments for office equipment which are clearly to support the day-to-day operations of an entity would be confused with financing payments for e.g. business expansion, etc. It may be better if the lease payments are classified according to what the item is used for, therefore not eliminating the possibility of classifying the lease as an operating activity.

Q15: Disclosure

42 [The working group has not identified any issues specific to Islamic finance to date.]

Q16: Transition

43 [The working group has not identified any issues specific to Islamic finance to date.]

Q17: Benefits and costs

44 [The working group has not identified any issues specific to Islamic finance to date.]

Q18: Other comments

Terminology

45 The language applied to the ED uses terms like 'effective interest' which will be problematic in Islamic finance. We note the much more inclusive language of ED/2010/8 *Insurance Contracts*, in which that ED's paragraph 31 refers to a discount rate which shall reflect "the yield curve in the appropriate currency for instruments that expose the holder to no or negligible credit risk."

AAOIFI requirements

46 We would like to highlight to the IASB that the ED's proposals are significantly different from the requirements of AAOIFI accounting standards in which all Ijarah are treated as operating leases. Moreover, AAOIFI requires Ijarah Muntahia Bittamleek to be accounted for as separate transactions of an operating lease followed by a disposal, the accounting treatment of which would depend on the mechanism of transferring ownership, as follows:

Transfer through gift	"Leased assets shall be depreciated according to the lessor's normal depreciation policy for similar asset. However, no residual valued of leased assets shall be subtracted in determining the depreciable cost of these assets since they are to be transferred to the lessee as a gift." [AAOIFI FAS 8, paragraph 27]
Transfer through sale for a token consideration or other amount as specified in the lease	"…The consideration for the transfer of title in a leased asset at the conclusion of a lease (i.e., the asset's residual value to the lessor) shall be subtracted in determining the depreciable cost of these assets. "[AAOIFI FAS 8, paragraph 34]
Transfer through sale prior to the end of the lease term for a price	"Legal title shall pass to the lessee when he buys the leased assets prior to the end of the lease term for a price that is equivalent to the remaining Ijarah instalments and the lessor shall recognize any gain or loss resulting from the difference between the selling price and the net book value. [AAOIFI

equivalent to the remaining Ijarah instalments	FAS 8, paragraph 44]
Transfer through gradual sale of the leased asset	"The book value of the sold portion of the asset shall be removed from the leased assets account and the lessor shall recognise in its income statement any gain or loss resulting from the difference between the selling price and the net book value." [AAOIFI FAS 8, paragraph 49] "Upon the full payment of both the Ijarah instalments and the price of the purchased portion of the leased assets, all Ijarah related accounts shall be closed." [AAOIFI FAS 8, paragraph 52]

Treatment for Ijarah Muntahia Bittamleek

47 In an ideal world, we would propose a treatment of Ijarah Muntahia Bittamleek and similar transactions which would go back to first principles and analyse the cash flows and the uncertainties associated with them, and propose a treatment which does not depend on decomposition into conventional contracts. This would also deal with the issues on the revenue standard. We should be prepared to assist the IASB in producing such a treatment if it so wished.

Guidance in SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

48 We note the ED proposes to supersede SIC-27 once the lease standard is issued. However, much of the guidance in SIC-27 may be useful in deriving at the appropriate accounting treatment for Ijarah Muntahia Bittamleek and Sukuk Ijarah - in particular, its consensus in paragraph 3 that:

> *"A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence."*

The guidance would assist in determining whether an Ijarah transaction, or an arrangement which includes an Ijarah transaction, would meet the definition of a lease and fall within the scope of a standard on leases, or otherwise, e.g. a sale within IAS 18, or a financial instrument within IAS39/IFRS 9. As such we would like the IASB to consider retaining SIC-27, or transfer its guidance into the eventual lease standard.

Regulatory requirements

49 Many Ijarah lessors are financial institutions, which are subject to capital adequacy requirements. If the financial institution is deemed to have retained significant risks and rewards, the ED proposes applying the performance obligation approach, and it may not be able to derecognise the assets in question. This may have highly adverse effects on their capital adequacy treatment. However, many of the leases in question would probably, under the ED, be treated as sales. The issues which this raises are dealt with under Q4.

Conclusion

50 We hope the IASB would give due consideration to all the points raised in this comment letter. However, in summary, the two main issues where we would like to see substantial improvements on are as follows:

Distinguishing between a lease and a purchase or sale

51 Given the specificities of Ijarah Muntahia Bittamleek, we urge the IASB to reconsider the guidance given in paragraphs B9-B10 for distinguishing between a lease and a sale or purchase of the underlying asset, because as currently drafted, some Ijarah Muntahia Bittamleek transactions may not be classified as a sale or purchase, even though the economic effect of the transaction is to eventually transfer ownership to the lessee.

52 We also urge the IASB to reconsider the parallel guidance in paragraph B31 on when a transaction should be dealt with as a purchase or sale, rather than a lease.

Lessor accounting

53 With regards to lessor accounting, we would like the IASB to reconsider whether it is necessary to have two lessor accounting approaches which would depend on the transfer of risk and rewards, because retaining the 'bright line' distinction would require subjective judgement which would not improve comparability, and is not congruent with the objective of a single lease accounting model. Moreover, given that many Ijarah that transfer risks and rewards to the lessee may be in substance sales, maintaining the derecognition approach may be superfluous.

54 However, if the IASB decides to maintain two lessor accounting approaches, we would like the IASB to consider whether the indicators and examples currently given in paragraphs 10-11 of IAS 17 may be more appropriate than the guidance given in paragraphs B22-B27 of the ED in determining whether a lessor has transferred significant risks and rewards.

55 Additionally, since there was not much discussion of lessor accounting in IASB's earlier documents on leases, and it is only in this ED that the specificities are detailed to readers for the first time, we would like to propose that further discussions be held with constituents on the matter before the IASB arrives at a conclusion.

We thank you for this opportunity to express our concerns, and hope that you would give due consideration to our comments. The Working Group would be pleased to assist the IASB in considering these matters, and if you have any queries regarding this submission, please feel free to contact us.

Yours sincerely,

Mohammad Faiz Azmi
Leader of the AOSSG Islamic Finance Working Group