

EFFECTS OF THE CHANGE IN SPANISH ACCOUNTING REGULATIONS CONCEPTUAL CHANGES IN LEASE ACCOUNTING : REGULATORY AND ACADEMIC CHALLENGES

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Abstract

The main objective of this work is to demonstrate that the positioning of accounting standard setters and that of pressure groups is consistent with the Theory of the Ideology of regulation and the Positive Theory of Accounting of economic effects , respectively. However , contrary to previous lobbying literature , we argue that in an international context and after years *of* experience _ With the International Financial Reporting Standards (IFRS), all agents, and not just the *standard* setters , use conceptual and technical aspects , since interest groups , mainly preparers , plan to make their lobbying activity more effective . For this analysis we have chosen the current project to modify the regulation of accounting for the leases and we have analyzed the comment letters submitted. The results of this analysis are consistent with the theories regarding positioning and in turn reflect an interested use of the conceptual framework to put forward the arguments. We also show in detail the controversy that this proposal for change entails and we raise the challenge that this represents for accounting research.

Introduction

The adoption of International Financial Reporting Standards (IFRS) in Europe and many other countries, together with the convergence project (now questioned) of the International Accounting *Standards Board* (IASB) and the Financial Accounting *Standards Board* (FASB), has especially highlighted that the accounting *regulation* process is a " political process " in which the different agents They may have conflicting interests and whose complexity increases significantly in a multi-jurisdictional environment. The economic effects of a regulatory change that is applied in diverse institutional environments and for contexts for which the regulations are not intended (for example, for entities unlisted, other macroprudential contracts, taxes, dividends) represent in certain cases an additional incentive for the active participation of the different interest groups in order to pressure the regulator. In this process of international accounting standardization, the requirement for the accounting regulator to justify its political and technical legitimacy is greater than in a national context.

Thus, to understand the behaviors of both the accounting regulator and the pressure groups when a standard or regulatory change is issued , it is convenient to frame both behaviors in theories that support it.

In this work we assume that accounting regulation fits with the so - called Theory of Regulation Ideology, according to which regulators are not infallible but they are not subject to manipulation by interest groups either . Likewise, to explain the behavior of pressure groups we assume the Positive Theory of Accounting, according to which regulatory changes have economic effects that imply an impact on other contracts that, if they do not adjust to the change, give rise to negative effects. intentional and redistribution of wealth between different agents.

The main objective of this work is to demonstrate that all participants in the regulatory process , both the accounting regulator and the interest groups , behave as predicted by

the theories on which we are based (that of ideology for the regulator and the positive one for pressure groups). However , everyone tries to legitimize their positions by supporting them in conceptual and technical aspects. While previous literature on lobbying argues and demonstrates that , if negatively affected , interest groups fundamentally use the unintended effects of the norm to *oppose* In this work we propose that in this international context and after years of learning they mostly resort to conceptual and technical arguments related to the conceptual framework.

We have chosen the current project to modify the lease accounting standard for several reasons. Firstly , it is a particularly suitable setting to study this phenomenon, since the conceptual framework is subject to strong tension in its interpretation . Secondly, because the proposed changes, specifically the recognition in the balance sheet of all lease contracts (whether financial or operational according to IAS 17), undoubtedly have potential unintended effects given the foreseeable impact on profitability and especially on the debt ratio and, to a greater or lesser extent, they affect companies in all sectors of activity. Thirdly , due to its potential impact on unlisted entities or national regulations. Specifically in the case of the Spanish General Accounting Plan (PGC) , although the Institute of Accounting and Audit of Accounts (ICAC) ~~has~~ not has expressed no intention of transferring this proposal to Spanish regulations , and consequently to unlisted entities , the ~~the~~ ^{this} is that the policy of emulating IFRS that has been followed in Spain is now _ _ _ _ _ in a situation the least complex if you want to maintain the coherence of the established system. We are going to focus solely and exclusively on the tenant 's accounting . In fact, the landlord 's accounting is not developed in the initial proposal , and although proposals are made later in subsequent drafts , it finally seems that it will not be subject to change . In reality, it is the tenant's accounting that is the main source of controversy.

We have analyzed in detail the comment letters to the regulators (IASB and FASB) . The results of this analysis are consistent with the hypotheses. The regulators argue their

proposal based on the " public interest " in terms of increasing the relevance and comparability of information for investors ,and use the conceptual framework to support their proposals. At the same time , the positions defended by the largest pressure group , the preparers, are consistent with positive research in accounting that has shown that they try to defend their interests based on the economic effects of the standard. , and they use conceptual arguments to hide and consequently make their lobbying activity more effective .

We also intend to add reflections to the debate on the role that academics and accounting research could play in this context .

The structure of the work is as follows: in the second section we present the theories that underlie our hypothesis. In the third section we present the general characteristics of the proposal on lease accounting and outline the general problems analyzed to date in relation to the economic effects of the capitalization of these contracts . In the fourth section we show our contrast analysis selecting certain aspects of the proposal and the arguments put forward for and against them by the IASB and the detractors (generally the preparers of the information) . Finally, in the fifth section we present the conclusions and final reflections of the work.

The Theory of Regulation Ideology and the Positive Theory of Accounting . Hypotheses about the behavior of agents

The literature on regulatory processes in general has developed 3 fundamental theories regarding the existence and consequences of regulation: The Public Interest Theory , the Capture Theory and the Ideology Theory . The Public Interest Theory describes regulation as a socially efficient response to inefficiencies or market failures (monopolies, externalities , information asymmetry and excess competition). This theory shows the regulator as " incorruptible and infallible."» , and in its purest form it would give little room for pressure measures based on particular interests, which is

evident that does not happen in practice in the accounting regulation process . Capture Theory , on the contrary , predicts that regulators are politicians subject to pressure groups of a process . _ _ _ politician whose interest is to maintain power . As Dal Bo (2006) points out , empirical evidence does not generally support that this is the behavior of regulators in practice (since in fact the market would not trust these norms) Finally, the Theory of Ideology maintains that the process is a combination of the previous ones. The Regulators act as if they believe that their behavior falls within the Public Interest Theory , and consider that interest group pressures are actually “ information ” about the effects of their proposals . _ _ _ But the reality is that they are subjected to pressure of the different interest groups that often lead them to seek consensus positions . According to Kothari et al. (2011) , accounting regulation seems to fit perfectly into this theory.

On the other hand, already in 1979 Watts and Zimmerman (1979) argued that in a regulation process, interest groups demand accounting procedures that justify their own interests in wealth transfer. However , as these authors point out , uninformed " voters " are not going to support actions whose objective is to serve the interests of others , Therefore , the proposals most likely to be finally accepted in the process will be those that persuade those uninformed " voters " that they are of " public interest . " Watts and Zimmerman (1979) assure that the Positive Theory of Accounting adjusts better to reality than the utility paradigm, focused on relevance of information for investment and basically defended in the conceptual framework . Also other authors, such as Zeff (1978) , Dopuch and Sunder (1980) and Peasnell (1982) , argue that the conceptual framework cannot resolve conflicts between interest groups , that regulators reinterpret concepts based on economic consequences and that the framework _ conceptual is used as an "excuse"to legitimize this defense of interests. In reality, the existence of the conceptual framework of financial information , as pointed out by C a ñibano and Gonzalo (1997) , has always been

justified by a double aspect , one theoretical and the other operational. In principle, it is argued that the conceptual framework makes the issuance of standards easier and more operational by establishing foundations that delimit the rules that are derived from them, allowing greater coherence, avoiding contradictions and following a logical deductive itinerary (Tua , 2006) .

In this sense, Watts and Zimmerman (1986) established the foundations for a type of research that has been very prolific and is based on the motivations of preparers (also applicable to other interest groups) for the choice or preferences of accounting methods. These are based on the transfer of wealth that occurs between the parties when individual contracts or collective, are based on accounting figures. Thus, the hypotheses of compensation plans, debt contracts, political costs, among others, have been the subject of empirical testing by numerous researchers.

As recent works point out , the taxonomy of economic effects of a regulatory change that could potentially be considered is very broad (see Haller et al ., 2012) . For the purpose of this study we highlight that, from the regulator's point of view, effects can be divided into intended and unintended. " Intended " effects are those that the standard or regulatory change aims to obtain and are directly related to a potential increase in relevance, reliability and/or comparability . of information , which can in turn lead to greater efficiency in the allocation of resources in the markets, which would make accounting regulation fit into the Theory of the Public Interest . In the second case, The " unintended " effects would be those that go beyond the potential increase in the quality of accounting information for investor decision making , and would be related to the fact that there are many individual contracts (among others, debt contracts , management compensation) or collective (such as regulations on taxes, dividend distribution , prudential regulations, etc.) that are based in the accounting figures. According to the Positive Theory, a regulatory change that affects the recognition or valuation, if said contracts remain unchanged, undoubtedly produces indirect effects that may involve a

transfer of wealth between different agents. These effects would be those that fit into the Capture Theory, and we refer to these " unintended " effects when we talk about economic effects in this work.

