

Analysis of Board Member Comments on Pre-ballot Draft Tier 2 Supplement to ED 242 *Leases*

Only those paragraphs that received specific comments from Board members are included in this analysis. Extracts of relevant Standards, including RDR shading, are included in the footnotes where appropriate. Referenced *IFRS for SMEs* paragraphs are included as Appendix A.

Para.	Extracted Proposed Disclosure Requirements in ED 242 ¹	Comments	AASB Staff Analysis and Recommendations
60	<p>A lessee shall disclose the following:</p> <ul style="list-style-type: none"> (a) information about the nature of its leases, including: <ul style="list-style-type: none"> (i) a general description of those leases; (ii) the basis, and terms and conditions, on which variable lease payments are determined; (iii) the existence, and terms and conditions, of options to extend or terminate the lease. A lessee shall provide narrative disclosure about the options that are recognised as part of the right-of-use asset and lease liability and those that are not; (iv) the existence, and terms and conditions, of residual value guarantees provided by the lessee; and 	<p>One Board member suggested that paragraph 60 should be excluded from the Tier 2 disclosure requirements on the basis that it is too excessive for Tier 2 entities.</p>	<p>Staff note that paragraph 60(a) is substantially similar to the requirements in the <i>IFRS for SMEs</i> (paragraphs 20.13(c) and 20.16(c)) and was therefore proposed to be retained. Paragraphs 60(b) and 60(c) have no equivalent in the <i>IFRS for SMEs</i>; however, staff are of the view that the disclosures are necessary for users of financial statements to evaluate the amount, timing and uncertainty of cash flows arising from leases. In particular, staff consider the disclosures required by paragraph 60(b) to be important for users to understand short-term cash flows, liquidity and solvency of entities. Staff are of the view that the disclosures satisfy the information needs of users without significantly increasing the costs to the reporting entity.</p> <p>Staff also note that similar disclosures relating to significant judgements and assumptions were retained in the Tier 2 disclosure requirements of <i>AASB 12 Disclosure of Interests in Other Entities</i>²</p>

1 The pre-ballot draft of the Tier 2 Supplement to ED 242 *Leases* proposed entities applying Tier 2 requirements to be exempted from applying disclosure requirements shown as shaded text.

2 **AASB 12.7** An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- (a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of AASB 10 *Consolidated Financial Statements*;
- (b) that it has joint control of an arrangement or significant influence over another entity; and
- (c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

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	<p>(v) the restrictions or covenants imposed by leases, for example those relating to dividends or incurring additional financial obligations.</p> <p>A lessee shall identify the information relating to subleases included in the disclosures provided above.</p> <p>(b) information about leases that have not yet commenced but that create significant rights and obligations for the lessee.</p> <p>(c) information about significant assumptions and judgements made in applying the [draft] Standard, which may include the following:</p> <p>(i) the determination of whether a contract contains a lease (as described in paragraphs 6-19);</p> <p>(ii) the allocation of the consideration in a contract between lease and non-lease components (as described in</p>		<p>and AASB ED 237 <i>Financial Instruments: Expected Credit Losses</i>.³</p> <p>AASB Staff recommendation Consistent with the proposals in the pre-ballot draft of the Tier 2 Supplement to ED 242 <i>Leases</i>, staff propose to retain paragraph 60 in the proposed Tier 2 disclosure requirements per the Tier 2 disclosure principles and to maintain consistency with Tier 2 disclosure requirements in other standards.</p>

3 **Tier 2 Supplement to AASB ED 237.39**

An entity shall explain the inputs, assumptions and estimation techniques that it used when estimated the 12-month and lifetime expected credit losses. For those purposes an entity shall disclose:

- (a) the basis of inputs (for example, internal historical information or rating reports, including how default is defined and why that definition was selected, assumptions made about the remaining life of the financial instrument and the timing of the sale of collateral) and the estimation technique, including how the assets were grouped if they are measured on a collective basis in accordance with paragraph B25;
- (b) an explanation of the changes in estimates of expected credit losses and the cause of those changes (for example, severity of loss, change in portfolio composition or changes in volume of financial instruments purchased or originated);
- (c) any change in the estimation technique and the reason for that change; and
- (d) information about the discount rate that the entity has selected in accordance with paragraph B29(a), including:
 - (i) what discount rate an entity has elected to use (ie risk-free rate, effective interest rate, or something in between) and the reasons for that election;
 - (ii) the discount rate (percentage) used; and
 - (iii) any significant assumptions made to determine the discount rate.

