

19 November 2010

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 3007

Via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Kevin

### Comments on ED202R Leases

Thank you for the opportunity to comment on the AASB Exposure Draft ED202R Leases. CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered this exposure draft (ED) and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies support the decision to develop a holistic lease accounting model to replace the existing requirements and we believe there are conceptual merits with some of the proposals. However, we are not convinced that the [proposed] Standard is effective in addressing the criticisms of the existing lease accounting model for a number of reasons. These include:

- our concern that the definition of a lease may not be robust enough to distinguish it from the provision of a service on the one hand and a purchase/sale on the other;
- the absence of an appropriate discussion of executory contracts;
- the decision to not develop a single model for lessors;
- the inadequacy of the relief provided to lessees in the accounting for short term leases; and
- the overall complexity of the assumptions and calculations required by the proposals.

Our response to matters on which specific comment is requested is included in the attached Appendix. Also attached is our submission to the IASB, which includes our responses to the specific IASB questions for comment.

Representatives of the Australian Accounting Profession



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Chartered Accountants  
in Australia

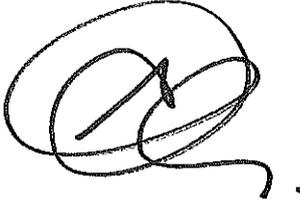
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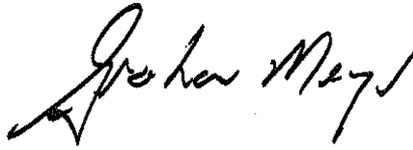
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If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au), Kerry Hicks (The Institute) at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic (NIA) at [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au).

Yours sincerely



Alex Malley  
Chief Executive Officer  
CPA Australia Ltd



Graham Meyer  
Chief Executive Officer  
Institute of Chartered  
Accountants in Australia



Andrew Conway  
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National Institute of  
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### **AASB Specific Matters for Comment**

The AASB would particularly value comments on the following matters:

- 1. Not-for-profit entities – whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals with regard to the not-for-profit entities.**

The Joint Accounting Bodies are not aware of any issues arising in the Australian environment that may affect the implementation of the proposals for not-for-profit private sector entities (however, see our general comments at 4 below).

- 2. Reduced disclosures requirements – if any of the proposed disclosures should be considered for exclusion under the reduced disclosure requirements (see above in relation to the planned companion ED yet to be released).**

The first stage of the AASB revisions to the differential reporting framework that includes the reduced disclosure requirements had the benefit of being informed by the decisions of the IASB articulated in its IFRS for SMEs Standard as issued in July 2009. We note that subsequent IASB Exposure Drafts (e.g., Revenue from Contracts with Customers and Leases) do not signal the IASB's intention about amending its existing requirements for non-publicly accountable entities. On that basis, we believe the AASB should not consider any decisions on RDR disclosures until the IASB has considered this further.

- 3. GAAP/GFS harmonisation – in relation to AASB 1049 Whole of Government and General Government Sector Financial Reporting:**

- (a) are you aware of any implications for GAAP/GFS harmonisation of the proposed changes other than those noted below?**
- (b) how do you think the implications for GAAP/GFS harmonisation of the proposed changes should be dealt with in the context of the principles in AASB 1049?**

The Preface to AASB 1049 notes that, as a result of potential amendments to the requirements in other Australian Accounting Standards, differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) not contemplated in AASB 1049 may eventuate. Consistent with the AASB's comments in the Preface to AASB 1049 addressing this matter, the AASB will have regard to the implications for whole of government and GGS financial reporting in deciding whether to amend the proposals in this ED or the requirements in AASB 1049 to either avoid or confirm the existence of a difference. In that regard, the following aspects of the ED would be expected to have implications for GAAP/GFS harmonisation:

- **the proposal for lessees to capitalise all leases as assets and liabilities in the statement of financial position and therefore remove the operating and finance lease distinction; and**
- **the proposal to change the measurement requirements of assets and liabilities arising from a lease for both lessees and lessors.**

The Joint Accounting Bodies support the implementation of the proposals for publicly accountable entities. However, we accept that there will be a need to provide detailed commentary for GAAP/GFS harmonization given the fundamental differences in accounting.

**4. General comments – whether the proposals would result in financial statements that would be useful to users and are in the best interests of the Australian and New Zealand economies.**

The proposals are in the best interests of the Australian and New Zealand economies insofar as they affect publicly accountable entities. However, for non-publicly accountable entities we believe that the proposed requirements would add significant complexity and costs over and above that which would be incurred by an entity that is able to use the IFRS for SMEs Standard. We consider that providing the option to use the IFRS for SMEs Standard is in the best interests of the economies of Australia and New Zealand.