Furthermore , it should be noted that the consequences of accounting changes are ~~complicated~~ in the current global context . _ _ As Wysocki (2011) points at, in countries with different institutional contexts , any regulatory change with the potential to improve the quality of information can have different practical consequences . It is essential to understand the interaction between these institutional factors and accounting to realize that even the effect

" Intentional " may vary depending on the jurisdiction in which the standard applies. In fact, as Kvaal and Nobes (2012) show , national biases have largely remained in Europe after the adoption of IFRS . The evidence shows that, in and of themselves , the unintended economic effects of a regulatory change can affect the application of the standards by the companies. Thus, the fact that unintended effects may vary between different jurisdictions due to different contexts may affect the final comparability of the information between countries (or between sectors).

In fact, the IASB's leadership in the international accounting standardization process bases its legitimacy on 3 pillars. On the one hand, in an *institutional legitimacy* that was reinforced with the modifications of the constitution and the government structure to try to signal the independence of the body in charge of issuing standards with respect to the technical competence of its members .On the other hand, the IASB seeks the *political legitimacy* , based on a pre-established norm - issuing process , which opens spaces for the participation of interested parties (Kenny and Larson, 1995 , citing the Institutional Theory of Meyer and Rowan, 1977); To the extent that this is more numerous, the legitimacy of the norms is higher (Leuz, Pfaff and Hopwood, 2004; Durocher and Fortin, 2011; Jorissen, Lybaert, Orens and van der Tas, 2010; Giner and Arce, 2012; Richardson & Eberlein, 2011

and Jorissen, Lybaert, Orens , & van der Tas, 2013). The « *due process* » of the IASB (and other bodies such as the FASB, the *European Financial Reporting Advisory Group* [EFRAG] and many other national ones) allows the active participation of interest groups by sending comment letters. The IASB also has advisory bodies in which all interest groups participate , in addition to having promoted in certain projects the organization of events where the opinion of groups less inclined to participate in the process can be heard . « *due process* » , for example, users (Larson, 2007; Jorissen et al., 2010; Durocher and Gendron, 2011) .

But in addition to this institutional and political legitimacy , the third pillar is *technical legitimacy* , also called substantial legitimacy by Burlaud and Colasse (2011) , and through it the IASB seeks regulatory consistency with the conceptual framework . The regulatory model follows a logical deductive itinerary in which the definitions, recognition and measurement criteria , interpreted in the light of the characteristics that the financial information must present, justify the usefulness of the information prepared in accordance with the standards issued or modified.

On the other hand, the process of pressure from interest groups (*lobbying*) on regulatory bodies is a phenomenon that has been analyzed by accounting literature . Although lobbying methods are diverse and complex , and most of them are not directly observable (Young, 1994 ; Weetman, 2001; Broadbet and Laughlin, 2005), *precisely* The analysis of the comment letters sent to regulators, with different perspectives and methodologies, allows us to conclude about the behavior of the different pressure groups and contrast various hypotheses.

Our hypothesis is that the international accounting regulation process effectively fits into the Theory of Ideology , according to which the regulator acts with the conviction that it does so based on the public interest , and that it bases its arguments in defense of its position on aspects conceptual and technical concepts potentially supported by the conceptual framework . Likewise, our hypothesis is that

the preparers of the information act in accordance with the prediction of the Positive Theory of Accounting , although in order to be more effective before an organization that acts in the public interest, they will also use conceptual arguments to defend their positions. This allows us to test the hypothesis that normative concepts can be used as an " excuse " ,both to endorse the decisions of regulators and to safeguard the particular interests of pressure groups.

The accounting regulation of lease contracts: the IASB proposal

Motivation of the regulator and technical aspect of the proposal

Both the US regulations and those of the then IASC established the distinction between operating and financial leases and the capitalization of the latter in 1978 and 1982, respectively (SFAS 13 and IAS 17). This change was due to the controversy over not recognizing, due to not having formal ownership, certain assets and especially debts from lease contracts , which like any execution contract were recognized as services when in reality they were " purchases in substance . " financed. However, the regulatory itinerary for leasing reached a turning point when the *Securities & Exchange Commission* (SEC, 2003) issues its document of analysis on accounting regulation after the Enron scandal. The debate raised by the SEC revolves around the negative consequences that arise from rules - based accounting standards , such as the one that establishes the dividing line between operating and financial lease contracts in US regulations (FAS 13) . The positioning of the SEC, together with the interest that the G4 +1 had expressed in addressing the reform of the treatment of these contracts, led the IASB in 2006 to include in its agenda the reform of the leasing standard under a different approach than that governed by the current IAS 17 . .

In 2009, a Discussion Paper (DP) was issued (IASB, 2009) in which the lines of the

current proposed reform are outlined, although analyzing possible options and some disparity in criteria between the IASB and the FASB , but which coincide in criticize the current regulations that distinguish between operating leases and financial leases for: a) the non-recognition in the balance sheet of resources and obligations arising as a consequence of the lease contract ; b) the inconsistency represented by 2 different accounting models for similar transactions , and c) the possibility of structuring the operations to achieve the desired classification; as well as other arguments supported by the cost-benefit restriction, such as the difficulty associated with drawing the distinction between one type of lease and the other (IASB, 2009). Basically, the discussion paper focuses on tenant accounting, and Despite the barrage of criticism that the model received , the IASB issued a draft Standard in 2010 (IASB, 2010a) in which it reiterated the " right of use " model and developed the proposal for the lessor . Finally, after a period of deliberations on specific aspects , the 2013 draft is issued , in which the The general conceptual bases of the proposal are maintained, while in subsequent redeliberations it is decided not to finally address the lessor's accounting.

The main novelty that emerges from the DP (IASB, 2009) with respect to the current IAS 17 is , therefore, the disappearance of the classification of operating and financial leases in the accounting of the lessee. The consequence of ~~his~~ decision is that all leases, except those with a duration of less than one year or for reasons cost-benefit ratio , give rise to the recognition in the balance sheet of the corresponding rights (right of use) and obligations determined by the contract.

The initial value of these assets and liabilities is the current value of the future installments, including contingent installments and renewal options (initially the DP excludes purchase options) that have been established in the contract. Both renewal options and contingent payments, whether related to the ~~prime~~ use of the asset (production , sales , benefits , etc.) or with indices (inflation, interest rates, etc.), they must be estimated based on the expected value. The subsequent valuation of all leases (without

distinction) involves the recognition of an operating expense for the amortization of the intangible asset (generally linear) and a financial expense for the remuneration of the liability, which will be decreasing based on the cancellations of the lease . the same as those produced with the payment of fees . The real estate investments that use the fair value option in their subsequent measurement They are excluded from the rental regulations.

In the period of deliberations after the issuance of the DP (IASB, 2009) until reaching the second draft in 2013 (IASB, 2013a) , some significant changes have been proposed . So, for example,

In the initial valuation, contingent payments related to the « use » of the asset are excluded, unless they are fixed payments in substance , and only those that depend on indices or rates ¹ and that, therefore , are independent of the will of the tenant. Renewal and purchase options are included in the initial value if there are financial incentives _ _ to renew or buy. This draft of the standard, in the face of pressure from property lessees , proposes that leases be classified based on the level of consumption of the leased asset for the purposes of its impact on the income statement in subsequent periods . According to this criterion, some leases would have a linear impact on the result. Although in the end the IASB is not going to adopt this measure (but the FASB will).

Academic literature on accounting for leases

Following the change in the leasing regulations in the United States in 1976 (SFAS 13) and in 1982 in the IASC, which went from not recognizing any to capitalizing the so-called financial leases, numerous studies emerged that describe the impact on the different ratios, and which also show the significant differences between sectors (a review of these studies can be seen in Fülbier, Lirio Silva and Pferdehirt, 2008).

However, there were several works that showed that this regulatory change gave rise to a restructuring of contracts by management in favor of operating leases (Abdel- khalik, 1981), therefore showing a management reaction that affected real operations and transactions to avoid capitalization . There are also works that analyze the impact of this regulatory change in information users at the individual level. The majority , through experimental designs or surveys , highlight that the — The existence of off - balance sheet obligations can distort fundamental analysis (Altman, Haldeman and Narayanan, 1997; Elam, 1975; Munter and Tarcliffe, 1983; Wilkins and Zimmer, 1983a; Breton and Taffler, 1995).

On the other hand , most of the works that analyze the relevance of information in the market in an aggregate manner show to a large extent that capital markets are not confused with the information of leasing contracts, regardless of whether This information is presented in the balance sheet or in the report, and they consider, therefore, that investors adjust their assessment of risk (Finnerty, Fitzsimmons and Oliver, 1980; Imhoff, Lipe and Wright, 1993; Ely, 1995; Beattie, Goodacre , & Thomson, 2000). However , there are also some studies that obtain evidence that some markets do not correctly capture the information on non - capitalized leases (Garrod , 1989; El-Gazzar, 1993), or even that even if such information is incorporated , inefficiencies are produced (Lipe, 2001).

Also in the case of debt markets there is contradictory evidence . Some point out that creditors prefer the capitalization of all lease contracts (Comiskey and Mulford , 1988), while other studies indicate through an experimental design that the accounting policy does not affect the final ~~and~~ credit (Wilkins, 1984; Wilkins and Zimmer, 1983b).

