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Dr Keith Kendall
Chair - Australian Accounting Standards Board
PO BOX 204 Collins Street West
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Dear Keith

Re: ITC 55 – Post-implementation Review of AASB 16 Leases ('AASB 16')

Stevenson McGregor Rugers ('SMR') is pleased to provide comments on the AASB's Invitation to Comment on the Post-implementation Review of AASB 16 Leases ('PIR'). Our detailed responses are set out in Appendix A to this cover letter.

We have a deep interest in the development of AASB 16 for both public and private sector reporting. We are very supportive of the IASB's and AASB's activities in undertaking this Post-implementation Review as a critical element of the standard setting process.

Overall, we agree that the introduction of AASB 16 has resulted in improvements to the quality and comparability of financial information about leases. However, there are several areas of AASB 16 that are unnecessarily complex and as such, we believe there are opportunities to make some adjustments to the requirements without diminishing the benefits of AASB 16.

If you have any questions concerning our comments please contact Warren McGregor at +61 417 340 664 or Sean Rugers at +61 421 057 493.

Signed on behalf of Warren and Sean

Yours sincerely



Sean Rugers

Director

6 September 2025



Appendix A – Responses to AASB questions

Section 1: AASB General Matters for Comment

Q1. Are there any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 16 Leases?

1. We aren't aware of any ongoing regulatory issues that impact adversely on the application of AASB 16. There was some initial focus on how best to deal with the consequences of lease contracts becoming a capital activity rather than an operating activity wherever the statutory numbers were being used to drive a calculation that required that distinction. This was largely internal management reporting, like budget funding requests, but at times it impacted on regulatory measures. Our understanding is that these matters are largely settled in the private sector.

Q2. Does the application of the requirements in AASB 16 result in major auditing or assurance challenges?

2. We have not observed major auditing or assurance challenges although it should be noted that there are several areas of complexity when applying the standard, that present a risk to individual audit teams if there isn't a clear understanding of the requirements of the standard. These areas are summarised as follows:
 - 2.1. Calculation complexity – complexity can create an overreliance on system outputs, as it can be hard to replicate calculations accurately in a spreadsheet environment.
 - 2.2. Testing of portfolio decisions depends heavily on how comprehensive the documentation is of how the requirements have been applied.

Q3. Are the requirements in the best interests of the Australian economy?

3. Yes, for the following reasons:
 - 3.1. While not all user groups are utilising the enhanced information about leases, there are sufficient benefits to capturing lease contracts on the balance sheet and enhancing disclosures about material lease contract arrangements.
 - 3.2. Companies of all sizes typically realise benefits from managing leases using a system. While the lease accounting calculations are inherently complex, capturing the underlying lease information in a system will allow management to more effectively manage the contractual requirements of each lease contract.



3.3. For public sector entities, AASB 16 results in a more consistent presentation with AASB 1059 Service Concession Arrangements (AASB 1059). Control through ownership, regulation and right of use are all presented on balance sheet in a reasonably consistent manner.



Section 2: NFP and Public Sector topics for comment

Topic 1: Application of AASB 16 by NFP and public sector entities

Q1. In respect of NFP and public sector entities:

Q1(a) Are the ongoing costs of applying AASB 16 and auditing and regulating its application significantly greater than expected?

4. Yes, the higher costs than expected result from the fact that leases are generally non-standard and are therefore inherently complex. The level of judgement required is not easy to capture sufficiently in a system and therefore in many cases, judgement decisions on individual leases are captured outside of the system. This is partly because the judgement involved is not limited to the application of a policy position by the finance function – it involves input from property teams, asset managers and treasury functions which may not understand the accounting requirements that can be different to the natural commercial decision making processes that they may otherwise adopt.

Q1(b) Are the benefits to users significantly lower than expected?

5. Overall no, although it would be important to note that the P&L presentation of depreciation and interest is less relevant in a NFP context, particularly with regard to property leases. There may be opportunities within IFRS 18 to address this though with the development of better ways for finance teams to communicate to users the nature of lease costs and how they are managed by the business.

Q1 (c) Overall, do you have any comments about whether AASB 16 results in financial statements that are more useful than financial statements prepared under the previous Standard AASB 117 Leases?