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	<p>paragraphs 23-24); and (iii) the determination of the discount rate (as described in paragraphs B7-B9).</p>		
61	<p>A lessee shall disclose a reconciliation of opening and closing balances of right-of-use assets by class of underlying asset separately for Type A leases, Type B leases and right-of-use assets measured at revalued amounts. Those reconciliations shall include items that are useful in understanding the change in the carrying amount of right-of-use assets, for example, the following:</p> <ul style="list-style-type: none"> (a) additions due to leases commencing or being extended; (b) reclassifications when a lessee exercises a purchase option; (c) reductions due to leases being terminated; (d) remeasurements relating to a change in an index or a rate used to determine lease payments; (e) amortisation; (f) effects of business combinations; and (g) impairment. 	<p>One Board member suggested that, similar to paragraph 60, paragraph 61 appears excessive for Tier 2 entities and should be excluded. Another Board member commented that while the requirement is similar to one in the <i>IFRS for SMEs</i> it should still be excluded considering that a lessee is exempted from disclosing a reconciliation of the lease liability, and lessors need not disclose a reconciliation for the asset nor liability.</p>	<p>Staff note that paragraph 61 is substantially similar to paragraph 17.31 in the <i>IFRS for SMEs</i> and satisfies the information needs of users with respect to assets held under a lease by lessees without significantly increasing the costs to the reporting entity. The paragraph was therefore proposed to be retained in the Tier 2 disclosure requirements.</p> <p>Staff acknowledge that reconciliations of the lease liability for lessees and no reconciliations for the lease receivable or residual asset for lessors would be required for Tier 2 entities. However, staff note that excluding paragraph 61 would be an apparent departure from the AASB's Tier 2 Disclosure Principles.</p> <p>Paragraph 2 of the Tier 2 Disclosure Principles⁴ requires that where disclosures under full IFRS are similar to those in the <i>IFRS for SMEs</i> the relevant IFRS disclosure requirement is retained in the Tier 2 disclosure requirements.</p> <p>AASB Staff recommendation</p> <p>Consistent with the proposals in the pre-ballot draft of the Tier 2 Supplement to ED 242, staff propose to retain paragraph 61 in the proposed Tier 2 disclosure requirements.</p>
67	<p>In place of the maturity analysis required by paragraphs 39(a) and 39(b) of IFRS 7 <i>Financial</i></p>	<p>One Board member suggested excluding paragraph 67 in its entirety.</p>	<p>Staff note that the first sentence of paragraph 67 is substantially similar to paragraphs 20.13(b) and</p>

4 http://www.aasb.gov.au/admin/file/content102/c3/Tier_2_Disclosure_Principles.pdf

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	<p><i>Instruments: Disclosures</i>, a lessee shall disclose a maturity analysis of the lease liability, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessee shall reconcile the undiscounted cash flows to the lease liability recognised in the statement of financial position.</p>		<p>20.16(a) of the <i>IFRS for SMEs</i> and only requires an entity to disclose the timeframes over which an entity expects to make lease payments. Paragraphs 39(a) and 39(b)⁵ of AASB 7 were excluded from Tier 2 disclosure requirements. However, staff are of the view that as the disclosure requirement is similar to paragraphs 20.13(b) and 20.16(a) of the <i>IFRS for SMEs</i>, excluding the first sentence of paragraph 67 would be an apparent departure from the Tier 2 Disclosure Principles.</p> <p>Furthermore, the first sentence of paragraph 67 satisfies the information needs of users in regard to obligations, commitments and contingencies as well as measurement uncertainties, without significantly increasing the costs to the reporting entity.</p> <p>AASB Staff recommendation</p> <p>Consistent with the proposals in the pre-ballot draft of the Tier 2 Supplement to ED 242, staff propose to retain the first sentence, and exclude the second sentence, in paragraph 67 in the proposed Tier 2 disclosure requirements.</p>
101	A lessor shall disclose lease income recognised in the	One Board member suggested excluding the words	Staff note that a similar requirement to present a

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AASB 7.39

An entity shall disclose:

- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of cash flows (see paragraph B11B).
- (c) ...