Research on accounting choice and management motivations assumes that there are incentives for management to prefer not to capitalize contracts, such as debt agreements, and to do so it can take actions such as: modifying contracts with cancellation options,



change investment and financing decisions , manage the outcome and take action

¹ Curiously, the recent ICAC Resolution of 2013 establishes the opposite of the IASB proposal .

of pressure against proposals for change (Abdel-khalik, 1981; Beattie, Goodacre and Thomson, 2006). However , some studies show that management compensation does not seem to be affected by the decision of whether or not to capitalize a lease and this would explain why investors do not seem to be confused (Ely, 1995; Beattie et al., 2000) .).

Regarding the currently proposed change , studies have already been carried out with simulation methodology in which the potential impact on the values of the ratios is analyzed . Thus, for example, Fülbier et al. (2008) do a simulation study in Germany . They conclude that the impact on the ratios It is significant , mainly in some sectors in financial ratios , but changes in profitability ratios are not important , so the impact potentially affects only debt contracts .

They also conclude that credit rating agencies adjust values, which is consistent with the fact that capital markets They modify contracts to a certain extent , so in their opinion the proposed change is not necessary . _ Fülbier et al. (2008) conclude that management positions itself against capitalization due to the increase in debt ratios and not because it will _ _ _ affect compensation . _ They also conclude that most of the sectors will not be very affected by the measure and that their ranking by ratios is not very affected , which is in line with the works that show that the markets already take this information from the memory, although they recognize that there may be frictions and inefficiencies . Another recent study , by Fito, Moya and Orgaz (2013) , carries out a similar analysis on the impact of the proposal on Spanish companies and concludes that there is indeed an impact on the values of the ratios, especially on ~~the~~ of indebtedness, but this varies significantly between sectors. These first studies, along with others, help to understand the reactions of some interest groups in ~~the~~ regulatory process and serve as a starting point for designing hypotheses about management motivation and for analyzing the effects unintended deviations from the norm (Kelly, 1985; Kenny and Larson, 1995; Saemann, 2004).

Another recent study that is carried out with experimental methodology is that of Hales, Venkataraman and Wilks, 2012 . This paper analyzes the decision to consider renewal options and contingent payments as part of the value of the asset and liability of a lease contract. Using an experimental methodology, they argue that the proposal decreases the reliability of the information and creates problems for users, in addition to having a negative effect on the debt capacity of companies, although this problem is mitigated if it is shown in the balance sheet. situation the disaggregated information on what part of the value of the liability refers to those options and contingent payments.

The analysis of comment letters and regulator reactions: positioning and argumentation

The DP (IASB, 2009) is the stage of the project where the basic conceptual issues of the new leasing regulation model are raised . Thus , we are going to analyze the comment letters to this DP 2009, focusing on the issues related to the definition of the elements and their recognition, and their assessment. The Boards (IASB and FASB) received a total of 302 letters of comments to that DP 2009. Our analysis focuses especially on the introductory letter that participants usually incorporate in the consultation process and on the explicit responses to the various questions posed by the DP. Table 1 lists the most relevant questions _ and the conceptual issues discussed.

Of the different proposals that appear in the DP 2009, we are going to focus, therefore, on the most important from the point of view of the change of model for the tenant:

Recognition. The existence of a single type of lease contract that gives rise to the recognition of assets and liabilities.

1) *Assessment.* The treatment of options and contingent quotas .

Firstly, for each of these aspects we are going to put forward: a) the arguments of the

IASB (and other supporters of the proposal); b) the arguments used to criticize the proposal, and c) the IASB's reaction to them, if applicable.

The recognition of assets and liabilities Arguments of the proposal

According to the IASB, the proposal to modify the leasing regulation has its starting point in the recognition of the irrevocable commitment that arises as a consequence of a leasing contract . This commitment meets the definition of *passive* , and as such, its omission is relevant. This liability comes with a *right of use* over the resource that is the object of the contract. The recognition of this right of use means that what is relevant is not to control the resource throughout its life, but to control substantially all of its risks and advantages over a period of time; in Ultimately, the " unit of account " is not the underlying good , but the set of services that are transferred from the lessor to the lessee through the contract.

In order to distinguish a payment obligation arising as a result of a lease contract from a payment obligation arising as a consequence of a performance contract , such as service contracts , the IASB argues that , in a lease , _ _ at the time control of the asset is transferred and themanagement of the same to the lessee, the obligation contracted by the lessor is being fulfilled ; The lessee will assume the risks and advantages derived from the use of the specific asset , and therefore the obligation of the contract is executed. However, in an execution contract, such as that of a service, what is guaranteed is the provision of a service that will be executed in the future (when that ~~service~~ is performed) , and therefore Therefore, there is no obligation to pay as long as that service has not been performed. Although initially it is also argued that the proposal tries to ~~and~~ structuring contracts with the purpose of achieving certain representation (argument related to anti- abuse clauses, although the IASB itself has pointed out on numerous occasions that the abuse of the norm should not govern the regulatory process), the conceptual justification for the

modification in the regulation on leasing lies in the insufficiency of the current model to collect the economic background of the operation .

Criticism of the DP proposal _

The Positive Theory argues in this case that the preparers are against this proposal , since they are interested in reducing their level of debt . However, our hypothesis supports that said position against is argued using the conceptual framework itself as a reference. Below we present the criticisms of the proposal contained in the DP.

The reaction of the critics, fundamentally the preparers of the information, has 3 main lines of argument of a conceptual nature. The first highlights the loss of informative capacity of the proposal, since it does not reveal the business model ; The second appeals to the inconsistency with the treatment of the execution contracts (services); Finally, there is a third criticism that echoes the complexity of the proposal not avoiding but encouraging another type of manipulation or structuring of contracts.

Table 1

Relationship between DP questions and conceptual issues related to the definition of the element and its recognition _ _

Question and topic	Issuerelative s conceptua	tt defi chnitio	and knowl to edge
Unique ¹ model	Duration	en	rec contin o gent Du es

P.1. Scope of the standard	X		
P.2. Exclusion of certain leases			
P.3. Analysis of rights and obligations _	X		
P.4.a. Asset recognition _			
P.4.b. Liability recognition _	X	X	
P.5. Component approach _			
P.6. Initial valuation of liabilities	X		
P.7. Initial asset valuation _			
P.8. Subsequent valuation of the liability at amortized cost			
P.9. Subsequent measurement of the liability at fair value			X
P.10. Changes in the value of the liability due to changes in the discount rate		—	X
P.11. Recognize liabilities as financial liabilities _			
P.12. Financial depreciation of the asset			X
P.13. Estimated liabilities according to the most probable period			
P.14. Changes in the estimate of the duration of the liability			
P.15. Accounting for purchase options _ _			
P.16. Incorporation of contingent income in the valuation of liabilities _			
P.17. Model to value contingent income _			
P.18. Valuation of contingent income			

based on index or rate _

P.19. Changes in the estimate of contingent
income _

P.20. Counterpart in the changes
experienced by contingent income _

P.21. Residual values

P.22. Separate presentation of liabilities

P.23. Approach to submitting the right of
use

P.24. Other issues to consider by the tenant

P.25. The right to receive income from the
lessor as an asset

P.26. Two models for the recognition of
landlords _

P.27. Recognition of benefits by the lessor
at the beginning

P.28. Relationship of the project with real
estate investments

P.29. Other issues related to landlords

Source: own elaboration .

Relevance : the proposal does not reveal the business model underlying the contract .

The role of the « business model » in accounting is currently being debated . The IASB recently included it explicitly in IFRS 9, but has disagreed. implicitly in other standards , and many advocate its inclusion in the new conceptual framework . The line of argument is that the classification of leases into operating and financial leases tries to present the business model in terms of resource management . The identification of the business model is carried out by analogy with other operations. The leases Financial leases are equivalent to purchases and sales of assets with financing by the supplier , while in operating leases the lessor provides a service to the lessee . The argument line of analogy is used as a technique that legitimizes a solution by identifying others in which there is a sufficient level of agreement. The use of analogy is provided for in the IAS 8.11.a as the first step in the hierarchy to resolve gaps in the regulations.

However , and contrary to what has been done in other _

In some cases (such as IFRS 9), the reform of the leasing standard has not focused on the analysis of uses and intentions, but on the definitions of the elements of the financial statements—specifically, the concepts of assets and liabilities. — to later affirm, by analogy, that all leasing operations are financing operations ² .

It is argued that the classification proposed by IAS 17 has an informational justification (table 2). « Management does not necessarily approach an operating lease as a way to finance itself but as a way to manage exposure to residual value and benefit from the flexibility that these operating leases provide. Maintaining the accounting distinction of operating leases allows the reflection of the economic reality underlying management 's decision , and as a consequence treating all leases in the same way would mean that the financial statements would be less precise in reflecting How

management runs a business » _ (CL11. Cathay Pacific, p. 1) ³ . This justification denies the fundamental analysis of the DP and does not consider that leases are always financing operations , but rather that the business model plays a role in the recognition and accounting valuation.

Another criticism that arises as a consequence of the activation of all lease contracts , but expressed especially in the case of real estate, is the effect on the income statement . These operating leases currently have a linear effect ; With the proposal , the effect would be decreasing with the proposal, since the amortization of the right of use would be linear and the financial expenses , decreasing. According to some preparers , this effect is not consistent with their “ business model ” .