6. Yes, presenting lease contracts on the balance sheet is just as important for NFP and public entities as it is for private sector entities. Lease contracts are complex and represent an indebtedness of a business that should be captured by the accounting process to ensure there is a full measurement of an entity's contractual obligations on their balance sheet.



Topic 2: Determining the lease term

Regarding determining the lease term, do you have any comments about:

Q2. The application of the requirements in practice by NFP and public sector entities?

7. No specific comments to add

Q3. Whether differences in application exist in practice in the NFP and public sector?

8. Yes, there are differences in application but there is sufficient guidance available to cover most of the issues that develop in practice. The challenges that arise particularly in the public sector, have more to do with being able to specifically define the relationship between different public sector participants, rather than the specific application of the provisions in the leasing standard.

9. A good example of this has been the accounting for leased commercial office space across the State Government sector. In many States, there is a central co-ordinating agency that enters a head lease with a non-Government lessor. There are differing commercial arrangements that may apply as to whether the central co-ordinating agency is doing that on behalf of another agency or is then entering into a formal sub-lease arrangement with the other agency. This has led to at least 3 different accounting treatments for similar types of arrangements (noting there are genuinely different commercial arrangements that exist and could justifiably result in different outcomes).

Q4. Whether the current requirements and guidance in AASB 16 for determining the lease term are sufficient for NFP and public sector entities?

10. Yes, particularly considering that relevant public sector agencies will also supplement the published AAS guidance with their own policies and practice notes to deal with particular issues that arise in practice.



Topic 3: Lease modifications

Regarding the accounting for lease modifications, do you have any comments about:

Q5. The application of the requirements in practice by NFP and public sector entities?

11. No comments to add

Q6. Whether differences in application exist in practice in the NFP and public sector?

12. No differences in application noted

Q7. Whether the current requirements and guidance in AASB 16 for lease modification are sufficient for NFP and public sector entities?

13. No comments to add



Topic 4: Measurement of lease liabilities – determining an incremental borrowing rate

Regarding the measurement of lease liabilities and determining an incremental borrowing rate, do you have any comments about:

Q8. The application of the requirements in practice by NFP private sector entities, including how these entities are currently determining the incremental borrowing rate in practice?

14. We don't have direct experience with assisting NFP private sector entities with determining the incremental borrowing rate, although given our broader experience working with private sector entities, we would expect that it would be a difficult exercise to establish an incremental borrowing rate for an entity that does not have any borrowings.

Q9. Whether differences in application exist in practice in the NFP private sector?

15. No comments to add.

Q10. Whether the current requirements and guidance in AASB 16 for the measurement of lease liabilities are sufficient for NFP private sector entities?

16. No comments to add



Topic 5: NFP public sector concessionary leases

Regarding NFP public sector concessionary leases, do you have any comments about:

Q11. Whether there are any reasons to remove the current accounting policy choice to measure initially concessionary ROU assets at either cost or fair value?

17. While it is an accepted rationale that fair value accounting will generally give rise to more relevant and reliable information, it is often very difficult to determine a commercial market rental in order undertake the measurement of a lease, particularly for unique or specialised buildings. Therefore, there may be more limited circumstances under which a Fair Value accounting policy choice is feasible, although this is not in itself a reason to remove the policy choice from being available.

18. In addition, while it is valid to require that any “grant” component of a below market lease should be accounted for, it can be difficult to isolate whether a below market lease is only a grant element, or if it incorporates other things. For example, if a below market lease is provided to a NFP such that the recipient is better able to deliver services to the lessor, the entity is furthering its’ objectives, but there is also a co-incidence of purpose affecting this transaction that should be considered and should not always result in income being recorded by the NFP entity.

Q12. Whether the temporary accounting policy choice for NFP public sector entities should be made permanent?

19. Yes, unless there is any substantive work planned to further investigate this issue, making the policy choice permanent would give preparers more certainty of the requirements that will apply to these arrangements.

Q13. Whether the disclosures prepared in accordance with paragraphs Aus59.1 and Aus59.2 of AASB 16 are sufficient in providing useful information to financial statement users regarding concessionary leases when the ROU assets are measured at cost?