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	<p>reporting period, in a tabular format, to include the following:</p> <ul style="list-style-type: none"> (a) for Type A leases: <ul style="list-style-type: none"> (i) profit or loss recognised at commencement date (gross or net, consistent with paragraph 91); (ii) the unwinding of the discount on the lease receivable; and (iii) the unwinding of the discount on the gross residual asset; (b) for Type B leases, lease income relating to lease payments; (c) lease income relating to variable lease payments not included in the measurement of the lease receivable; and (d) short-term lease income. 	<p>“in a tabular format” to allow an entity more choice on how to present the disclosures required by paragraph 101.</p>	<p>disclosure in a tabular format in Tier 2 Supplement to AASB ED 208 <i>Hedge Accounting</i>⁶ is proposed to be excluded from the Tier 2 disclosure requirements.</p> <p>AASB Staff recommendation</p> <p>On reflection, staff recommend that the wording “in a tabular format” be excluded from the proposed Tier 2 disclosure requirements.</p>
106	<p>In place of the maturity analyses required by paragraph 37(a) of IFRS 7, a lessor shall disclose a maturity analysis of the lease receivable, showing the undiscounted cash flows to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted cash flows to the lease receivable recognised in the statement of financial position.</p>	<p>One Board member suggested excluding paragraph 106 in its entirety.</p>	<p>Paragraph 106 is similar to paragraph 20.23(a) of the <i>IFRS for SMEs</i>. The first sentence of paragraph 106 satisfies the information needs of users in regard to measurement uncertainties and short-term cash flows without significantly increasing the costs to the reporting entity. Staff acknowledge that the referenced paragraph 37(a) in AASB 7⁷ has been excluded from the Tier 2 disclosure requirements. However, staff are of the view that as the disclosure requirement is similar to paragraph 20.23(a) of the <i>IFRS for SMEs</i>, excluding paragraph 106 would be an</p>

6 **Tier 2 supplement to AASB ED 208.49** An entity shall disclose, in a tabular format, the following amounts separately by category of risk ...

7 **AASB 7.37** An entity shall disclose by class of financial asset:

(a) an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired; and

(b) ...

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			<p>apparent departure from the Tier 2 Disclosure Principles.</p> <p>AASB Staff recommendation Consistent with the proposals in the pre-ballot draft of the Tier 2 Supplement to ED 242, staff propose to retain the first sentence, and exclude the second sentence, in paragraph 106 in the proposed Tier 2 disclosure requirements.</p>
109	<p>A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted cash flows to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall present that maturity analysis separately from the maturity analysis required by paragraph 106 for Type A leases.</p>	<p>One Board member suggested excluding paragraph 109 from the Tier 2 disclosure requirements.</p>	<p>Paragraph 109 is similar to paragraphs 20.23(a) and 20.30(a) of the <i>IFRS for SMEs</i>¹. Paragraph 109 satisfies the information needs of users in regard to measurement uncertainties and short-term cash flows without significantly increasing the costs to the reporting entity. Staff proposed retaining paragraph 109 in the Tier 2 disclosure requirements based on paragraph 2 of the Tier 2 Disclosure Principles.</p> <p>Staff are of the view that as the disclosure requirement is similar to paragraphs 20.23(a) and 20.30(a) of the <i>IFRS for SMEs</i>, excluding paragraph 109 would be an apparent departure from the Tier 2 Disclosure Principles.</p> <p>AASB Staff recommendation Consistent with the proposals in the Tier 2 Supplement to ED 242, staff propose to retain paragraph 109 in the proposed Tier 2 disclosure requirements.</p>

Appendix A – Referenced *IFRS for SMEs* Disclosure Requirements

17.31 An entity shall disclose the following for each class of property, plant and equipment that was deemed appropriate in accordance with paragraph 4.11(a):

...

- (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
 - (i) additions.
 - (ii) disposals.
 - (iii) acquisitions through business combinations.
 - (iv) transfers to investment property if a reliable measure of fair value becomes available (see paragraph 16.8).
 - (v) impairment losses recognised or reversed in profit or loss in accordance with Section 27.
 - (vi) depreciation.
 - (vii) other changes.

This reconciliation need not be presented for prior periods.

20.13 A lessee shall make the following disclosures for finance leases:

- (a) for each class of asset, the net carrying amount at the end of the reporting period.
- (b) the total of future minimum lease payments at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
- (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

20.16 A lessee shall make the following disclosures for operating leases:

- (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
- (b) lease payments recognised as an expense.
- (c) a general description of the lessee's significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

20.23 A lessor shall make the following disclosures for finance leases:

- (a) a reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period. In addition, a lessor shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the end of the reporting period, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.

- (b) unearned finance income.
- (c) the unguaranteed residual values accruing to the benefit of the lessor.
- (d) the accumulated allowance for uncollectible minimum lease payments receivable.
- (e) contingent rents recognised as income in the period.
- (f) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

20.30 A lessor shall disclose the following for operating leases:

- (a) the future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year; and
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years.
- (b) total contingent rents recognised as income.
- (c) a general description of the lessor's significant leasing arrangements, including, for example, information about contingent rent, renewal or purchase options and escalation clauses, and restrictions imposed by lease arrangements.