Definition of assets and liabilities: The proposal is conceptually inconsistent with the treatment of execution contracts . The underlying logic is that when the lease is operational, the economic substance is a provision of services, and this is not recognized in the balance sheet . In more complex leases , the More commonly, these contracts contain additional benefits that make up a comprehensive service that meets the needs of the tenant; In these cases , the contract is for use and not ² DP; or from the perspective of users , the User Advisory Council of the Canadian accounting Standards Board, CL33. CASB, p. 2; CL70. Securities Commission of New Zealand, p. 2; CL124. Nokia, p. 2; CL199. Standards & Poors, p. 2; CL252. CFA Institute,

p. 3; CL259. Dubai Financial Services Authority, p. 1; CL268. The Corporate Reporting Users' Forum, p. 2.

Table 2

Arguments in defense of the lease classification model provided for in IAS 17 _

Arguments	Participants	Examples
<i>Informative argument</i> : The business model is not unique _		
a.	According to the tenants	CL11. Cathay Pacific; CL15. Swedish Financial Reporting Board; However, management does not necessarily enter into CL25. ACTEO; CL84. Eon; CL133. France Telecom; CL130. BNP operating leases as a means of financing but as a means Paribas; CL133. France Telecom; CL169. Société Générale; of managing exposure to residual value and to benefit CL184. American Bankers Association; CL213. Beckman from the flexibility that these leases provide. Retaining Coulter; CL301, Swatch the accounting distinction of operating leases permits reflection of the commercial reality of management decision-making (CL11. Cathay Pacific, p. 1)
b.	According to the landlords	CL59. Investment Property Forum; CL65. REESA The returns from owning and managing investment property are market driven returns — they have nothing whatsoever

to do with the provision of finance to a lessee. The pricing of the rental contract is driven by both market demand and specific circumstances (such as the creditworthiness or attractive public profile of a particular tenant), rather than the cost of funds at the date the original owner signed the lease (which may or may not be the real estate company owning the property today) (CL65. REESA, p. 8)

Regulatory consistency argument : Operating leases are contracts pending execution and these *are not* recognized *on* the balance sheet

^a. Yes some leases CL25. ACTEO, CL40. Australia Government's Department of Any binding contract for the purchase of goods or services, Finance and Deregulation; CL109. Emerson Electric; CL132. services that extends for a period of time transfers to treatment is not CMA-CGM; CL.152. David Jones Limited; CL158. Wesfarmers right to the customer and puts constraints and duties consistent with the Limited contracts; CL160.

Fédération Nationale des Loueurs de Véhicule; on the supplier. As of today such contracts do not pending execution

CL163. Accor Group;
CL167. Tesco; CL171. UBS; CL 208. trigger recognition of the assets and liabilities they

Hewlett Packard; CL274. PPR; CL285. GDF Suez; CL292. generate. We observe that in every contract, rights are Province of British Columbia transferred at the inception of the contract. The mere fact

that the underlying asset involved in a lease is clearly identified, and is usually placed under custody of the lessee at inception, does not introduce a substantive difference in those operations, from the perspective of the lessee (CL25. ACTEO, p. 5)

^b. Landlords provide for CL25. ACTEO; CL29. LeaseEurope; CL74. Furthermore , the CNC also notes that at this stage of a double model in which the Comptabilité; CL130. BNP Paribas; CL133. France Telecom; the discussion on lessor accounting, the rationale used leases can be CL169. Société Générale; CL205. General Electric Company is quite different, as it is considered that the lessor recognized as contracts provides a service to the

lessee over the lease term. The

pending execution CNC questions the consistency of these decisions and

encourages the IASB to develop as quickly as possible a comprehensive and coherent model of accounting

for lease contracts for both lessees and lessors (CL74.

Conseil National de la Comptabilité; p. 10)

Consistency argument in application : The *distinction* with the provision of services is complex _

CL26. European Shipowners Association; DPCL29. One of the main issues with the Boards' chosen LeaseEurope; CL35. Classic Technology Limited; CL36. Norway approach to scope lies in having to differentiate Accounting Standards Board; CL 58. IDW; CL64. German between what is a lease and what is a service contract. Accounting Standards Committee; CL66.Exxon Mobile; CL74. While the Boards wish to remove the “dividing line” Conseil National de la Comptabilité; CL76. Dutch Vehicle between finance and operating leases, under the new Leasing Company; CL116. Informal Preparer Lessee Group; approach this line will simply shift

to preparers having
CL117. Hoffmann La Roche, Ltd; CL123. IATA; CL125.
ICAEW; to determine whether a contract is a lease or a
service. CL132. CMA-CGM; CL133. France Telecom;
CL130. BNP It is very likely that firms seeking to achieve
a certain Paribas; CL133. France Telecom; CL139.
Ernst&Young; CL140. form of financial statement
presentation will design HSBC; CL149. Financial
Reporting Standards Board of New Zealand arrangements
that will not meet the definition of a Zealand; CL150.
Belgian Leasing Association; CL169. Société lease in the
future standard. This will result in little, if Générale;
CL173. PwC; CL189. Retail Industry Leaders

any, improvement
compared to the current situation Association; CL207.
Armateurs de France; CL215. Financial (CL29.
LeaseEurope, p. 17)

Executive International;
CL230. European Banking
Federation; CL246. National
Australia Bank; CL248. BT;
CL249. Institute of
Management Accountants;
CL256. Australian Accounting
Standards Board; CL261.
Accounting Standards Board

of the United Kingdom;
CL263. Mazars; CL269.
EFRAG; CL270. KPMG;
CL271. Royal Dutch Shell;
CL272. FEE; CL285. GDF
Suez; CL300.
Canadian Pacific Railway

Source: own elaboration .

for the right to use the leased property ⁴ . According to the defenders of the current classification model in IAS 17 , the reform proposal leads *de facto* to an *inconsistency in the* regulation : the services provided by an asset through a lease contract are recognized in the balance sheet , while he The rest of the services provided are omitted , since they are contracts of execution. In execution contracts, the obligation and right that are the subject of the contract arise at the moment when both parties provide their services to each other. In IAS 17, the operating lease is considered an execution contract ⁵ , and

⁴ CL130. BNP Paribas, p. 7; CL136. Spanish Rental Association, p. 4.

⁵ CL.152. David Jones Limited, p. 2; CL158. Wesfarmers Limited, p. 4; CL160. Fédération Nationale des Loueurs de Véhicule, p. 5; CL163. Accor Group, p. 3; CL274. PPR,

p. 6; CL285. GDF Suez, p. 5; CL292. Province of British Columbia, p. 2.

Arguing by analogy delegitimizes the proposal since there are other contracts in which obligations appear and the current regulation does not prescribe their recognition. This would also be the case *of* service contracts , commitments with personnel , commitments for the acquisition of fixed *assets* or take or *pay* contracts . » or « *use or pay* » ⁶ . Therefore , they argue that the reform would be conceptually consistent if the accounting of all execution contracts were approached in a homogeneous way and the existence of 2 different models for this type of contracts was avoided ⁷ . In In this sense, several comment letters warn of the risk, if this reform is approved, that the capitalization of all contracts will subsequently be promoted ⁸ .

Critics of the reform of the leasing regulation also resort to analogy to delegitimize

the proposal, causing it to incur apparent contradictions with the regulation of other operations that they claim are similar.

Cost-benefit: the implementation of the proposal is complex and lends itself to other manipulation. The lease proposal does not intend to address a reform of the presentation of contracts in general in the balance sheet ; It only focuses on those in which an identified asset is assigned , *irrevocably* for the period of the contract, and in which the lessee assumes the risks and advantages. This limited scope opens a third critical line that appeals to *complexity* to distinguish the contracts identified in the proposal as leases from those that are provision of services (with a fixed asset involved in their provision). This weakness , in the opinion of several comment letters, transfers the difficulty in the distinction between operating and financial leases to the classification between service contracts and leases ⁹ . Thus, some participants provide cases that reveal to us this difficulty; For example , in time *charters* , the lessor manages and maintains the vessel in addition to hiring and directing the crew, so they should be excluded ¹⁰ . These same difficulties can be seen in the " *wet lease* " agreements signed by companies . _ airlines through which the aircraft and crew are transferred , which would imply the transfer of a resource and a service contract that would not be recognized until they were provided ¹¹ . There are other cases whose distinction is complex, such as that between a lease and a contract by which the use of an infrastructure is transferred (for example, a gas pipeline or a cable network) , which would give rise to a intangible ¹² . This difficulty has led some commentators to warn that companies will tend to structure their lease contracts into service contracts that allow them to achieve the same results as operating leases ¹³ .

Although IFRIC 4 already points out criteria to distinguish leases from services , these guides must be reviewed in depth ¹⁴ . Some participants suggest that the

standard include clear criteria to distinguish services from leases ¹⁵ , which can reduce subjectivity and the likelihood of manipulation.

Finally, we appeal to the complexity of the proposal to separate the services that a lease contract may include, as well as the difficulty in many cases in distinguishing a service contract and a lease.