19 November 2010

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
United Kingdom

Via "Open to comment" page on [www.iasb.org](http://www.iasb.org)

Dear Sir David

### Comments on ED/2010/9 Leases

Thank you for the opportunity to comment on the IASB Exposure Draft ED/2010/9 Leases. CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered this exposure draft (ED) and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies commend the IASB and the FASB for jointly tackling accounting for leases and support the decision to develop a holistic lease accounting model to replace the existing requirements. The Introduction and Invitation to Comment to the [proposed] Standard state three criticisms of the existing lease accounting model, namely:

- i. the failure to meet the needs of users of financial statements because they do not provide a faithful representation of leasing transactions;
- ii. the omission of relevant rights and obligations that meet the Framework definitions of assets and liabilities; and
- iii. the lack of comparability and undue complexity that results from the sharp 'bright line' distinction between finance leases and operating leases.

We have used these criticisms to evaluate the proposals. While we believe there are conceptual merits with some of the proposals, we are not convinced that the [proposed] Standard is effective in addressing the criticisms of the existing lease accounting model for a number of reasons. These include:

- our concern that the definition of a lease may not be robust enough to distinguish it from the provision of a service on the one hand and a purchase/sale on the other;
- the absence of an appropriate discussion of executory contracts;
- the decision to not develop a single model for lessors;
- the inadequacy of the relief provided to lessees in the accounting for short term leases; and
- the overall complexity of the assumptions and calculations required by the proposals.

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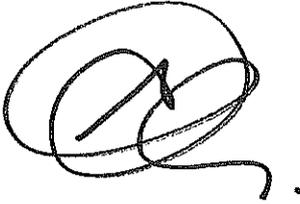


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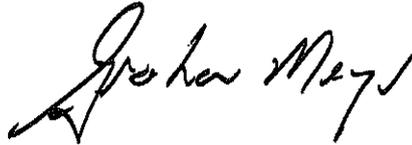
Our response to matters on which specific comment is requested is included in the attached Appendix.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au), Kerry Hicks (The Institute) at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic (NIA) at [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au).

Yours sincerely



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**The accounting model**

**Question 1: Lessees**

- a. **Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**
- b. **Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

In principle, the Joint Accounting Bodies believe that the lessee should recognise all of its assets and liabilities when their definition and recognition criteria are satisfied. We agree with the decision of the Boards to remove the substantial risks and rewards distinction that exists in IAS 17 as we do not think of the control approach and the risks and rewards approach as mutually exclusive – instead, we believe that control is linked to access to economic benefits and associated exposures to risk. The IFRIC observed in developing Interpretation 12 *Service Concession Arrangements* that it is control of the right to use an asset that determines recognition under IAS 16 *Property, Plant and Equipment*. Therefore, we agree with the Boards that it is appropriate that the central tenet of the right-of-use model for lessees is that an item of property, plant and equipment is the sum of its rights of use over its economic life and it can be separated into the rights of use in different periods, each being a different asset. Further, we believe it is control of the right to use an asset that should determine recognition of an asset by the lessee (as it is for recognition under the *Framework for the Preparation and Presentation of Financial Statements*) from the commencement of the lease. We agree that from the commencement of the lease the lessee should recognise its liability to make payments.

The Joint Accounting Bodies agree that a lessee should recognise amortisation of the right-of-use asset and interest on the lease liability as the accounting required by the [proposed] Standard is consistent with the general rules for accounting for intangibles with a definite useful life and property, plant and equipment assets purchased on deferred terms by instalment.

However, we are concerned about the cost of complying with the proposals and we address this issue in our response to Question 3 below. We also have some fundamental concerns with distinguishing lease transactions and service arrangements relevant to the right-of-use model that we address in our response to Question 4 below. Finally, we have some concerns about some specific aspects of the model around optional lease periods and contingent rentals that we address in our responses to Questions 6 to 10 below.

The Basis for Conclusions to the [proposed] Standard contains a brief discussion about executory contracts and explains why a simple lease is not an executory contract after the date of the commencement of the lease. While we do not disagree with this outcome, we would like to see a more comprehensive discussion of the issues. It becomes particularly relevant in considering the treatments of options to renew and contingent rentals – whether these elements of the lease are part of the asset and liability or whether in fact they are executory in nature. The G4+1 Position Paper *Leases: Implementation of a New Approach* contains a good discussion of executory contracts.

