



18 November 2010

Mr. Kevin Stevenson
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Mr Stevenson,

ED 202R 'LEASES'

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above and a copy of the ACAG response to the International Accounting Standards Board in relation to Exposure Draft 2010/9 'Leases'.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Neill', with a horizontal line underneath.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

ED 202R 'LEASES'

ACAG provides the following comments in response to specific questions raised by the AASB.

- (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.**

ACAG is not aware of any regulatory issues or other issues specific to the Australian environment that may affect not-for-profit entities.

- (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).**

ACAG recommends the AASB consider excluding, under the reduced disclosure requirements, parts of, if not all of, the proposed disclosures outlined in paragraphs 70 to 86 of the ED. This is based on the assumption that the users of the financial statements for entities that are not publically accountable would be in a position to request this information. Disclosure requirements of paragraphs 77 and 80 relating to the preparation of reconciliations and paragraphs 85 and 86 relating to maturity analysis are considered relatively onerous and would not provide certain users with critical information to warrant the cost of preparation.

- (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.**

ACAG is not aware of any further GAAP/GFS harmonisation issues.

(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.

ACAG considers that the proposals would result in financial statements that would be useful and would be in the best interests of the Australian and New Zealand economies because the exposure draft aims to improve the transparency of lease accounting and make financial statements more comparable for investors.

OTHER ACAG COMMENTS

The ED makes specific reference to sale and lease back transactions and proposes specific requirements to account for such transactions, including transactions that are not at fair value (paragraph 69 and BC 165 to BC167). These types of transactions have particular relevance in the public sector. ACAG considers that other types of transactions that reflect unique attributes and are relevant to the public sector (eg crown leases and public private partnerships) may also warrant application guidance for accounting for these transactions.



18 November 2010

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

Dear Chairman,

ED/2010/9 'LEASES'

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft (ED) referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

ACAG is generally supportive of the proposals contained in the ED for a new lease accounting model that addresses the deficiencies in the current framework.

In particular and importantly, ACAG acknowledges that the ED:

- distinguishes a lease from a sale or purchase and from a service contract
- adopts a model that applies to both lessees and lessors and results in the recognition of all assets and liabilities arising from lease contracts
- provides an option to use simplified accounting for short-term leases.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

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?

ACAG supports the Boards' proposed accounting model for lessees as the recognition of the right-of-use asset and associated liability better represents the substance of leasing arrangements.

ACAG also agrees with the proposal that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments. The amortisation of the right-of-use asset is consistent with the principles contained in IAS 38 *Intangible Assets*. The proposal to recognise interest on the lease liability is consistent with the effective interest method for the subsequent measurement of financial liabilities.

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?

ACAG considers that the lessor should only apply the derecognition approach as it best reflects the underlying economics of a lease transaction.

Under the performance approach, two financial assets are recognised for the lessor during the lease term, one being the leased item and the other a receivable for the lessor's right to receive payments during the lease term. Accordingly, it would appear that the lessor's statement of financial position will be inflated under this approach. Under the derecognition approach only one financial asset is recognised during the term of the lease by the lessor, being a receivable for its right to receive rental payments. This accounting treatment is considered to provide more relevant information for users of the financial statements.

The criteria included at paragraph 28 requires the lessor to use the performance obligation approach if the lessor retains exposure 'after the expected term of the lease by having the expectation or ability to generate significant returns by re-leasing or selling the underlying asset'. ACAG notes that this may force all leases of land to be treated under the performance obligation approach. ACAG considers such a requirement conflicts with the recent changes to AASB117 *Leases* which now accommodates situations where leases of land can transfer significantly all the risks and rewards of ownership. Even in cases of 99 year leases, if the lessor maintains a reversionary interest at the end of the lease and can sell that interest, they would be forced to apply the performance obligation approach. It does not appear reasonable that the lessor would continue to recognise this underlying asset in these circumstances.

While ACAG considers that the lessor should apply the derecognition approach, ACAG recognises that the sole application of the this approach could cause some problems in practice. Where an asset has an indefinite useful life and tends to accrete in value (such as land), the derecognition approach could result in large revaluation spikes at the end of the lease term. One example would be a 10 year lease of land. At commencement, the lessor would derecognise a portion of the land (equal to the net present value of future payments) and record the remaining as a residual asset. Under paragraph 59, the lessor is not permitted subsequently revalue this residual interest. At the end of 10 years the land could have increased in value significantly compared to the 'at cost' residual on commencement of the lease. This would result in a large revaluation at the end of the lease term. To appropriately address this, ACAG considers entities should be permitted to elect to measure each class of residual assets at fair value.