Counterarguments to criticism of the model by the regulator

After receiving these criticisms, the Boards (IASB and FASB) reacted to them, and these reactions were evident in their deliberations and in the issuance of subsequent drafts.

As many of the participants in the process point out, the main problem with current regulations is that the obligation to pay rent in operating leases is not recognized, which implies off-balance sheet payment obligations (table 3). However, recognizing that debt necessarily requires recognizing an asset ¹⁶ . The asset arises because there is a payment obligation whose quantification is what determines the value of the asset. For this reason, when the obligation is cancelable or when the contracts can be terminated by the lessee at any time, they should register as an expense since it has no obligation ¹⁷ . _ The non- cancellability of the contract is a key aspect ¹⁸ ; The analysis should go beyond the contractual documentation , considering the legal consequences of the contract ¹⁹ ; Among them , preparers should consider the case law in the local jurisdiction regarding the enforceability of the lessee 's obligation .

A second conceptual issue to defend that all contracts give rise to assets is the determination of the unit of account associated with the resource: the underlying good or the right over the good? The first solution, that of IAS 17, gives greater preeminence to the concept of asset , while the second would subordinate the asset to

the contracted services , and therefore to the obligation component that arises in the contract . Thus , the IASB also tries to support the reform in the definition of an asset. In this way, redefining the concept of asset that must be recognized also responds to the main conceptual criticism , which is that The operating lease contract does not imply a transfer of resources, but rather a provision of services.

From the point of view of the asset, the reform is based on a change in its unit of account; A resource is not associated with a good but with the set of services that a good provides and that are transferred through a contract, although the services that are transferred are not all those that remain for the good, but only those that it produces during a period of time. time.

However, unlike what happens in a service provision , the IASB points out that a lease is a contract that enables the use of a *specific asset* . The definition of asset p. 5; CL130. BNP Paribas, p. 3; CL133. France Telecom, p. 3; CL139. Ernst &Young, p.

1; CL140. HSBC, p. 2; CL150. Belgian Leasing Association, p. 2; CL169. Société Générale, p. 6; CL230. European Banking Federation, p. 1; CL246. National Australia Bank,

p. 3; CL249. Institute of Management Accountants, p. 6; CL261. Accounting Standards Board UK Darts Board , p . 1; CL263. Mazars, p. 1; CL269. EFRAG, p. 2; CL270. KPMG, p. 5; CL271. Royal Dutch Shell, p. 1; CL272. FEE, p. 4.

¹⁰ CL26. European Shipowners Association, p. 2; CL207. Armateurs de France, p. 1.

¹¹ CL123. IATA, p. fifteen.

¹² CL36. Norway Accounting Standards Board (NASB), p. 1; CL270. KPMG, p. 6; CL285. GDF Suez, p. 3-4.

13 CL29. LeaseEurope, p. 17; CL 58. IDW, p. 3; CL149. Financial Reporting Standards

Board of New Zealand, p. 1; CL173. PwC, p. 6; CL272. FEE, p. 4; CL300. Canadian Pacific Railway, p. 2.

14 CL125. ICAEW, p. 5; CL132. CMA-CGM shipping company, p. 3; CL149. Financial Reporting Standards Board of New Zealand, p. 3; CL248. BT, p. 1; CL256. Australian Accounting Standards Board, p. 3; CL263. Mazars, p. 1; CL269. EFRAG, p. 5.

15 CL66. Exxon Mobile, p. 3; CL74. Conseil National de la Comptabilité, p. 5; CL133.

France Telecom, p. 10; CL145. FEI Canada, p. 1; CL163. Accor Group, p. 3; CL169. Société Générale, p. 7; CL174. BDO, p. 3; CL189. Retail Industry Leaders Association,

p. 2; CL215. Financial Executive International, p. 5; CL285. GDF Suez, p. 2.

16 CL17. Swedish Banking Association (SBA), p. 6; CL84. Angel Train Limited, pp. 3-4; CL215. Financial Executive International, p. 13.

17 CL12. HoTARAC, p. 2; CL41. ASBJ, p. 4-5 .

18 CL138. Inditex, p. 4.

19 CL144. US Chamber of Commerce, p. 5.

Table 3

Prevalence of the concept of passive

Arguments	Participants	Examples
<i>Prevalence of the concept of passive</i>		
	CL17. Swedish Banking Association; CL63. British Petroleum; CL84. Angel Train Limited; CL215. Financial	The key issues identified by the Associations in the proposal can be summarized as follows: “Liability to pay model” — our basis is the Executive International contractual aspect of the contract, ie what has been agreed between the parties to the contract. The focus in our approach is on the liability side of the balance sheet- on what less is obliged to pay as a minimum, which is to be recognized as liability. If the lessee does not have any commitment, which for example is the case with an option, neither does this mean that the lessee should value the option or record it as asset and liability (CL17. Swedish Banking

Association, p. 6)

a. CL12 cancelability . HoTARAC; CL41. ASBJ Where a lease is cancelable, HoTARAC considers that the lessee has

the obligations little or no present obligation and little or no control over the leased item. If a lessee has an option to cancel the lease, it has no liability. If a lessor has an option to cancel, the lessee has no right-of-use asset.

Such agreements are in the nature of executory contracts (CL12. HoTARAC, p. 2)

b. CL55 measurement . Norseman Group; DPCL80. De Lage Landen Accounting standards should not treat lower-rated tenants more International, BV favorably than higher-rated ones, but this is the outcome of SFAS #13

and the proposed changes (CL55. Norseman Group, p. 2)

c. The CL20 unit . British Accounting Association By recognizing the right to use the leased item as opposed to the item acceso son los itself, the flexibility enjoyed by entities as a result of leasing asset services arrangements are reflected in the balance sheet , facilitating contracted comparisons with entities choosing to purchase rather than lease

(CL20. British Accounting Association, p. 3)

c.1. The *whole asset* CL44. DASB; CL63. British Petroleum; CL109.

Emerson We believe the whole asset approach fails to distinguish the reasons *approach* results Electric; CL125. ICAEW; CL173. PwC; CL269. EFRAG; why some entities may lease an asset rather than purchase assets. inadequate CL289. Confederation of British Industry While we acknowledge many leases are similar to finance

arrangements, treating all lease contracts as if the entity financed the acquisition of the asset would, in our view, produce misleading results. In many cases, owners choose to lease an asset either because they do not intend to use the asset for most of the asset's useful life or they need the operational flexibility that a lease may provide. This approach would overstate both assets and liabilities on the balance sheet, particularly for leases where the lease term is only a small proportion of the life of the leased asset (CL63. British Petroleum, p. 4)

c.2. There is no CL20. British Accounting Association; CL79. We also agree that an obligation to return a leased asset at the end of an obligation of SwissHoldings; CL117. Hoffmann La Roche; CL139. lease contract is not a

liability as stated in § 3.22 ff. but we do not return the Ernst&Young asset ;
CL149. Financial Reporting Standards agree with the last sentence of § 3.23
that the lessee is
holding an asset

Board of New Zealand; CL198. FirstEnergy on behalf of the
lessor. Instead we consider that the lessor is using the
Corporation; CL246. National Australia Bank; CL262. asset by
virtue of the rights conferred by the lessor (CL117. Hoffmann
Deutsche Bank La Roche, p. 5)

Source: own elaboration .

It is based on the current control of the underlying asset , and in this way the IASB establishes a criterion that distinguishes leases from execution contracts . In the latter, the service provider can alter the way in which it provides the service up to the moment it is provided; therefore assumes the technological advantages nological measures that can make the provision of the service more effective or efficient. In the case of leases, the technological advantages cannot be transferred to the lessee throughout the contract, because if they were , for example if the property was changed by the lessor, it would cease to be a lease . For its part, the risks derived from an advance in technology can be assumed in a contract pending execution by the provider , but they would not be in any case in a lease. The lessor transfers economic

(risks and advantages) and technological (management) control to the lessee. If both transfers do not occur , the removal of the element would not be recognized, either because the lessee was a mere agent of the principal (the lessor if the transaction is documented as a lease), or because the lessee is contracting a service provided by the lessor and does not incur any technological risk associated with the specific good . The change in the unit of account regarding what is considered an asset is the way used by the regulator to technically legitimize the proposal , with the conceptual innovation that the change of _ the unit of account. In short, the asset is not the underlying good or specific asset , but the right to use that asset that arises in the contract.

The reaction to criticisms that use the analogy with the treatment of performance contracts is to point out that the ~~quasi~~ are only apparently similar , so an analogous treatment could not be applied . In property leases, the lessor 's performance ends with the delivery of the property, arising in at that moment the obligation for the lessee , while in service contracts the activity of the provider will culminate with the execution of the service, so for the recipient of the services his obligation has not yet arisen.

Although the provision of services that involve the use of a fixed asset and its similarity to leasing contracts have forced us to refine the concept of leasing, requiring for the latter that the asset be specified and defining more clearly what is understood by such . For its part, the resort to complexity (cost-benefit restriction) in this case is not justified, since according to the IASB the proposed income standard also proposes the decomposition of income into sales operations with multiple activities. , and the complexity is the same.