20. Yes



Topic 6: Sale and leaseback arrangements

Regarding sale and leaseback arrangements, do you have any comments about:

Q14. The application of the requirements in practice by public sector entities?

21. We have not had any direct experience with the use of sale and leaseback transactions by public sector entities.

Q15. Whether differences in application exist in practice in the public sector?

22. None noted.

Q16. Whether the current requirements and guidance in AASB 16 for sale and leaseback arrangements are sufficient for public sector entities?

23. No comments to add.



Topic 7: Other matters

Q17. Are there any other NFP and public sector matters that should be brought to the attention of the AASB as it undertakes a PIR of AASB 16?

24. One matter that does regularly arise for public sector entities is the overlap in scope between AASB 1059 and AASB 16. We note in AASB1059.IG12-IG13 there are two tables presented which set out different types of arrangements for private sector participation in the provision of public sector services. We think this does a reasonable job of identifying the types of commercial arrangements and features that govern these types of contracts. While it is clearly stated that accounting outcomes will depend on the specific terms and conditions of any arrangement, we do find that in practice it can be challenging to determine which standard should apply and is often determined by assessing which parts of a commercial arrangement are considered to be the “provision of a public service” and which entity is responsible for delivering/managing the delivery of those services.
25. As a general statement, it seems like an appropriate outcome that contracts of a relatively short nature (8 – 15 years) would more likely be lease arrangements, with service concessions being more medium term (20 – 30 years). In practice, the length of the arrangement isn’t directly relevant and so is not determinative of the outcome.
26. Therefore, we think it would be beneficial for the Board to consider certain types of arrangements (for example, bus contract arrangements) and assess whether the existing accounting policy application is resulting in optimal outcomes.
27. We would also make the observation that while there are some differences in measurement, in broad terms, each of AASB 1059 and AASB 16 should result in similar accounting treatment. In cases where it is clear that control of the asset exists, there can be a significant amount of effort in determining which standard is more appropriate to apply when the measurement differences may not be material.



Appendix B – Responses to IASB Request for information

Q1 – Overall assessment of IFRS 16

Q1(a). In your view, is IFRS 16 meeting its objective (see page 9) and are its core principles clear? If not, please explain why not.

28. Overall yes. IFRS 16 is meeting its objectives and the core principles are clear.

Q1(b). In your view, are the *overall* improvements to the quality and comparability of financial information about leases *largely* as the IASB expected? If your view is that the overall improvements are *significantly lower* than expected, please explain why.

29. Yes, in our view the overall improvements to the quality and comparability of financial information about leases are largely as the IASB expected.

Q1(c). In your view, are the *overall* ongoing costs of applying the requirements and auditing and enforcing their application *largely* as the IASB expected? If your view is that the overall ongoing costs are *significantly higher* than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of IFRS 16.

30. In our view, the overall ongoing costs of applying the requirements are largely as the IASB expected. However, we have some concern that the reason for this is due to selective application of the requirements of the standard due to the complexity involved in applying them. We believe it is possible that some of this complexity may not necessarily lead to more relevant and reliable financial information for users. We note that if preparers are being selective in how the requirements are applied, the financial reporting outcomes may be less reliable than if the requirements were less complex and were applied more comprehensively by preparers.

31. Specifically in relation to systems – the overall requirement for companies to adopt systems is appropriate as it necessarily results in better record keeping. We have found in practice that to be effective, systems need to comprise both the collection and management of key lease contract information and the calculation methodology required for applying accounting judgements. Where costs are incurred that focus on managing complex lease contract information, this typically



leads to more accurate and consistent accounting application and flow on benefits to the business. If systems do not have the sophistication required to perform all of the necessary measurement adjustments, then adjustments are necessarily happening outside of the system, therefore mitigating the benefits.

