Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

15 December 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of *Leases*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Exposure Draft (ED). Our responses to the questions raised in your ED are set out in the Appendix for your consideration.

We appreciate the boards' objective of updating IAS 17 *Leases* to bring about more consistent application of accounting principles to leasing arrangements. However, we do not support the proposals as set forth in the ED for either lessees or lessors as we consider that the ED, as currently worded, would introduce excessive complexity into the accounting requirements, while at the same time reducing the understandability and decision-usefulness of the information provided to users. Our key concerns are as follows:

We note that the primary driver behind the project appears to be an intention to gross up the lessee's statement of financial position on the basis that "leasing is an important source of finance" (being the opening sentence of the Introduction to the ED) and a belief that IFRS statements of financial position are deficient because they "omit relevant information" concerning operating lease commitments. Whilst we agree with much of the criticism surrounding the lessee's current ability to exclude unavoidable commitments from its statement of financial position if a lease manages to fall just the "right" side of the perceived bright line between finance leases and operating leases, we do not accept that this is a sufficient basis on which to justify the far-reaching changes proposed in the ED. We are also concerned that a proper conceptual analysis of the nature and timing of any transfer from the lessor to the lessee is being sacrificed in the interests of achieving the 2011 deadlines.

In our view, and as articulated in paragraph BC27 of the ED, in practice, a broad range of leasing arrangements exist and only a subset of these are entered into for the purposes of financing (and an even smaller subset of these are currently "off-balance sheet", given the substance over form definition in IAS 17 of a finance lease). This is clear from the fact that it is not uncommon to find cash rich companies entering into operating lease arrangements for the purposes of reducing or managing their exposure to a particular asset class. For example:

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- a chain of restaurants may enter into short to medium-term property leasing arrangements in a variety of locations in order to provide flexibility should they wish in future to expand or contract their business in any of those locations, based on the location's performance;

- a retailer may enter into turnover rental arrangements with the owner of a shopping mall. This is arranged in order not only to ensure that any increase in rental expense will only occur in times of increasing sales revenues, i.e. sharing the risk and rewards of the shops between the owners and the tenants, but also to sufficiently motivate the mall owner to actively manage the mall in order to encourage the right mix of customers and maximise their numbers; or

- an entity may enter into a leasing arrangement for its office with, for example, Xerox, whereby photocopiers are installed and maintained by Xerox on the company's premises and the company pays a monthly minimum charge plus charges on a "per page copied" basis, effectively out-sourcing this aspect of its operations.

Therefore, while we agree that the existence of the two different accounting models for leases (the finance lease model and the operating lease model) has resulted in some structuring opportunities around "bright lines", we are not convinced that the proposals in the ED to gross up the lessee's balance sheet in respect of all leases, to record all leasing expense as either amortisation or finance expense and to record all cash outflows as financing cash outflows, will result in a more meaningful presentation of the lessee's operations than the current requirements of IAS 17. Many of our constituents who have submitted comments to us have expressed deep concerns over the distortions that such an accounting treatment would introduce to the reporting of their operating expenses, finance expenses and balance sheet ratios.

In our view, until there has been a full conceptual framework analysis on the question of the nature of a present obligation, as opposed to a future obligation, the IASB has no conceptual mandate under existing IFRSs on which to take this project forward other than to more closely align the accounting by lessees for medium to long-term operating leases with the accounting requirements applicable to the holders of other intangible assets under IAS 38 *Intangible Assets* and the holders of other property, plant and equipment under IAS 16 *Property, Plant and Equipment*. We believe this closer alignment could be achieved by requiring that the amount of the present value of minimum lease payments for leases with a lease term in excess of one year, as computed for operating leases under the existing requirements in IAS 17, is recorded by lessees as the measure of "cost" of the intangible "right to use" and that this amount would be amortised over its useful life.

