



Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@asb.gov.au

7 November 2013

Dear Mr Stevenson

Re: Tier 2 Supplements to ED 242 Leases

We are responding to your request for comment on the Tier 2 Supplements to ED 242 *Leases*.

As noted in previous submissions, we appreciate the Board's aim to issue complete Australian standards which address the tier 2 requirements as soon as the equivalent international standards are approved. We also understand that to be able to do so, it is necessary to consult with stakeholders as early as possible. However, as expressed in our previous letter dated 1 February 2011, we question whether this is necessarily the best use of resources for standards such as those on leases, where it is likely that the final standards will differ from their exposure draft versions. In particular, we are concerned that a third round of consultation may be necessary if the disclosures in the final standards differ significantly from those proposed in the exposure draft.

In our view, a short delay of three to six months between the issue of a new standard and the finalisation of the reduced disclosures applicable under this new standard would still be acceptable. In our experience, entities reporting under tier 2 of the reduced disclosure regime are less likely to adopt a new standard early and it would therefore be unlikely to be a major issue for those companies should there be a short delay.

Leaving these concerns aside, we have provided specific comments on each of the supplements in Appendix A to this letter. We also include in Appendix B to this letter the relevant extracts relating to disclosure matters from our submission to the IASB and FASB on the Leases exposure draft.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 4664 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Paul Brunner', is written over a light blue horizontal line.

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Appendix A – Specific matters for comment

- 1. whether you agree with the AASB disclosure proposals to exclude paragraphs 61, 62, 64, 65, the second sentence of paragraph 67, the words ‘in a tabular format’ of paragraph 101, paragraphs 101(a), 103-105, the second sentence of paragraph 106, and paragraph 107 of ED 242 for Tier 2 entities, as set out in the Proposed Reduced Disclosure Requirements section below;**

We agree with the proposals to exclude paragraphs 61, 62, 64, 65, the second sentence of paragraph 67, the words ‘in a tabular format’ of paragraph 101, paragraphs 101(a), 103-105, the second sentence of paragraph 106, and paragraph 107 of ED 242 for Tier 2 entities.

- 2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:**
 - (a) not-for-profit entities; and**
 - (b) public sector entities;**

We do not believe there are any regulatory or other issues arising in the Australian environment that would affect implementation of the proposals in Australia.

- 3. whether, overall, these proposals would result in financial statements that would be useful to users;**

Subject to our specific comments above, we believe that the proposals would result in financial statements that are useful to users.

- 4. whether these proposals are in the best interests of the Australian economy; and**

The introduction of the reduced disclosure regime has significantly reduced the regulatory burden for those entities that are eligible to report under tier 2 of the regime. It is therefore in the best interests of the Australian economy if new standards provide consistent disclosure relief for tier 2 entities on a timely basis. However, as explained on page 1 of this submission, we do question whether tier 2 requirements have to be finalised at the same time as a new standard is issued.



5. **unless already provided in response to specific matters for comment 1-4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.**

The introduction of the reduced disclosure regime has significantly reduced the regulatory burden for those entities that are eligible to report under tier 2 of the regime. Subject to our comments above, we believe that the proposed reduced disclosure requirements for tier 2 entities in respect of ED242 will provide relief provided to eligible entities and a reduced cost of complying with the requirements as compared with the disclosure requirements of the full ED242. We do not believe that the reduced tier 2 disclosure requirements have diminished the usefulness of the financial information provided by these eligible entities. Accordingly, we believe that the cost of providing the reduced disclosures is justified by the benefit these will bring to users.



Appendix B – Extract from our comment letter on ED 242 *Leases*

Question 2

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

We agree that the economic characteristics of leases take a variety of forms (notwithstanding that they all contain an element of financing) and that distinguishing between different leases is appropriate. However, we have concerns with respect to the proposed basis for classifying leases. We discuss these concerns and our proposed alternative in greater detail in our response to question 4.

The proposed presentation in the cash flow statement for Type A and Type B leases seems appropriate.

Question 8

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

We do not agree that there should be a difference in disclosure requirements between US GAAP and IFRS other than in respect of valuation options that are available under IFRS but not US GAAP. We believe that the reconciliation requirement for the right-of-use assets for Type B leases, as it stands, does not provide users with the most useful information as the Type B leases apply a balancing figure for the amortisation charge to achieve an overall straight-line expense. However, we can see value in the reconciliation for Type A right-of-use assets and, on balance, we would support the inclusion of consistent disclosure requirements in this respect under both IFRS and US GAAP.

We agree with the other disclosure requirements as suggested by the boards.