Finally, in the second draft the IASB (IASB, 2013a) begins a round trip in relation to the consideration of 2 types of leases, not in the initial recognition of the asset and debt , but in their valuation . later, and therefore in the impact on the income statement

. The second draft echoes the _ _ _ criticism of real estate leases currently classified as operational , for which a decreasing impact in the income statement based on a straight-line amortization of the right and decreasing financial expenses represented a serious distortion of its income statements . The IASB breaks with orthodoxy when imputing to results certain leases in which a significant part of the value of the assets is not transferred (it is presumed in the case of real estate), the annual expense will be linear, the interest component will follow a financial criterion (decreasing) and due to the difference the amortization calculation will be increasing . In this case, the IASB was clearly moving away from the conceptual argument, since a " decreasing amortization " of the asset in this case has no theoretical justification in our opinion. However , in the period of In deliberations after this second draft, the IASB modifies its position and chooses not to establish these 2 types of lease contracts , while the FASB has decided to maintain a dual treatment in the income statement through an argument, at least unorthodox . , to define " the unit of account " in another way .

Valuation : renewal options and contingent fees Arguments of the proposal

The first thing that should be asked regarding the treatment of renewal options and contingent payments is whether it is an issue of recognition or measurement . That is, it is possible to consider (and this is done in the DP, although with the express preference of the IASB to consider it as an aspect of the valuation) if the contract should be considered as a whole (main contract, options and contingent installments must be recognized together) or if, on the contrary , it is price to carry out an accounting by components (the main contract , options and contingent installments are components recognized separately) . The question of the unit of account arises again , this time in relation with the passive,

Does the entire contract constitute a single obligation, or do the different options or contingent clauses give rise to new liabilities? Depending on the solution adopted , the

issue is considered one of valuation (everything is an obligation) or recognition (there are several obligations) ²⁰ .

If it is considered an integrated group, it is necessary to estimate the probable sacrifice of assets that are required to settle the only obligation; Therefore , the foreseeable term of the contract or the amount to be paid for the obligation must be estimated , taking into account the contingent installments. This is the method that the DP tentatively proposes as preferred.

One of the fundamental arguments for considering *it* a valuation problem is that the recognition of the obligation for the committed period could involve the *structuring of operations* aimed at reducing the level of liabilities ²¹ (again the argument _ anti-abuse). It is argued, therefore, that when the option allows advantageous conditions , then there is an economic or operational incentive ("*economic or operational compulsion* ") to exercise it ²² and, therefore , it must be assumed that it is effectively part of the value of the asset and the passive, regardless of the formality of the contract . For its part, contingent quotas can be argued

²⁰ The ASB indicates that the component approach forces consideration of the options _ and contingent fees as a matter of valuation, when in their opinion they do not meet the definition and could not be recognized (CL261. Accounting Standards Board from the United Kingdom, p. 2).

²¹ CL13. FAR SRS, p. 6; CL149. Financial Reporting Standards Board of New Zealand, p. 6.

²² CL63. British Petroleum, p. 7; CL66. Exxon Mobile, p. 2; CL77. Japan Leasing Association, p. 4; CL125. ICAEW, p. 4; CL155. Hong Kong Institute of Certified Public Accountants, p. 8; CL215. Financial Executive International, p. 3;



CL229. Dell, p. 6; CL248. BT, p. 10; CL249. Institute of Management Accountants, p. 3; CL251. Macquarie Bank, p. 7.

as installments that form part of certain payment obligations but whose valuation is uncertain.

Criticism of the proposal

Criticism of the integrated approach proposed by the IASB in the DP basically focuses on the inconsistency with the definition of liability and the loss of information that derives from it .

Inconsistency with the concept of liabilities. The main criticism of the integrated approach is that the recognition of options and contingent clauses implies *de facto* the « recognition » of obligations that can be avoided and, therefore , that are not liabilities²³ . In these cases, the concept of liabilities seems to be subordinated to that of assets²⁴ , with the objective of preventing lease contracts from being structure to ensure that your accounting record is the one desired by the company. According to criticism , the regulator tries to determine the value of the right of use in the case of contingent income, or establish the period that controls the asset in the renewal or early cancellation options , regardless of in both cases that there is no obligation²⁵ . _ _

The debate around options and contingent quotas may seem similar; However, it is criticized that they are treated as analogous. The DP considers both renewal options and contingent payments as contingent income and uses an expected value based on the probabilities of renewal or early cancellation in the case of options.

However, the fundamental criticism is that, indeed, certain contingent payments can be a valuation problem²⁶ , but the renewal options are related to the definition of assets and liabilities, that is, recognition and not valuation . .

The proposal argues that treating it as an aspect of the valuation better represents the services controlled by the lessee , but it is criticized that this inevitably leads to

liabilities being recognized in which the central element of the definition fails : the existence of an obligation.

Furthermore , it could be argued that the extension option is an asset in itself : until the option is exercised , the underlying asset is not controlled and the risks associated with the asset for that additional period are not assumed , so the asset underlying that part of the option would also not comply with the definition of asset.

In the case of contingent quotas, a group of comment letters warns that not all of them should receive a single treatment , since their nature is different ²⁷ . Fees based on the use or performance of the asset do not constitute liability until

²³ CL15. SFRB, p. 3; CL24. Deutsche Telekom, p. 2; CL37. Federation of Finnish Financial Services, p. 4; CL75. Association for Participation in the Development of Accounting Regulations for Family-owned Entities, p. 5; CL85. EON. AG, p. 4; CL116. Informal Preparer Lessee Group, p. 6; CL123. IATA, p. twenty-one; CL124. Nokia, p. 4; CL130. BNP Paribas, p. 2; CL133. France Telecom, p. 6; CL151. ATCO, p. 4; CL162. BusinessEurope , p. 5; CL165. Fujitsu, p. 3; CL168. ICAC, p. 4; CL169. Société Générale, p. 9; CL173. Whitbread, plc, p. 7; CL177. Enterprise Rent-A-Car, p. 3; CL215. Financial Executive International, p. 8; CL225. URS, p. 6; CL237. French Banking Federation, p. 8; CL246. National Australia Bank, p. 5; CL263. Mazars, p. 6; CL291. Trinity Industries, Inc.

p. 6.

²⁴ CL283. Accounting Standards Executive Committee of the AICPA, p. 3.

²⁵ CL120. Deloitte Touche Tohmatsu, p. 3; CL173. PwC, p. 2, argues from the predominance of the asset component of the contract.

²⁶ CL74. Conseil National de la Comptabilité, p. twenty.



27 CL130. BNP Paribas, p. 8; CL145. FEI Canada, p. 2; CL155. Hong Kong Institute of Certified Public Accountants, pp. 1-2; CL162. BusinessEurope, p. 9; CL169. Société Générale, p. fifteen; CL173. Whitbread, plc, p. 7; CL189. Retail Industry Leaders Association , p. 9; CL215. Financial Executive International, p. 12; CL235. Illinois CPA Society, p. 9; CL263. Mazars, p. eleven.



the future event occurs that forces them to be paid ²⁸ . These fees are “ an expense related to future operations , and therefore should be correlated with the income statement that includes the corresponding income ” (CL20, BAA, p. 7) ²⁹ . Contingent quotas linked to performance are clauses equivalent to the transfer of intangibles through royalty contracts and ~~are~~ not They are recognized in the balance sheet ³⁰ . Regarding contingent quotas referenced to an index or rate, " the contingent element is an obligation independent of the actions of the entity itself even if it is an uncertain amount " (CL20, BAA, p. 7) ³¹ . *Grant Thornton International* indicates that contingent installments based on the evolution of interest rates are equivalent to loans _ _ _ at a variable interest rate and must be treated consistently ³² .

Ultimately , contingent fees based on usage or performance ~~are~~ controlled by the entity , and the obligation does not arise until the decision is made in the future . _ _ _ _ _ _ _ On the contrary, quotas linked to an index or rate are current obligations ³³ of which the amount would have to be estimated. Therefore, the decision about the former is about its recognition, when the liability exists; while in the latter it is a valuation, how much is the estimated sacrifice of assets to cancel the obligation. Along the same lines, *LeaseEurope* warns that considering contingent income as obligations or components of the obligation means mixing two types . of liabilities, financial and non - financial , taking advantage of the fact that they are generated by the same obligation ³⁴ . Table 4 presents the main criticisms and arguments in favor of the component model.

The integrated approach decreases the relevance of the information. The *informational argument* has been put forward to defend the component approach to contract duration. The question is whether a contract with an option to extend the contract or early cancellation is economically equivalent to a contract for the maximum period or one for

the minimum period with the possibility of contract extension. In the first case, liabilities are recognized whose obligation does not exist; In the second , the advantage of having this option is ignored . The option of Renewal grants flexibility to the tenant ³⁵ . For the Italian Accounting Agency (OIC) , a 15 -~~year~~ is economically different from a 10 -year lease with a 5 - year extension option ³⁶ . Similarly, Association pour la participation des entreprises fran c , aises à l'harmonisation comptable internationale (ACTEO) says that " the Council also seems to believe that the requirementThe proposed site would play the role of anti-abuse provision, for example to avoid short-term leases with options instead of leases with longer terms . Since we have been permanently against anti-abuse provisions, which most of the time are incompatible with regulation based On sound principles, we consider that the approach taken by the Council is wrong. In fact, the entities do not incorporate a

28 CL66. Exxon Mobile, p. 2; CL102. TransCanada, p. 2; CL130. BNP Paribas, p. 8; CL235. Illinois CPA Society, p. 9.

29 In the same sense, CL102. TransCanada, p. 2; CL103. Enmax Corporation, p. 5; CL112. Tyco, p. 4; CL145. FEI Canada, p. 2; CL155. Hong Kong Institute of Certified Public Accountants, pp. 1-2; CL189. Retail Industry Leaders Association, p. 9.