In our responses to questions 1, 3, 7, 8 and 9 we provide further details of the extent to which we consider this lessee-accounting model should apply to short-term arrangements, renewal and purchase options and contingent rentals, and how to determine "useful life". In particular, we note that as discussed in our response to question 8, we consider that the definition of "lease term" in IAS 17 should be amended to be consistent with paragraphs 94 and 96 of IAS 38 to allow for renewal periods when "*there is evidence to support renewal by the entity without significant cost.*". We consider it is necessary to include such additional text from IAS 38 in order to cater for the situation where the lessor is not a profit-making entity and therefore may not be acting in accordance with normal commercial principles when the lease

expires. This is commonly the case in Hong Kong, where all land is ultimately subject to a lease granted by the Hong Kong Government. These leases have a stated expiry date but it is currently a matter of stated public policy that the leases will be renewed without payment of a premium in the vast majority of cases, thereby satisfying the criteria set out in paragraph 96 of IAS 38. We consider that it is a weakness in IAS 17 that the definition of the "lease term" in IAS 17 differs from the definition of "useful life" set out in IAS 38 in this respect.

If this approach of aligning IAS 17 and IAS 38 more closely were taken, then we would support including leases of intangible assets within IAS 38, provided the scope of that standard were clarified to indicate that fact.

We consider that to go beyond this rather basic method of addressing the concerns over possible misuse by lessees of the bright line in IAS 17, and to make any changes to the current accounting requirements applicable to lessors, requires a more fundamental and conceptual approach to identifying the nature of "assets" transferred under a lease and the timing of that transfer. We do not consider that such an analysis can be conducted by starting with the lessee first. Instead we consider that it is first necessary to consider the position of the lessor as the transferor and that therefore this issue should be properly addressed in the revenue project, since that project takes a broad approach to the concept of "transferring an asset" (i.e. which includes the provision of goods and services, including license arrangements) and sets out principles which are based on the timing of transfer of control over that "asset" to the customer.

Applying these principles would identify the circumstances in which the lessor should either recognise the transfer of an "asset" (in its broad sense as used in that project) at a single point in time (for example by derecognising all or a portion of the asset underlying the lease in circumstances where the terms of the lease are such that the arrangement would currently be classified as a finance lease) or should recognise the transfer of the "asset" on a continuous basis (thereby earning a revenue stream from permitting restricted use of its own underlying assets for a limited period of time). We expect the timing of revenue recognition may vary from one lease to the next, depending on the terms of the lease agreement, even though following a single set of principles.

We accept that it would be necessary to include further guidance in the final revenue standard to cover revenue arising from leasing arrangements and that in any event applying these concepts will involve judgement on a case by case basis, but we consider that it would assist in making these judgments consistently if all the types of arrangements which result in revenue from customers and disposals of assets, including the revenue generated by lessors from the full range of leasing arrangements, were dealt with under a single standard. In addition, it would also greatly reduce the complexity and practical application difficulties for multiple arrangement contracts which include both leasing and service components. Our response to question 2 sets out more detail in this respect.

Applying the revenue recognition concepts to the terms of any given lease should then provide the conceptual answer to the questions "what form of "asset" does the lessee receive from the lessor under the lease and when does it receive this asset?". In other words, conceptual consistency would indicate that the lessee should only recognise an obligation in respect of the lease payments under any given lease (and a

corresponding asset or expense), if under the revenue standard it was appropriate for the lessor under that lease to recognise revenue and a corresponding receivable, following the principles applicable to other executory contracts relating to non-financial items. Consequently, we would expect that the only additional accruals by the lessee for commitments under executory lease agreements in advance of amounts recognized by the lessor as a receivable would be restricted to those that would be required by IAS 37, *Provisions, contingent liabilities and contingent assets*, under its onerous contract provisions.

As explained further in our responses, we believe that our alternative proposals in respect of the above aspects would reduce the complexity in proposed accounting requirements relating to leasing transactions, while at the same time improve the understandability and decision-usefulness of the information reported by lessees.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/IL/jn

Encl.

Hong Kong Institute of
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APPENDIX

Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft of *Leases*

The accounting model

The exposure draft proposes a new accounting model for leases in which:

(a) A lessee would recognise an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraphs 10 and BC5–BC12). The lessee would amortise the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.

(b) A lessor would apply either a performance obligation approach or a derecognition approach to account for the assets and liabilities arising from a lease depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraphs 28, 29 and BC23–BC27).

Lessees

<u>Question 1</u>

(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?

As stated in our covering letter, we have significant concerns over applying a "right of use" model as is proposed in the ED, being one which would cover all leases, would record all leasing expense as either amortisation or finance expense and would record all cash outflows as financing cash outflows. While we accept that the existence of the two different accounting models for leases (the finance lease model and the operating lease model) has resulted in some structuring opportunities around bright lines, we do not believe that the proposed model will result in a more useful information and meaningful presentation of a lessee's operations than the current IAS 17.

