Summarised key points from Roundtable discussions on IAS ED/2013/6 *Leases*
7 August 2013 (Melbourne) and 8 August 2013 (Sydney)

Overall comments

1 Generally, participants agreed with the objective of the proposals, to recognise assets and liabilities arising from lease transactions on the balance sheet. However, a number of participants expressed concern as to whether the cost of the proposals would exceed the benefits. A few participants expressed a view that they would prefer to retain the requirements of IAS 17 *Leases*, with some additional disclosure requirements.

2 Overall, there were concerns expressed as to the complexity of the proposals and the potential for structuring transactions.

Scope of the proposals and definition of a lease

3 Generally, participants agreed with the scope of the proposals and the definition of a lease. However, a number of participants recommended that additional guidance be provided to clarify certain aspects of the proposals, particularly in relation to distinguishing between a service and a lease. A number of participants also requested clarification of the proposals in relation to the application of:

(a) the control criterion;

(b) specified asset definition; and

(c) separating service from lease components.

4 Participants also raised a number of specific concerns relating to the examples provided in the ED and noted that some examples require revision to be more relevant.

5 Some participants expressed concern that take or pay arrangements currently included within the scope of IFRIC 4 *Determining whether an Arrangement contains a Lease* would be excluded from the proposals, whereas other participants supported the scope of the proposals in this regard.

6 A number of participants expressed support for the scope exclusion for intangible assets of both lessees and lessors.

Lessee accounting

7 The majority of participants expressed support for lessees recognising a right of use asset and a liability on the balance sheet.

8 Participants commented that the proposed requirements for lessee accounting are very complex and more guidance would be useful to understand the model. There was quite mixed support for the distinction between Type A and Type B leases, with some noting that this was a satisfactory compromise to achieve the objectives of the project. Other participants did not support the distinction, noting that that they did not agree that there really are two different sets of economics. Some other participants expressed concern that the proposals had no basis in the Framework.

9 A number of participants expressed concern with the new terms being introduced in the proposals, such as 'significant economic incentive'. It was noted that the operation of the proposals is very dependent on such terms.

Lessor accounting

10 Similarly to lessee accounting, participants commented that the requirements for lessor accounting are very complex and more guidance would be useful to understand the model. Some participants expressed a view that they would prefer a single model rather than the dual model proposed in the ED.

11 A number of participants noted concern with the lack of symmetry between the lessee and lessor models for Type B leases. This is particularly evident in sublease transactions that would seem to lead to double accounting for the same asset. Some other participants did not consider there to be a need for symmetry in the accounting requirements whilst others didn't see the sublease situation as being unacceptable rather than being a question of asymmetry.

12 One participant noted that capturing the information required to comply with the proposed requirements would be a significant challenge for many entities.

Classification

13 There were split views amongst participants as to the classification approach adopted in the proposals. Some participants expressed a preference for a single classification

model, whereas others disagreed and suggested that a single model might result in less useful financial statements.

14 Some participants supported the notion of ‘consumption’ as the underlying principle for classification. However, a number of participants expressed concern around which assets might meet the definition of land and buildings. For example, assets that do not meet the definition of land and buildings may be priced similarly in transactions, such as aircraft and ships. A number of participants also noted that applying the primary asset requirements may be problematic in practice and recommended that assets be assessed individually rather than on a primary asset basis.

15 One participant noted they were concerned that not reassessing the classification of leases is an opportunity for entities to structure transactions or at least gives the potential for not accounting for the economics of transactions.

16 One participant raised the issue that where a lease has peppercorn lease payments, the usual lease classification may be reversed. The participant suggested that additional guidance may be required for these types of transactions.

17 A number of participants expressed concern as to the interaction between the proposals and asset impairment requirements.

Measurement

18 Participants generally agreed with the changes to the proposed lease term and variable lease payment requirements and considered these to be more practical than the proposals in the 2010 ED. However, a number of participants noted that the changes to variable lease payments may give rise to structuring opportunities.

19 The handling of revalued assets was raised in both forums. The IASB project leader pointed out that revalued assets would all be classified as Type A leases. This response appeared to surprise the public sector attendees that revalue various types of assets.

Disclosure

20 Many participants commented that the disclosure burden is too high for many entities, particularly when leasing is not a core business activity. Some participants questioned what is so different about leases that requires so much additional disclosure. Another

participant commented that the disclosure requirements would be substantially simplified if a single model, rather than a dual model, were to be adopted.

21 One participant noted that allowing a ‘through the eyes of management’ approach is consistent with other new standards.

Transition

22 Participants generally expressed support for the proposed transition requirements, and noted that the proposals will need a significant amount of time to implement and will require systems changes. Some participants expressed the view that the proposals should not be effective before the effective date of the forthcoming revenue IFRS, and perhaps should not have an effective date that is the same as revenue due to demands on resources.

Other issues

23 It was noted by one participant that the Local Government Act (Victoria) only permits borrowing for finance leases. This may impact on entities raising funds. If this is so, the Local Government Act would potentially require amendment to realign the definition of leases as borrowings.

24 One participant noted that ‘grossing up’ the balance sheet may impact entities subject to APRA requirements in relation capital adequacy ratios.