## Question 2: Lessors

- a. Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
- b. Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

The Joint Accounting Bodies are supporters of a single model. In our response to Question 1 above, we noted our agreement with the Boards that an item of property, plant and equipment is the sum of its rights of use over its economic life and it can be separated into the rights of use in different periods, each being a different asset. We believe that it is the lessor's use of the partial derecognition model that is a faithful representation of the leasing transaction and will result in information about the lessor that is more relevant and understandable for users of the financial statements. In contrast, the performance obligation model does not appear to be consistent with the right-of-use accounting model required of the lessee that represents a transfer of rights of use to the lessee from the lessor and a liability by the lessee. Further, the outcome of applying the performance obligation approach appears to result in a double counting of the one set of cash flows in two assets - the lease receivable and the 'whole' property, plant and equipment asset.

In our view, when an arrangement conveys the right to control the use of an asset to a lessee, it is appropriate that at the date of commencement of the arrangement that the lessor derecognise that part of the asset and recognise the right to receive lease payments. The lessor should account for the right to receive lease payments in the same way as other financial assets. We do not think the features of a lease should cause different initial measurement. We agree with the Boards that the lessor satisfies its obligation to the lessee at the date of commencement of the lease and that revenue that relates to the right transferred to the lessee is recognised at that date.

We disagree with the proposal not to remeasure the residual value of the leased asset (Para 55) because the residual represents the present value of the lessor's residual right to the asset as measured at the inception date of the lease. This present value should be unwound and interest income credited as the end of the lease approaches.

## Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

- a. At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).
- b. At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in profit or loss, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).

See also paragraphs BC41-BC46).

**Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?**

The Joint Accounting Bodies welcome the efforts of the Boards to develop simplified requirements to short-term leases and we believe it appropriate that the lessor can elect not to recognise assets or liabilities arising from a short-term lease. Our response to Question 1 noted our concern with the cost to lessees of complying with the proposals and we do not think the relief from discounting a real solution, as typically, discounting is not applied to periods of 12 months or less. Further, in practice a short-term lease agreement as defined has more in common with a contract for the provision of a service, as typically the asset is handed back in good condition and rented out again (for example short term car hire and accommodation). We believe that the cost of accounting for a short-term lease even with the proposed concessions is still significant as lessees will be required to implement and maintain information systems that in addition to their application to new leases, capture all open leases on transition and that have an appropriate level of sophistication to enable the estimations and reassessments as proposed.

Accordingly, for reasons of cost/benefit, a better approach would be for the [proposed] Standard to allow the lessee to elect to expense the lease payments and not recognise a right-of-use asset and a corresponding liability to make lease payments (a relief that is similar to that available to lessors). We believe it would be sufficient if the [proposed] Standard were to require the disclosure of information about short-term leases that describes the nature of the underlying asset, the value of lease payments and the length of the lease. We believe it most unlikely that short-term leases would give rise to material assets and liabilities. Nevertheless, if this were so then we suggest that the lessee would conclude that it was inappropriate to make use of the election.

This concession should only be available on leases for less than 12 months with no option to renew; otherwise structuring opportunities may arise.

#### **Definition of a lease Question 4**

- a. Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?**
- b. Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?**
- c. Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?**

The Joint Accounting Bodies note for the definition of a lease to be useful it must be capable of enabling:

- a lease transaction to be distinguished from a purchase or sale transaction; and
- a services contract to be distinguished from a lease transaction.

We believe that the definition needs to be improved. Our preference is that paragraph 25<sup>1</sup> of the [proposed] standard *Revenue from Contracts with Customers* is used to determine whether or not a transaction is purchase or sale transaction to ensure consistency of approach between the two standards.

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<sup>1</sup> “An entity shall recognise revenue when it satisfies a performance obligation identified in accordance with paragraphs 20-24 by transferring a promised goods or service to a customer. A good or service is transferred when the customer obtains control of that good.”

We also have concerns about the robustness of using IFRIC 4 *Determining whether an Arrangement contains a Lease* as the basis for the Appendix B Application Guidance to the [proposed] Standard. IFRIC Interpretations are by their very nature developed to a narrow set of circumstances and we are not certain that the proposals will enable the service component to be distinguished from the lease in arrangements that are very different from those analysed in the development of IFRIC 4. IFRIC 4 was written under the IAS 17 rules when the distinction between an asset rented under an operating lease and a service contract was irrelevant for accounting purposes. Consequently, more guidance is now necessary, including guidance on the long-term lease of land.

One possibility might be to include a rebuttable presumption that where the service component is not distinct the contract as a whole is accounted for as a lease. This approach would bring the IFRS closer to the FASB approach and provide an incentive to preparers to consider the nature of their contracts in detail.

Some practical examples might assist in applying these principles in Appendix B.