As also stated in our covering letter, in our view, in the absence of a full conceptual framework analysis on the question of the nature of a present obligation, as opposed to a future obligation, the IASB has no conceptual mandate under existing IFRSs on which to take this project forward in respect to the accounting by lessees other than to more closely align the accounting for operating leases with the accounting requirements for intangible assets. We believe this could be achieved by requiring that the amount of the present value of minimum lease payments, as computed for operating leases under the existing requirements in IAS 17, is recorded as the measure of "cost" of the intangible "right to use" and that this amount would be amortised over its useful life.

In our responses to questions 3, 7, 8 and 9 we provide further details of the extent to which we consider this model should apply to short-term arrangements, renewal and purchase options and contingent rentals, and how to determine “useful life”.

We consider that to go beyond this rather basic method of addressing the concerns over possible misuse of the bright line in IAS 17 requires a more fundamental and conceptual approach to identifying the nature of “assets” transferred under a lease and the timing of that transfer. We do not consider that such an analysis can be conducted by starting with the lessee first. Instead we consider that this issue should be properly addressed in the revenue project, since that project takes a broad approach to the concept of “transferring an asset” (i.e. which includes the provision of goods and services, including license arrangements) and sets out principles which are based on the timing of transfer of control over that “asset” to the customer. This is discussed further in our response to question 2.

Applying the revenue recognition concepts to the terms of any given lease should then provide the conceptual answer to the questions “what form of “asset” does the lessee receive under the lease from the lessor and when does it receive this asset?”. In other words, the lessee would only recognise an obligation in respect of the lease payments under the lease (and a corresponding asset or expense, depending on the nature of the item transferred from the perspective of the lessee), if under the revenue standard it was appropriate for the lessor to recognise revenue and a corresponding receivable.

As explained further in our responses below, we believe that our alternative proposals in respect of the above aspects would reduce the complexity in proposed accounting requirements relating to leasing transactions, while at the same time improve the understandability and decision-usefulness of the information reported by lessees.

Our comments below relating to the accounting by lessees should be understood in the context of the above comments.

(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?

We agree that if a lessee capitalises the present value of the minimum lease payments (as discussed above in our response to question 1(a)), then the lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments, consistent with the approach taken for other intangible assets under IAS 38 (and assuming that short-term arrangements are excluded from these requirements, as discussed in our response to question 3).

However, we do not believe that it is appropriate to state that the right-of-use is measured “at amortised cost” at subsequent reporting dates (see paragraphs 16(b) and 20 of the ED). The measurement attribute "amortised cost" is defined in IAS 39 *Financial Instruments: Recognition and Measurement* only. Also, IAS 38 does not use "amortised cost" to describe the subsequent measurement of intangible assets.

Therefore, to avoid unnecessary confusion, we believe that paragraphs 16 and 20 of the ED should be changed as follows (additions are underlined and deletions are struck through):

16. After the date of commencement of the lease, a lessee should measure:

    (a) ……
    (b) the right-of-use asset at ~~amortised cost~~ the amount initially recognised, less accumulated amortisation in accordance with paragraph 20, unless paragraphs 21 – 24 apply.

20. ~~If a lessee measures the right-of-use asset at amortised cost, it~~ A lessee shall amortise the asset on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset, if shorter. The lessee shall select the amortisation method and review the amortisation period and amortisation method in accordance with IAS 38.

Lessors

Question 2

(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?

We do not agree with the proposed accounting models for lessors.

Under the ED, whether a lessor should apply the performance obligation approach or the derecognition approach depends on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. In particular, how a lessor satisfies a performance obligation is described very differently under the two models. Under the performance obligation approach, the underlying asset is considered as the lessor's economic resource and a performance obligation is described as the obligation to allow a lessee to use the underlying assets continuously during the lease term. However, under the derecognition model, the underlying asset is considered to have been transferred by the lessor to the lessee and the performance obligation is described as the obligation to deliver the right-of-use asset to the lessee.

From this it seems that the proposal for lessors merely replaces one drawing line (i.e. whether or not substantially all risks and rewards have been transferred to the lessee) with another drawing line (i.e. whether or not significant risks or benefits have been retained by the lessor). Furthermore, we note that lessors of investment properties are excluded from the scope of the leasing standard, thereby creating potentially a third recognition model.