ACAG is also in agreement with the Boards' proposals for the recognition of assets, liabilities, income and expenses for the derecognition approach to lessor accounting.

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 the statement of financial position, 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?

ACAG agrees that a lessee or a lessor may apply the simplified requirements for short-term leases. Given the short-term duration of such leases, the costs of complying with the full requirements proposed in the ED may be significant and outweigh the benefits of full disclosure.

ACAG supports the proposals in relation to short-term leases because the simplified accounting approach would allow lessees to ignore the effects of interest on the recorded assets and liabilities and allow the lessee to record the liability for lease payments at the undiscounted amount for lease payments.

DEFINITION OF A LEASE

The exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). The exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

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?**

ACAG agrees with the proposed definition of a lease, the proposed criteria for distinguishing a lease from a purchase or sale contract and the proposed guidance for distinguishing a lease from a service contract.

ACAG raises a matter for consideration. The ED proposes that the purchase and sale of an asset as opposed to the lease of an asset results in an entity transferring control of the underlying asset and all but a trivial amount of the risks and benefits associated with the underlying asset to another entity (paragraph 8). Control is considered the determining factor in whether an entity transfers an asset to another entity (paragraph BC60). In addition, an entity shall consider all relevant facts and circumstances when determining whether control of the underlying asset is transferred (paragraph B10).

As control is considered the determining factor, the relevance of ‘all but a trivial amount of the risks and benefits associated with the underlying asset’ may need to be clarified. It may be the case that the phrase is not required. Additional guidance may also be required on how control applies when determining the existence of a lease as opposed to a sale or purchase and how it relates to the notion of control in other standards.

Two further matters are raised for consideration for clarification purposes. Paragraph B9 states that the [draft] standard does not apply to contracts that meet the criteria for classification as a purchase or sale of an underlying asset. It would seem that a sale and lease back transaction, which is covered by the [draft] standard, represents an exception and should be specifically mentioned as such in the [draft] standard. In paragraph B10(a), the word ‘transferee’ is used. Paragraphs 66 to 69 relating specifically to sale and leaseback transactions uses the words ‘transferor’ and ‘transferee’. To avoid any confusion, it is suggested that the word ‘lessee’ replace the word ‘transferee’ in paragraph B10(a).

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?

ACAG supports the proposed scope exclusions. ACAG agrees with the Boards’ assessment that there is no conceptual reason why a lease accounting standard should exclude intangible assets and notes that it will be considered as part of the accounting for intangible assets (paragraph BC36).

ACAG also notes the ED proposes that leased investment property, measured by lessors at fair value, are to be scoped out, but leased investment property measured at cost are to be scoped in. The proposal seems to dilute the objective of ensuring that lease accounting related issues are addressed in a single standard.

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?

ACAG agrees 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.

The following comments are made for consideration on the IASB proposals for lessees and lessors for contracts that contain service and lease components, but where the service component is not distinct.

While ACAG considers that lessees would usually be able to distinguish between the service and lease components, where that is not possible, ACAG agrees that the lessee should apply the lease accounting requirements to the combined contract.

Consistent with the view expressed for question 2, ACAG considers that the lessor should apply the derecognition approach as opposed to the performance obligation approach. In so doing, the lessor is required to separate out the service component from the lease component even if it is not distinct, and then 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*. While ACAG agrees with this proposal, it recognises that the lessor in some circumstances may find difficulty in separating the service and lease components, however, this difficulty may be overcome through the provision of guidance to lessors on performing the separation requirement.

In addition, ACAG notes that paragraph B7 provides criteria for characterising a service component as distinct. It states as one of the criteria that a service component is distinct if it has a distinct profit margin. It needs to be noted that not-for-profit and public sector entities provide goods and services that are subject to distinct risks and for which they can separately identify the resources needed to provide them, but there may be no profit margin.

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?

ACAG notes that the proposal that a lessee or a lessor should only account for the purchase option at the time they are exercised, differs from the tentative (preliminary) position put forward in the IASB Discussion Paper *Preliminary Views on Leases* that was responded to by ACAG in July 2009. ACAG's response supported the tentative conclusion that purchase options be accounted for in the same way as options to extend or terminate the lease.

ACAG has revisited this issue and has considered paragraphs BC 63 and BC 64. ACAG agrees with the changed proposal that purchase options should only be accounted for at the time they are exercised.

MEASUREMENT

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

- (a) assumes 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 (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).**
- (b) includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be measured reliably.**
- (c) is updated 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 (paragraphs 17, 39, 56 and BC132–BC135).**

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?

ACAG generally agrees with the proposed approach.