## Scope

### Question 5: Scope exclusions

**The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).**

**Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?**

The Joint Accounting Bodies note that the [proposed] Standard will exclude from its scope leases of intangible assets – a proposal that overcomes a significant difference between IAS 17 and the lease guidance in US GAAP. However, we do not support the proposal, as we do not believe it results in an improvement to the current accounting for leases. We see no reason why the proposals should not equally apply to leases of intangibles. The exclusion of intangibles will cause problems to a lessor with composite assets, for example, a property with liquor or gaming licence.

We do support the proposed specific requirements for investment properties when an entity has chosen as its accounting policy the fair value model to be applied to all of its investment property in accordance with IAS 40 *Investment Property*. We believe that as an investment property measured at fair value is determined to meet the needs of users, a different requirement is not necessary.

### Question 6: Contracts that contain service components and lease components

**The exposure draft proposes that lessees and lessors should apply the proposals in *Revenue from Contracts with Customers* to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:**

- a. the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
- b. the IASB proposes that:
  - i. a lessee should apply the lease accounting requirements to the combined contract.
  - ii. a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
  - iii. a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in *Revenue from Contracts with Customers*.

**Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?**

The Joint Accounting Bodies support the principle, that lessees and lessors should apply the proposals in *Revenue from Contracts with Customers* to a distinct service component of a contract that contains service components and lease components. Our response to the [proposed] standard *Revenue from Contracts with Customers* supported the principle proposed in paragraph 23<sup>2</sup> for determining when a good or service is distinct. However, we expressed our view that it is appropriate for an entity to account for goods and services as a single performance obligation if accounting for those performance obligations together would result in the same amount and the timing of revenue recognition as if they were accounted for separately.

We agree that a lessee should apply the lease accounting requirements to the combined contract. The basis of our agreement is the absence of information available to the lessee to allocate payments reliably.

We do not support having a different requirement based on the accounting model used by the lessor. We expect the lessor is able to determine the price of non-distinct services because they need the information on all components of the arrangement (the lease, distinct services and non-distinct services) to price their contracts.

As we suggested in our answer to Question 4, one possibility might be to include a rebuttable presumption that where the service component is not distinct the contract as a whole is a lease. This approach would bring the IFRS closer to the FASB approach and provide an incentive to preparers to consider the nature of their contracts in detail.

#### **Question 7: Purchase options**

**The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64). Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?**

The Joint Accounting Bodies believe that the accounting for purchase and renewal options should be the same.

We agree that a lessee or a lessor should account for purchase options only when they are exercised, as the exercise of a purchase option is merely dependent on future business conditions. Therefore, until exercised we believe that the purchase option is not relevant to determining whether a contract represents a purchase or sale. We believe that the same treatment should apply to bargain purchase options.

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<sup>2</sup> "A good or service, or a bundle of goods or services, is distinct if either:

- a. The entity, or another entity, sells an identical or similar good or service separately; or
- b. The entity could sell the good or services separately because the good or service meets both of the following conditions:
  - i. It has a distinct function – a good or service has a distinct function if it has utility either on its own or together with other goods or services that the customer has acquired from the entity or are sold separately by the entity or another entity; and
  - ii. It has a distinct profit margin – a good or service has a distinct profit margin if it is subject to distinct risks and the entity can separately identify the resources needed to provide the good or service."

We acknowledge that conceptually purchase and renewal options are likely to meet the Framework requirements for separate recognition and measurement. However, we believe that given the amount of judgement required and the complexity of that judgement a disclosure approach is more appropriate.

#### **Question 8: Lease term**

**Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?**

The Joint Accounting Bodies agree with the alternative view expressed in paragraphs AV2 – AV8 in the Basis for Conclusions to the [proposed] Standard to exclude from the measurement of assets and liabilities those optional lease periods that are merely dependent on future business conditions. Accordingly, we do not support the proposal that the lessee determine the lease term taking into account options to extend or terminate the lease that are merely dependent on future business conditions. We believe that the proposals will cause the lessee to recognise a liability to make lease payments and the lessor to recognise a right to receive lease payments, notwithstanding that the Framework definitions of liabilities and assets are not met.

See also our comments to Question 8 above about disclosure about renewal options in place of recognition and measurement.