We believe that a single accounting model should be developed by the boards which is consistent with the proposed principles set out in the exposure draft issued by the IASB and FASB titled *Revenue from Contracts with customers* (“the revenue exposure draft”). In that exposure draft, in respect of transfers of goods or services, a performance obligation is satisfied when goods or services have been transferred to a customer, and goods or services are transferred when the customer obtains control of those goods or services.

In our view, from a lessor's perspective, allowing a lessee to use the underlying asset for a specified period of time in exchange for a right to receive a stream of cash flows is an income-generating activity. We, therefore, strongly urge the boards to address lessor accounting in their revenue recognition project with an objective to develop a *single principle-based* revenue standard for *all income-generating activities*. This would require the boards to articulate clearly in the revenue standard how the principles can be applied to lessor accounting, with sufficient guidance. For example, the boards should address the following:

- The identification of the asset that has been transferred from a lessor to a lessee (consistent with the proposed accounting for lessees, we believe that it is the “right to use” an underlying asset for a particular period of time that is being transferred from the lessor to the lessee).

- The timing of the recognition of the transfer (we believe that the proposed derecognition approach currently found in paragraphs 28-29 of the leasing exposure draft would be consistent with the concept of recognition of revenue at a single point in time for the disposal of all or part of an asset (in the same way that the timing of recognition of disposal of both inventory and property, plant and equipment would fall under the draft revenue standard), whereas in all other cases the right to use the underlying asset is transferred continuously over the lease term under the “continuous transfer” concept set out in both the revenue and the leasing exposure drafts.

We consider that regarding all lessor activities as falling within the revenue standard would greatly reduce the complexity in the accounting literature and in the practical application of that literature. For example:

- agreements which involve both the provision of services and the use of the service provider’s equipment (for example, the chartering of a ship plus its crew or the provision of cloud computing services) could be analysed on a consistent basis under a single standard to determine the extent to which it was necessary to identify separate components (in this regard it is particularly noted that in accordance with paragraph 24 of the revenue exposure draft, it would not be necessary to separate the performance obligations if the goods and services are provided at the same time. Therefore dealing with the entire arrangement under the revenue standard would avoid the need to separately record the performance obligation for the lease component);

- there would be a single set of principles relating to the treatment of variable consideration and customers’ options to renew agreements; and

- there would be a single set of disclosure and presentation requirements concerning the entity's revenue generating activities, enabling the entity to categorise its sources of income into categories which are meaningful to the business, and present cash flows, assets and liabilities on a consistent basis from one revenue generating activity to the next.

Also, as discussed in our response to question 1, we consider that resolving the lessor accounting using the principles to be applied for revenue recognition would provide a sound conceptual basis on which to address the fundamental questions for the lessee of "what form of "asset" does the lessee receive from the lessor and when does it receive this asset?"

In our view, if the scope of the revenue standard is not extended to include the income arising from the leasing out of tangible assets, then the requirements in the leasing standard in respect of lessors should be clearly consistent with the revenue standard. In particular in respect of the performance obligation approach, the proposals should be substantially revised to reflect the continuous transfer revenue recognition and measurement requirements set out in the new revenue standard in all applicable respects, including the timing of recognition of assets and liabilities and, once they are recognized, a gross presentation of these items in the statement of financial position.

(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?

As mentioned in our response to question 2(a), we do not agree with the proposed accounting models for lessors and consider that the revenue standard should apply instead.

Short-term leases

<u>Question 3</u>

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?

We support simplified accounting in relation to short-term leases, which we would define as leases with a lease term of twelve months or less, where "lease term" is as currently defined in IAS 17 (as further discussed in our response to question 8). However, we consider that this is best achieved by excluding all such leases from the scope of the leasing standard, with the effect that these arrangements are also outside the scope of the presentation and disclosure requirements.

Excluding such leases entirely from the scope of the leasing standard would eliminate uncertainty over the extent to which, for example, hire of rental cars or hotel rooms for periods of less than 12 months but for longer than the typical hire period of e.g. a few days, should be treated as a "lease" and would also reduce the complexity involved in attempting to separate service components from payments for the "right to use" the asset (see also our response to question 4 and 6). We would expect that such short-term arrangements would then be accounted for on a normal "as-incurred" basis, similar to any other periodic expense, and therefore effectively on the same basis as is currently adopted for operating leases.