ACAG considers the inclusion of options to extend does address potential structuring opportunities in lease agreements but consider the proposed 'more likely than not' test to be subjective. This test may be affected by slight changes in management's intentions, especially in situations where probabilities are close to 50 percent. Instead, ACAG suggest entities only include options to extend where it is 'highly probable' they will exercise such options. Reasonable indicators in applying such a test would include the customisation and specialised nature of the leased asset..

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?

ACAG agrees with the proposed approach.

ACAG also agrees with the proposal for lessees to 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 reliably measured. Such a proposal is consistent with the recognition criteria for financial statement elements in the Framework for the Preparation and Presentation of Financial Statements.

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?

ACAG agrees with the Boards' proposal in relation to the reassessment of assets and liabilities arising under a lease because the lessee and/or lessor may have different information regarding the likelihood of an option being exercised since the previous reporting period.

However, ACAG considers subsequent changes in assumptions should be a period expense rather than adjusted against the asset or liability. Upon inception of the lease, a lessee obtains a portion of the asset from the lessor which reflects the value of those rights and obligations at that time. It would therefore seem reasonable to recognise amortisation on these rights over the lease term. Changes in contingencies are typically due to circumstances that have arisen in the future

accounting period, and should therefore be reflected in the profit and loss during that year. For example, consider a scenario where three years into the lease the country experiences high rates of inflation of 6 percent, which is above the initial estimated increases of 3 percent per annum included in the initial lease calculation. ACAG considers that in the third year, the lessee should recognise an expense equal to the increase above its initial expectations. Users would then be able to identify the real impact of current year changes on the entities assets and liabilities.

SALE AND LEASEBACK

The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents the sale of the underlying asset, the leaseback would also meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).

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?

ACAG agrees with the proposed criteria for classification as a sale and leaseback transaction.

PRESENTATION

The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

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?**
- (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?**

- (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?**
- (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?**

ACAG generally supports the proposed presentation requirements to provide users of financial statements with relevant information for assessing the impact of leases.

ACAG, however considers that proposed disclosure in the statement of financial position may be excessive for entities whose primary business is other than leasing activities. For instance, if the entity is renting some office space and sublets a portion of that office space to another entity, the additional disclosure on the face statements does not appear warranted. ACAG also considers presentation of subtotals on the face statements presents the risk of confusing users. ACAG draws the Boards' attention to the sample disclosure included at B29 and note that the typical user could be confused by multiple lease liabilities being disclosed in separate sections of the face statements. Instead, these disclosures could be better addressed in the notes to the financial statements, and a single net asset/liability disclosed on the face statements (much like fixed assets and accumulated depreciation).

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?

ACAG agrees with the proposal to separately present lease income and expenses from other income and expenses in the statement of comprehensive income, particularly when such disclosures are considered relevant to understanding an entity's financial performance. Otherwise, disclosure in the notes to the financial statements would be adequate to highlight the income and expenses that relate to leases.

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?

ACAG agrees with the proposal to separately present cash flows arising from leases from other cash flows because it would provide users of financial statements with relevant information for making assessments for the impact of lease arrangements that have been entered into by an entity.

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?

While ACAG supports the broad disclosure objectives, some of the proposed disclosure requirements are more extensive than those currently applying under the existing standard and appear excessive, especially those related to reconciliation of leased assets and liabilities (paragraphs 77 and 80) and those related to maturity analysis (paragraphs 85 and 86). ACAG views the proposed disclosures as inconsistent with the Boards' objective of reducing the costs and complexities of disclosing leasing arrangements.

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?**

On a practical basis ACAG supports the Boards' simplified retrospective approach. Also, ACAG is not opposed to a full retrospective adjustment being permitted. ACAG agrees with the Boards' views at paragraph BC187 that the costs of a fully retrospective approach, which would require entities to calculate the carrying amounts of all outstanding leases as if those leases had always been accounted for in accordance with the proposed requirements, would be excessive and that the benefits provided by the information obtained by doing so would not outweigh those costs.

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?

ACAG agrees that the proposed new lease accounting model will improve financial reporting due to the removal of the distinction between operating and financing leases, and thus ensuring the recognition of assets and liabilities for all leases on the statement of financial position.

For many entities, the proposed lease accounting model will be more demanding than current arrangements and will require entity investment to refine or develop systems to cater for the financial and reporting implications of the proposed requirements of the ED. For example, lease contract management systems will need to be more closely integrated with accounting systems and significant judgement would be required to estimate the ‘expected outcome’ of lease contracts.

OTHER COMMENTS

Question 18

Do you have any other comments on the proposals?

Paragraph 67 (b) of the ED appears to have one or two words omitted after the word ‘financing’ which ends the first sentence of the paragraph.