32. For accounting judgements – there are several circumstances where there are combinations of strict requirements (ie not including variable payments like CPI and Market Rent Reviews) and judgement calls (on which a range of applications can be applied) resulting in a comingled outcome where there is insufficient transparency and comparability. Commercial terms that are negotiated in the market (particularly for real estate leases) shouldn't result in significant differences in the lease calculations unless there is a genuine principle about trying to capture the financial effect of market risk transfer between the parties.
33. As set out below in the response to Q2, we think that costs could be reduced if there was a focus on removing rigid measurement requirements that may counteract any benefit from applying accounting judgements, or that don't appropriately reflect the reality of how lease agreements may be negotiated in practice.



Q2 – Usefulness of information resulting from lessees’ application of judgement

Q2(a). Do you agree that the usefulness of financial information resulting from lessees’ application of judgement is *largely* as the IASB expected? If your view is that lessees’ application of judgement has a *significant* negative effect on the usefulness of financial information, please explain why.

34. Our view is that there are a number of requirements in the standard that when taken together can be counterproductive to the objective of the usefulness of financial information. The simplest example of this is with regard to the exclusion from the lease liability measurement of variable payments arising from an index or rate (ie CPI linked leases or Market Rent Reviews (MRR)). While there are several lease contract features that may require the careful application of accounting judgement, the requirement to exclude variable lease payments arising from index or rate can have the effect of undermining the application and effect of those accounting judgements.
35. While CPI-linked price increases and MRR features are legitimate features of lease contract negotiation, the accounting requirements create a disproportionate impact on the overall measurement of the lease. Arguably, the measurement differences resulting from the differing treatment of these contract features creates more significant measurement differences than the application of judgement/estimates, which then limits the effectiveness of disclosures, and makes it harder for users to compare the leasing arrangements of similar companies.
36. In terms of the discount rate that is applied, for property leases it is almost always infeasible to apply the rate implicit in the lease due to the lack of sufficient information about the leased asset (which is most often a "partial asset"). IFRS16.BC161 states that it is likely that the Implicit Rate in the Lease and the Incremental Borrowing Rate is similar in many cases. However, the elements used to determine the incremental borrowing rate do not typically take into account differences in the lease payment profile. The lease term is adjusted for, but where payments relating to an index or rate are excluded, these are not typically adjusted for in the incremental borrowing rate determination.
37. The determination of the incremental borrowing rate could be amended to more accurately match which lease components are being excluded from the measurement calculation to mitigate the effect of their exclusion. This would better



align with the IASB's stated objective in IFRS16.BC160 that the discount rate reflects how the contract is priced.

38. Consider the following example calculations (note – the inception measurement values have been derived using the NPV excel formula using a 5% pa discount rate and annual cashflows):

Determining ROU Asset/lease liability measurement at inception of lease contract											
Discount rate for all scenarios - 5%											
Scenario 1 - 3% fixed increase each year of lease term											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Cashflows used at lease inception	\$ 100	\$ 103	\$ 106	\$ 109	\$ 113	\$ 116	\$ 119	\$ 123	\$ 127	\$ 130	
ROU Asset & Lease Liability @ inception	\$874.76										
Scenario 2 - CPI increases throughout lease term											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Cashflows used at lease inception	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	
ROU Asset & Lease Liability @ inception	\$772.17										
Scenario 3 - 3% fixed increase with a Market Rent Review in year 6, fixed increase (3%) for remainder of term											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Cashflows used at lease inception	\$ 100	\$ 103	\$ 106	\$ 109	\$ 113	\$ 100	\$ 103	\$ 106	\$ 109	\$ 113	
ROU Asset & Lease Liability @ inception	\$817.55										
Scenario 4 - 3% fixed increase with a Market Rent Review in year 6 (with a floor being the prior period rent), fixed increase (3%) for remainder of term											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Cashflows used at lease inception	\$ 100	\$ 103	\$ 106	\$ 109	\$ 113	\$ 113	\$ 116	\$ 119	\$ 123	\$ 127	
ROU Asset & Lease Liability @ inception	\$862.63										

39. Clearly it is difficult to draw conclusions from a small set of examples, but the question that these examples pose is whether small adjustments in the commercial arrangements should result in relatively material differences in the measurement calculation. It should be noted that the effect of such variances could be evened out across large portfolios of lease contracts, but where entities have a small number of very material lease agreements, this effect can be amplified.

