Comment letter analysis

Tier 2 Supplement to ED 242 *Leases*

Extracted Proposed Disclosure Requirements in Tier 2 supplement to ED 242[1]	Respondent's Comments[2]	AASB Staff Analysis and Recommendations
60 A lessee shall disclose the following: (a) … (b) information about leases that have not yet commenced but that create significant rights and obligations for the lessee. (c) …	We do not agree with the AASB proposal not to exempt entities applying Tier 2 from the following paragraphs or parts thereof: Paragraph 60(b) requires a lessee to disclose information about leases that have not yet commenced but that create significant rights and obligations for the lessee. In our view, the cost-benefit principle is not met. Furthermore, if a lease has not yet commenced, an entity may not yet be committed and could choose not to proceed (e.g. with only a non-significant financial penalty). In our view, the requirement to disclose an executed contract, which has not yet commenced/committed is inconsistent with a number of the current AASB's.	Staff continue to support the retention of paragraph 60(b) for the reasons identified in the ED, that is that paragraph 60(b) satisfies the information needs of users in regard to obligations, commitments or contingencies and disaggregation of information in accordance with the AASB's Tier 2 Disclosure Principles.[3] Furthermore, staff are of the view that judgement would be required in determining whether significant rights and obligations have been created as a result of entering into a lease that has not yet commenced. In reference to the submitter's example, the option not to proceed in return for a non-significant financial penalty might not create significant rights and obligations for the lessee. Staff note that the submitter also raises concerns regarding inconsistent disclosures with other Standards. However, staff note that these concerns are not specific to Tier 2 disclosure requirements. **AASB staff recommendation:** Consistent with the proposal in Tier 2 Supplement to ED 242, staff recommend retaining paragraph 60(b) in the Tier 2 disclosure requirements (that is, proceed with the proposal in Tier 2 Supplement to ED 242).
60 A lessee shall disclose the following: (a) …	We do not agree with the AASB proposal not to exempt entities applying Tier 2 from the following paragraphs or parts thereof:	At its April 2012 meeting[4] the AASB decided to retain disclosure requirements relating to significant judgements and assumptions, where they meet the needs of users as outlined in the Tier 2 Disclosure Principles

1 The ED proposed entities applying Tier 2 requirements to be exempted from applying disclosure requirements shown as shaded text.
2 All comments noted in this table were made by KPMG.
3 http://www.aasb.gov.au/admin/file/content102/c3/Tier_2_Disclosure_Principles.pdf
4 http://www.aasb.gov.au/admin/file/content102/c3/2012_June_AP_2.1_Apr_Minutes_Meeting_123.pdf

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(b) … (c) information about significant assumptions and judgements made in applying the [draft] Standard, which may include the following: (i) the determination of whether a contract contains a lease (as described in paragraphs 6-19); (ii) the allocation of the consideration in a contract between lease and non-lease components (as described in paragraphs 23-24); and (iii) the determination of the discount rate (as described in paragraphs B7-B9). 100 A lessor shall disclose the following: (a) … (b) information about significant assumptions and judgements made in applying the [draft] Standard, which may include the following: (i) the determination of whether a contract contains a lease (as described in paragraphs 6-19); (ii) the allocation of the consideration in a contract between lease and non-lease components (as described in paragraph 22); and (iii) the initial measurement of the residual asset (as described in paragraph 71).	Paragraph 60(c) and 100(b) requires disclosure of information about significant assumptions and judgements made in applying the Standard. In our view, this information is required by AASB 101 *Presentation of Financial Statements,* and is therefore unnecessary and should be removed.	without significantly increasing costs. Staff continue to support the retention of paragraphs 60(c) and 100(b) on the grounds that they satisfy the information needs of users in regard to obligations, commitments or contingencies and disaggregation of information without significantly increasing the costs to the reporting entity. **AASB staff recommendation:** Consistent with the view expressed by the AASB at its April 2012 meeting, consistent with the proposal in Tier 2 Supplement to ED 242, staff recommend retaining paragraphs 60(c) and 100(b) in the Tier 2 disclosure requirements (that is, proceed with the proposal in Tier 2 Supplement to ED 242).
67 In place of the maturity analysis required by paragraphs 39(a) and 39(b) of IFRS 7 *Financial*	We do not agree with the AASB proposal not to modify the following paragraphs or parts thereof for entities	Staff note the *IFRS for SMEs* requirements are:

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Instruments: Disclosures, 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. 106 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. 109 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.	applying Tier 2: The first sentence of paragraph 67, 106 and 109 requiring disclosure of undiscounted cash flows on an annual bas is for a minimum of each of the first five years exceeds the requirements of *IFRS for SMEs* 20.13(b) and 20.16(a) and IFRS 7 *Financial Instruments: Disclosures.* It is our opinion that the cost-benefit principle for the additional disclosure is not met, and that the requirements should not exceed those of *IFRS for SMEs.*	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 … Initially, staff were of the view that the additional, disaggregated, disclosures would satisfy user needs with the benefits to users exceeding the cost to entities. However, on reflection, considering the submitters comments, staff think that unwinding the discount imputed into the lease payment calculations would be expected to impose a greater cost on entities than provide benefits to users. **AASB staff recommendation:** In contrast to the proposals in the Tier 2 Supplement to ED 242 staff recommend excluding paragraphs 67, 106 and 109 in their entirety on the basis that the cost to entities of the disclosures required would be expected to exceed the benefits to users.