#### **Question 9: Lease payments**

**Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why? Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?**

The Joint Accounting Bodies agree with the alternative view expressed in paragraphs AV2 – AV8 in the Basis for Conclusions to the [proposed] Standard to exclude from the measurement of assets and liabilities those contingent rentals that are merely dependent on future business conditions. Therefore, lease payments that are contingent on an event that is totally outside the control of the parties to the arrangement and not related to the proportion of the right-of-use asset that is controlled by the lessee or the lessor, (e.g., a price index) would meet the definition of a liability to be recognised subject to its reliable measurement. However, lease payments that are contingent on the use of the asset or the performance of the asset are not liabilities as the past event that gives rise to the present obligation is yet to occur. Accordingly, lease payments that relate to contingent rentals that are within the control of one or both parties to the arrangement should be excluded from the measurement of assets and liabilities.

We believe that residual value guarantees do meet the definition of a liability to be recognised subject to their reliable measurement.

## Question 10: Reassessment

**Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?**

The Joint Accounting Bodies do not support the proposals for reassessment, as they are onerous. Furthermore, if the IASB adopts the approach we suggest in questions 8 and 9, the need for reassessment will be less acute.

## Sale and leaseback

### Question 11

**Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?**

The Joint Accounting Bodies support the 'partial asset' approach, whereby the lessee would continue to recognise a portion of the underlying asset representing the right to use the asset during the leaseback period and derecognise that portion of the asset relating to the rights transferred to the lessor. We do not believe the partial asset approach is more complex than the partial derecognition approach, and we believe it is better able to represent the economic positions of the lessee and the lessor (than does the 'whole asset' approach).

## Presentation

### Question 12: Statement of financial position

**a. Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?**

The Joint Accounting Bodies support the proposals and agree that right of use assets are a separate class. In our view they should be treated in the same way as the underlying asset, for example, a lease of property would be shown as part of land and buildings.

Generally, however, the rationale as to what is shown on the face of the financial statements and what goes in the notes should be the subject of IAS 1 *Presentation of Financial Statements* and not dealt with on a standard-by-standard basis.

**b. Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We do not support this approach.

- c. **Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

In our view, the residual asset should be shown within the appropriate class of asset. Whether it needs to be separately disclosed should be determined by the general principles in IAS 1. Similarly, the lease receivable is a financial asset and these issues are adequately covered under IAS 1

- d. **Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

The Joint Accounting Bodies support the proposals. Generally, however, the rationale as to what is shown on the face of the financial statements and what goes in the notes should be the subject of IAS 1 and not dealt with on a standard-by-standard basis.

#### **Question 13: Statement of comprehensive income**

**Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?**

The Joint Accounting Bodies support the proposals. Generally, however, the rationale as to what is shown on the face of the financial statements and what goes in the notes should be the subject of IAS 1 and not dealt with on a standard-by-standard basis.

#### **Question 14: Statement of cash flows**

**Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?**

The Joint Accounting Bodies support the proposals. Generally, however, the rationale as to what is shown on the face of the financial statements and what goes in the notes should be the subject of IAS 7 *Statement of Cash Flows* and not dealt with on a standard-by-standard basis.

#### **Disclosure**

#### **Question 15**

**Do you agree that lessees and lessors should disclose quantitative and qualitative information that:**

- a. **identifies and explains the amounts recognised in the financial statements arising from leases; and**
- b. **describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?**

The Joint Accounting Bodies support the proposals including the flexibility in approach available via paragraph 71 of the [proposed] Standard. In our responses to Questions 7, 8 and 9 above, we stated that a disclosure approach to purchase and renewal options and some contingencies was more appropriate than a recognition and measurement approach. Accordingly, it will be important that the required disclosures are appropriate for such an approach.

## **Transition**

### **Question 16**

- a. The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?**
- b. Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**
- c. Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

The Joint Accounting Bodies welcome the decision of the Boards to develop a simplified retrospective approach to recognise and measure all outstanding leases as of the date of initial application. We agree that a mandatory full retrospective application would be onerous for some; however, we do not think that it should be prohibited for use by those entities that have the necessary information.

## **Benefits and costs**

### **Question 17**

**Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?**

The Joint Accounting Bodies support the principle that lessors and lessees recognise and measure all their assets and liabilities; however, we are most concerned about the level of complexity that sits behind the principle. As currently drafted, the costs of compliance may outweigh the benefits of the information produced. We encourage the Boards to continue with their outreach activities to understand better the costs and benefits of the [proposed] Standard.

## **Other comments**

### **Question 18**

**Do you have any other comments on the proposals?**

We think it important that the IASB articulate its approach to accounting for leases for entities without public accountability that apply the IFRS for SMEs standard, to signal their intentions to jurisdictions that have already applied the IFRS for SMEs or are otherwise modifying IFRS for use by smaller entities.

We also suggest that the guidance in SIC 15 *Operating Leases – Incentives* be included in the proposed standard so that it becomes a comprehensive reference point for accounting for leases. Similarly, the issue of this standard would provide an opportunity to retire SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.