40. It is also acknowledged that over the course of each lease, the remeasurement requirements will narrow these differences but the question remains whether the initial measurement differences affect the comparability of lease information between similar companies.

41. Arguably an adjustment factor in the discount rate could be used to reflect that expected variable increases in lease payments have not been captured in the initial measurement.



Q2(b). Do you agree that the requirements in IFRS 16 provide a clear and sufficient basis for entities to make appropriate judgements and that the requirements can be applied consistently? If not, please explain why not.

42. Yes, in particular we would note the provisions in the standard that allow for the use of a portfolio approach. As a general statement, we have observed less application of portfolio groups than expected which we suspect diminishes the effective application of appropriate judgements.

Q2(c). If your view is that the IASB should improve the usefulness of financial information resulting from lessees' application of judgement, please explain:

- (i) What amendments you propose the IASB make to the requirements (and how the benefits of the solution would outweigh the costs); or**
- (ii) What additional information about lessees' application of judgement you propose the IASB require entities to disclose (and how the benefits would outweigh the costs).**

43. Our view is that the IASB could improve the usefulness of financial information resulting from lessees' application of judgement. This is best achieved by reconsidering the methodology for determining the lessee's incremental borrowing rate. We think it could be beneficial to introduce adjustment factors to the incremental borrowing rate that reflect lease or portfolio specific attributes of the contracts that are requiring definitive measurement adjustments (ie the exclusion of payments linked to an index or rate). Adding in such adjustment factors may serve to better mitigate the outsized impact such measurement adjustments ultimately have on the lease accounting.

44. Any such adjustments should of course be carefully balanced if there are also changes to the measurement requirements themselves. The objective of the incremental borrowing rate should be more directly aligned with the intention of the rate implicit in the lease (which is often not able to be determined) such that it is more capable of resulting in a similar outcome.



Q3 - Usefulness of information about lessees' lease-related cashflows

Q3. Do you agree that the improvements to the quality and comparability of financial information about lease-related cash flows that lessees present and disclose are *largely* as the IASB expected? If your view is that the improvements are *significantly lower* than expected, please explain why.

45. Yes the improvements in the quality and comparability of financial information about lease-related cash flows are largely as the IASB expected.



Q4 Ongoing costs for lessees of applying the measurement requirements

Q4(a) Do you agree that the ongoing costs of applying the measurement requirements in IFRS 16 are *largely* as the IASB expected? If your view is that the ongoing costs are *significantly higher* than expected, please explain why, considering how any entity-specific facts and circumstances (such as IT solutions) add to these costs.

46. The ongoing costs of applying the measurement requirements is directly related to the sophistication of the lease accounting system that is used by an entity to prepare the lease calculations. In many cases, particularly with regard to a MRR, systems are not accurately incorporating the requirements into the calculations which then requires entities to perform certain measurement adjustments outside of the system, increasing both cost and risk of error as a result.
47. The principal reason for excluding the variable component of payments that depend on an index or rate is due to the costs involved in applying a forecasting technique or other forward looking information in the calculation. We would agree that the costs involved in applying any increase in future payments exceed any benefits from doing so.
48. However, in the case of CPI-linked increases and MRR provisions with no “floor” have the impact of using below market lease rental rates in the liability measurement, particularly for long dated lease contracts. Mechanics that are used to adjust the lease payments over the contract term (whether they are determined by fixed or variable means) are generally seen to be a mechanism to act as a proxy for the market rents that would otherwise apply, and are a practical way of adjusting the rent and without incurring costs associated with resetting to a market rate on a more regular basis. As a result, it would seem that the selected proxy for market that is negotiated by the participants in the lease agreement could be used in the determination of the lease payments as a more accurate measure of the way the lease contract should be measured.

Q4(b) If your view is that the ongoing costs are *significantly higher* than expected, please explain how you propose the IASB reduce these costs without a *significant* negative effect on the usefulness of financial information about leases.

49. We believe that making some adjustments to the way in which variable payments based on an index or rate are required to be excluded from the calculation could reduce some of the complexity of the measurement requirements and result in



payments that more accurately reflect the underlying commercial arrangement that has been negotiated by the parties. This would result in a reduction of costs and an improvement of the usefulness of financial information about leases.