30 CL61. Woolworths Limited, p. 4; CL.133. France Telecom, p. 22; CL152. David

Jones Limited, p. 14; the CL269. EFRAG, p. 19, associates those that are linked to performance from the leased asset to profit sharing agreements ; _ CL274 PPR, p. 5.

31 CL130. BNP Paribas, p. 8.

32 CL90. Grant Thornton International, p. 9.

33 CL133. France Telecom, p. twenty-one.

34 CL29, LeaseEurope, p. 36.

35 CL130. BNP Paribas, p. 12; CL132. CMA-CGM shipping company, p. 5; CL133. France Telecom, p. 16.

36 CL14. OIC, p. 6; CL185. Charming Shoppes, Inc, p. 3; CL213. Beckman Coulter,
p. 4.

option for accounting purposes. The options have a cost and are contracted if the flexibility they provide is necessary. Furthermore, not all lessors agree to grant options within reasonable cost limits . Whether or not an option is purchased is , and will be, an economic decision, and the resulting position is economically quite different for the entity » (CL25. ACTEO, p. 10). Therefore , options, far from being a liability, should be an asset ³⁷ .

The solution is to separately recognize the option and evaluate it ³⁸ ; However, in this case the cost-benefit restriction advises opting for a less orthodox but more manageable solution ³⁹ , which is not to recognize it. The options regarding the duration of the contract , as long as they are valued at market price , confer flexibility to the lessee, equivalent to that obtained with a gradual drawdown loan ⁴⁰ , and put the tenant who enjoys them in a different economic situation, which should be reflected in the financial statements ⁴¹ . The *Conseil National de la Comptabilité* warns that the value of these renewal options, if under market conditions , is zero ⁴²

, while the association of insurance entities leasing of Germany points out that these options are not negotiated in the market , so the option valuation models could not be applied since the basic parameters are not observable ⁴³ . However , the lessor who grants the option will implicitly charge the price of that option through a higher rental fee, so at the initial moment the option is valued in the liability and in the cost of the right of use; For this reason, in no case should the estimate of the most probable period be included, since it would be included twice: a) once for the value of the option implicitly charged in the price of the annual income , and b) another for the estimate made ⁴⁴ .

In short, the concept of obligation articulated in the DP is broader than that identified in IAS 37, which identifies contractual or implicit obligations. The option to renew a lease would be different ⁴⁵ .

From an *operational* point of view , the estimation of the *liability* considering the probable duration (that *is* , including the optional periods) aims *to avoid structuring contracts* with the purpose of reducing the recognized liability ; In short, it is an anti-abuse rule , not supported conceptually. However, the proposal of DP on contract duration options involves including future events in the determination of liabilities ⁴⁶ , as well as

³⁷ CL132. CMA-CGM shipping company, p. 5; CL162. BusinessEurope, p. 6; CL169. Société Générale, p. 9; CL226. Regions Financial Corporation, p. 2; CL228. Alstria, p. 8; CL263. Mazars, p. 6.

³⁸ CL83. Bundesverband Deutscher Leasing-Unternehmen, eV, p. 8; CL90. Grant Thornton International, p. 5; CL132. CMA-CGM, p. 6; CL146. The World Bank, p. 4; CL246. National Australia Bank, p. 5; CL263. Mazars, p. 6; CL252. CFA Institute, pp. 6-7, highlights the real option nature of this type of

options and the developments that have occurred in this field even though they do not exist . market valuations .

39 CL56. Peter Kiewit Sons, Inc, p. 4-5; CL74. Conseil National de la Comptabilité,

p. 17; CL180. Goodyear Tire & Rubber Company, p. 2; CL226. Regions Financial Corporation , p. 2; CL237. French Banking Federation, p. 8; CL300. Canadian Pacific Railway, p. eleven.

40CL62 . Telstra, p. 3.

41 CL70. Securities Commission of New Zealand, p. 3; CL74. Conseil National de la Comptabilité, p. 17; CL83. Bundesverband Deutscher Leasing-Unternehmen, eV,

p. 8.

42CL74 . Conseil National de la Comptabilité, p. 17. The CL252. CFA Institute, p. 7 considers it important to explain the cases in which out- of- the - money options are exercised .

43 CL83. Bundesverband Deutscher Leasing-Unternehmen, eV, p. 8; CL226.

Regions Financial Corporation, p. 2.

44 CL83. Bundesverband Deutscher Leasing-Unternehmen, eV, pp. 14-15; CL130. BNP Paribas, p. 8.

45 CL82. South African Institute of Chartered Accountants, p. 4; or appear together as indicated by CL248 . BT, p. 6.

46 CL20. British Accounting Association, p. 6; CL24. Deutsche Telekom, p. 2; CL103. Enmax Corporation, p.5; CL110. Williams Companies Inc, p. 2; CL138.

Table 4

Criticisms and arguments in favor of the component model

Arguments	Participants	Examples
<i>Criticisms of the integrated approach</i>		
- They are not passive	CL15. SFRB; CL24. Deutsche Telekom; CL37. Federation If leases do contain such elements, a lesson at the inception of the lease is of Finnish Financial Services; CL75. Association for under no obligation to settle a present liability arising from a past event. Participation in the Development of Accounting Just the opposite — the purpose of an option is to have the right not Regulations for Family-owned Entities; CL85. EON. AG; to exercise it if original expectations do not materialize or turn out CL116. Informal Preparer Lessee Group; CL123. IATA; otherwise. Not exercising the option leads to the avoidance of an	CL124. Nokia; CL130. BNP Paribas; CL133. France Telecom; obligation (C.85. E-on, AG, p. 4) CL151. ATCO; CL162. BusinessEurope; CL165. Fujitsu; CL168. ICAC; CL169. Société Générale; CL173. Whitbread, plc; CL177.

Enterprise Rent-A-Car;
CL215. Financial Executive
International; CL225. URS;
CL237. French Banking
Federation; CL246.
National Australia Bank;
CL263. Mazars; CL291.
Trinity Industries, Inc.

- CL20 should not be used . British Accounting Association; CL24. Deutsche
We do not believe that most contingent rental amounts meet the criteria
recognize facts Telekom; CL103. Enmax Corporation; CL110. Williams of
an obligation as they are dependent on an event that may or may not future
Companies Inc; CL66. Exxon Mobile, p. 2; CL102. occur in the future.
Specifically, contingent rentals based on use or

TransCanada; CL130. BNP Paribas; CL138. Inditex; CL141.
performance, are directly triggered by that future use or
performance. Telephone; CL143. Canadian Bankers Association;
CL146. While we agree that this future use or performance can
be estimated, most The World Bank; CL155. Hong Kong
Institute of Certified future costs can be estimated through an
active budgeting and forecasting Public Accountants; CL158.
Wesfarmers; CL159. function; none of these future costs are
considered liabilities. Decisions Association Franc , -

aise des Sociétés
Financières; CL167. made by management and external sources
can alter the amount of these Tesco; CL185. Charming Shoppes,

Inc.; CL188. The Truck expected payments substantially. Contingent lease payments are more Renting and Leasing Association; CL203. Ryder System, closely linked to future commitments which are disclosed in the notes to Inc.; CL213. Beckman Coulter; CL220. Chipotle Mexican the financial statements. Also, these contingent payments normally do not Grill; CL221. Private Company Financial Reporting provide an additional right-of-use asset, but are more closing linked to the Committee; CL226. Regions Financial Corporation costs of operating that asset on an annual basis (CL103. Enmax

Corporation, p. 5)

- CL14 argument . OIC; CL25. ACTEO; CL70. Securities Commission of The case where an entity has a ten-year contract with an option for an informative New Zealand; CL74. Conseil National de la Comptabilité; further 5 years is economically different from that of a company with a

CL83. Bundesverband Deutscher Leasing-Unternehmen, 15-year contract. There is a difference in terms of costs and operating e.V.; CL130. BNP Paribas; CL132. CMA-CGM shipping flexibility (CL14. OIC, p. 6) company; CL133. France Telecom; CL185. Charming Shoppes, Inc.; CL213. Beckman Coulter

- Possibility of CL13. FAR SRS; CL33. CASB; CL34. ICAI; CL149. Financial However, under the ten-year lease with an option, the lessee can avoid structuring Reporting Standards Board of New Zealand; CL204. paying rentals in the secondary period. FAR SRS believes that this problem arises from Ryder System, Inc. operations ; CL288. CFA UK must be solved by providing additional disclosures. If the lessee instead

should recognize its obligation to pay rentals on the basis of the minimum contractual terms, FAR SRS is concerned that there would not be a lot of structuring of lease agreements to avoid period which would be unfortunate (DPCL13. FAR SRS, p. 6)

- CL33 argument . CASB; CL25. ACTEO; CL169. Société Générale; CL241. We believe indeed that management's expectations should be taken into informative Singapore Standards Council; CL248. BT account, while they should be fully documented taking into account all

factors, contractual, non-contractual and business factors as identified in par 6.39. We believe indeed that decisions not to renew a lease may arise from a change in an entity's strategy, for example,

while none of the factors previously considered has changed. In such circumstances we believe that taking into account the change in strategy and disclosing it is more relevant and useful to users than prohibiting management's expectations to play any role (DPCL25. ACTEO, p. 14)

Source: own elaboration .

than contingent quotas ⁴⁷ . _ What may be interesting and probable today may no longer be so some time later .

Counterarguments to criticism of the model by the regulator

The IASB argues that when contracts are complex, the identification of the unit of

account is a critical point . So,

Inditex, p. eleven; CL141. Telefónica, p. 3; CL146. The World Bank, p. 2; CL155. Hong Kong Institute of Certified Public Accountants, p. 7; CL158. Wesfarmers , p. 7; CL159. Association Française des Sociétés Financières, p. 3; CL167. Tesco, p. eleven; CL185. Charming Shoppes, Inc, p. 3; CL213. Beckman Coulter, p. 2; CL226. Regions Financial Corporation, p. 2.

⁴⁷ CL138. Inditex, p. 10; CL141. Telefónica, p. eleven; CL143. Canadian Bankers Association , p. 7; CL158. Wesfarmers, p. 8; CL159. Association Française des Sociétés Financières, p. 3; CL167. Tesco, p. eleven; CL188. The Truck Renting and Leasing Association , p. 9; CL203. Ryder System, Inc., p. 5; CL213. Beckman Coulter, p. 5; CL220. Chipotle Mexican Grill, p. 4; CL221. Private Company Financial Reporting Committee , p. 4.

In Table 4 we reflect the main lines of argument in favor of the integrated approach.

On the one hand, according to the IASB , this approach allows for a more adequate representation of the economic background of the transaction, identifying the commitments made and the rights acquired , including options . A different issue is the need to adopt simplified solutions on the cost-benefit argument or the materiality of the component distinction; In these cases, the body of standards is conceptually consistent, although it uses the flexibility that is also part of that framework of standards.

The liability must be valued considering the minimum contracted period. Only when there is an economic incentive to extend the lease and it is probable that the entity will contract it , is it considered in the valuation of the aforementioned liability, being an operation equivalent to the provisions arising from non- contractual commitments . In this case, the solution is an anti-abuse clause. For its part, regarding contingent quotas,

the IASB finally admits the criticism about the lack of analogy between those that depend of use or performance and those that depend on indices and recognizes that they can be distinguished based on ~~li~~nature . _ _ Those linked to the performance of the resource or the use that the lessee makes of it ~~an~~not obligations until they are _ _ _ produce those performances (which the lessee controls) or are used by him, while those that are linked ~~tan~~ an index or rate are current obligations pending to be quantified . Ultimately, the issue in both cases is limited to the area of recognition.

On the other hand, the integrated approach tries to reveal the background of the operation and prevent the form that the contract takes from blurring the economic reality . This last prevention is once again an anti-abuse clause aimed at avoiding manipulation of the liability figure. With this regulation, supported by this principle, it is not raises specific cases , the IASB moves the conflict from the field of regulation to that of professional practice and inevitably leads to a modification of the concept of liabilities in the reform of the conceptual framework that is currently being carried out . In any case, the concept of faithful representation requires identify the economic substance of the transaction regardless of the form (IASB, 2010 : BC3.26)

Conclusions, final reflections and future lines of research

The objective of our work has been to identify the lines of argument used to question and defend the lease accounting proposal made by the IASB and the FASB. The purpose is to contrast whether the behavior of the agents in this case , regulator and interest groups , basically preparers, is consistent with the hypothesis that the behavior of the international accounting regulator adapts to the Theory of Accounting . Ideology , and that of interest groups to the Positive Theory , although conceptual arguments are also used to mask the lobbying action and thus make it *more* effective . _

With the reform of lease accounting , as the Boards themselves (IASB and FASB) initially recognize, the aim is to recognize the liability and avoid abuse of the standard . The inclusion of anti-abuse standards is generally incompatible with principles -based regulation . Surely for this reason, the Councils justify regulatory changes using conceptual arguments (criteria of recognition in liabilities and changes in the unit of account in the recognition of the asset). The generalized rejection of the reform by the preparers is consistent with the Positive Theory , specifically with that referring to the economic effects of debt contracts and that of political costs . In the specific case of the project to reform the norm on leases , the increase in the debt ratio of the entities is a fundamental effect of the change . There is also the belief that such a radical change in model may end up being transferred to national regulations and smaller entities . _ _ _ _ that are not listed on the stock markets.

Our analysis shows that the regulator and critics of the IASB proposal structure logical-deductive discourses based on the conceptual framework , which take different starting points and arrive at different results. Likewise, our results have revealed how the use of analogy, provided for in IAS 8.11.a, is one of the tools that participants consider most effective to defend a position, and in these cases it is necessary to thoroughly question whether the Comparable circumstances are economically Similar. In this standard we observe the emergence of anti-abuse provisions , such as in the estimation of the duration of the contract or the amount to be paid for contingent clauses that the entity can avoid. However, in the case of comparing certain lease contracts with the execution contracts (services), an alternative way of " contract structuring " opens up to the one that is intended to be avoided, and which may imply a change in real economic activity . This behavior of the regulator is consistent with the Theory of Ideology. The regulator tries to protect the interests of users in the face of the foreseeable structuring of contracts by preparers with the aim of achieving certain results, if However, a desire for public interest may lead them to

establish regulations that may also be far from the needs of users. Anti-abuse clauses should be avoided in general because the criterion of substance over form, included within the concept of faithful representation, is the instrument to avoid the structuring of operations, and it is the control bodies, starting with the auditors, that must avoid the abuse of a rule.

On the other hand , it is highlighted how both the IASB and the FASB , under pressure from the preparers of the information , have tried to find consensus solutions that do not always adapt to conceptual arguments that can clearly be detrimental . _ of the acceptance of the proposal. In short, we have revealed the limitations of the conceptual framework . This , considered essential for a logical deductive normative development, can also be " interestedly used " by different pressure groups , as we show . This would be compatible with the criticism of the conceptual framework of being

« used » by different agents, not only regulators but also pressure groups, as an « excuse » to actually serve their interests. That is why, from an academic perspective, we can consider the relationship between positive and normative research in conceptual arguments , and that this can be done fundamentally from the privileged position of knowledge and independence of the academic world. In this work We also want to reflect on the challenges that this phenomenon poses for research. As for the economic effects, the academic world has been investigating it for decades; However , it seems to be now that interest in this analysis has been awakened by regulators in Europe, and they seem to be aware that the role of academics in this regulatory process can and should be more active. Thus recently , and after several years of application of IFRS in _ Europe, the community dedicated to European accounting regulation has echoed the need to analyze the effects of the standards and regulatory changes that are issued. EFRAG has published a discussion document with the United Kingdom regulatory body (EFRAG, 2011) to initiate a debate on the need, scope and method of analyzing these

economic effects, and the IFRS foundation itself has included in its manual procedures (IASB, 2011) the need to analyze *ex ante* and *ex post* the effects of its rules and pronouncements. Although institutional concern about the economic effects of accounting changes is not new, the truth is that it has been accentuated, especially in Europe, due to the fact of having an accounting regulator that operates at a multi-jurisdictional level. In this case, the fact that the legitimacy of the standard setter is only ratified by proving that its standards effectively increase relevance, comparability and reliability, which improve transparency in global markets, and that The benefits of applying them are greater than the costs. Among the analyzes and proposals of these studies We want to highlight again that the economic effects of accounting standards can be analyzed *ex ante* and *ex post* and using different research methodologies (see, for example, Haller et al., 2012 , and Trombetta, Wagenhofer and Wysocki, 2012). Furthermore , as Schipper (1994) points out, *ex post* research can be used *ex ante* for similar situations in different contexts. However, regulators They tend to consider that the research potentially relevant to them is the *ex ante* research , which helps them make decisions , and we consider it necessary that the scientific community strive to investigate aspects that concern regulators . — — — *lators and elevate ex ante* accounting research to the rank that corresponds to social demand (Rutherford, 2011). Without a doubt, the *Ex ante* investigation of the lease accounting proposal , although it has already begun, opens up a very wide range of research possibilities . The need to investigate all of these changes in the national environment of entities that are not listed on the stock markets is an important challenge . Given the characteristics In the case of accounting regulation in Spain , we propose that the opportunity to transfer this regulatory change on lease accounting to the PGC, its advantages and disadvantages, be analyzed in detail and **gr**

On the other hand, the effect of this proposal - which in general terms has many possibilities of being finally adopted — in terms of relevance, efficiency in resource

allocation, efficiency contractual and even changes in the economic activity of the entities in relation to the lease contracts , including given other potential ways of abuse of the norm, is a future challenge of empirical research for which we will have to wait.

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