50. As noted in the response to Question 2(c) above, any changes should be carefully balanced with other changes that may be considered with regard to the application of judgement to ensure that they work together to improve the benefits of the lease calculation.



Q5 – Potential improvements to future transition requirements

Based on your experience with the transition to IFRS 16, would you recommend the IASB does anything differently when developing transition requirements in future standard-setting projects? If so, please explain how your idea would ensure:

Q5(a) users have enough information to allow them to understand the effect of any new requirements on entities' financial performance, financial position and cash flows; and

51. No comments

Q5(b) preparers can appropriately reduce their transition costs when implementing new requirements for the first time.

52. No comments



Q6 – Other matters relevant to the assessment of the effects of IFRS 16

Q6.1 Applying IFRS 16 with IFRS 9 to rent concessions

Q6.1(a) How often have you observed the type of rent concession described in Spotlight 6.1?

53. No

Q6.1(b) Have you observed diversity in how lessees account for rent concessions that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?

54. No

Q6.1(c) If your view is that the IASB should act to improve the clarity of the requirements, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

55. No comment

Q6.2 Applying IFRS 16 with IFRS 15 when assessing whether the transfer of an asset in a sale and leaseback transaction is a sale

Q6.2(a) How often have you observed difficulties in assessing whether the transfer of an asset in a sale and leaseback transaction is a sale?

56. Yes, there can often be significant difficulty due to the fact that fair value of a property is ultimately based on the market value of rent that can be obtained for that property. This means that an inherent part of the test that is being used to determine if a sale has occurred is a circular calculation.

Q6.2(b) Have you observed diversity in seller-lessees' assessments of the transfer of control that has had, or that you expect to have, a material effect on the amounts reported, thereby reducing the usefulness of information?

57. No not in relation to the transfer of control, although more guidance in relation to control over the residual rights of an asset, particularly when it relates to decisions to invest capital to refurbish or replace the asset that has been sold would be useful.

Q6.2(c) If your view is that the IASB should act to help seller-lessees determine whether the transfer of an asset is a sale, please describe your proposed solution and explain how the benefits of the solution would outweigh the costs.

58. No comments



Q6.3 – Applying IFRS 16 with IFRS 15 to gain or loss recognition in a sale and leaseback transaction

Q6.3(a) Do you agree that restricting the amount of gain (or loss) an entity recognises in a sale and leaseback transaction results in useful information?

59. Yes, there is an important anti-abuse principle that requires specific guidance in this case.

Q6.3(b) What new evidence or arguments have you identified since the IASB issued IFRS 16 that would indicate that the costs of applying the partial gain or loss recognition requirements, and the usefulness of the resulting information, differ significantly from those expected?

60. None noted

Q6.3(c) If your view is that the IASB should improve the cost-benefit balance of applying the partial gain or loss recognition requirements, please describe your proposed solution.

61. Yes, in relation to sale and lease back transactions an assessment is required of whether there are any above or below market features that would indicate a separate financing component. An above or below market element is identified by referencing either lease payments that are above market, or the fair value of the asset being above market. However, lease payments are integral to determining the market value of an asset so it seems illogical to conclude that there is an above/below market component by reference to the contracted lease payments since such payments are the basis for determining what a market participant will pay to acquire that asset.

Q6.4 – Are there any further matters the IASB should examine as part of the post-implementation review of IFRS 16? If so, please explain why, considering the objective of a post-implementation review as set out on page 5.

62. A matter the IASB should examine is the exemptions provided by paragraph 5 of the standard. For both short-term and low-value leases, these exemptions are superfluous because of the materiality concept (bearing in mind that like items that are individually immaterial may be material in the aggregate). Their inclusion in the standard is disingenuous because they can result in material information about lease assets and liabilities being omitted from the financial statements, thereby impairing the quality of the financial information about leases that is provided to users of the financial statements. Such matters are better dealt with by entities



considering the specific attributes of the lease arrangements that they have rather than a blanket exclusion which affects entities in different ways relative to their own materiality thresholds and contractual arrangements.