Clearly excluding any and all short-term arrangements from the scope of the leasing standard will, in our view, significantly reduce the uncertainty and cost of adopting the standard without losing decision-useful information for users. We also consider that it will result in greater comparability of disclosure by different entities of the extent of the entity's "leasing" activity, as distinguished from recurring business expenses, and it will result in more meaningful information being presented in the operating activities section of the cash flow statement, compared to the proposal in paragraph 27 of the ED that all cash outflows relating to leasing should be presented as financing activities. It will also prevent the property, plant and equipment category in the balance sheet being inflated by "right-of-use" assets which are short-term in nature, which would be contrary to IAS 16, since PPE are defined in paragraph 6 of IAS 16 as tangible items that "are expected to be used during more than one period".

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?

In principle, we agree that a lease is a contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for consideration.

We noted that the ED includes some guidance that aims to help entities determine whether or not a contract contains a lease. In particular, paragraphs B2 – B4 require entities to determine whether a contract contains a lease by assessing whether (a) the fulfillment of the contract depends on providing a specified asset(s); and (b) the contract conveys the right to control the use of a specified asset for an agreed period of time.

However, we are concerned that the guidance set out in paragraphs B2 – B4 may cover a wide array of arrangements that the boards may not have intended to cover. For example, in hotels guests stay in a "specified" hotel room or, when hiring a vehicle, the vehicle is "specified" by its license plate. Based on the guidance set out in paragraphs B2 – B4, it seems that these two arrangements could be argued to contain a lease because the fulfillment of the two arrangements require the hotel operator or the car hire company to provide a specified asset for a specified period of time. However, many, including us, do not believe that it is appropriate to include these arrangements within the leasing standard because there is little economic difference between providing a service using the entity's own equipment and hiring the equipment and staff out to others, although we do accept that if the room hire or vehicle hire was for an extended period, there may come a point where the nature of the arrangement in effect includes a lease component.

Consequently, as mentioned in our response to question 3, we consider that a practical means to reduce confusion and complexity in this respect is to clearly exclude short-term arrangements from the scope of the leasing standard. This will then reduce the pressure on the guidance to find the line between, for example, the daily or weekly rate hire of a vehicle or room and the extended arrangements for which on balance sheet recognition of "right of use" asset and lease obligation, and the associated disclosure requirements, provide decision-useful information.

If short-term arrangements are not excluded from all the presentation, disclosure and measurement requirements of the leasing standard, then we do not support any amendments to IAS 17 until the conceptual issues discussed in our covering letter are

resolved by first addressing the question of accounting by the lessor for the transfer of an "asset" under the principles set out in the revenue recognition project.

Scope

Scope exclusions

<u>Question 5</u>

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?

Concerns over "scope" typically arise when the accounting principles to be applied to a transaction vary considerably depending on whether the transaction is within the scope of standard X or Y, as this encourages arbitrage behaviour by preparers. Currently such issues arise, for example, in determining whether a transaction gives rise to an intangible asset or an operating lease (for example, there have been debates locally over whether a 3G telecommunications license is a lease of a tangible item (the unique and specified bandwidth) or an intangible license, since under IAS 38 it would be necessary for the holder of the license to accrue the unavoidable cost of the asset (generally measured at the present value of the minimum payments, if the payments are deferred) whereas under IAS 17 obviously this would not currently be required. Likewise, from both the lessor and lessee perspectives, the requirements of IFRIC 4 *Determining whether an Arrangement contains a Lease* have led to extensive debates over whether a given arrangement gives rise to a lease or is simply an agreement to supply goods and/or services.

Conceptually aligning the accounting for the lessor under the revenue standard would considerably reduce such arbitrage opportunities or debate in respect of leases compared to service agreements. We also believe that if the lessee's accounting reflected the lessor's pattern of revenue recognition (i.e. in some cases recognising the transfer of a right to use at a single point in time and in other cases recognising that transfer continuously over a period of time) there would in practice be a closer alignment between the requirements applicable to lessees, the holders of intangible assets and other licensees. Furthermore, if the IASB decided to pursue the objective of improving lessee accounting ahead of resolving the accounting for lessors, and our proposal as set out in our covering letter and response to question 1 of more closely aligning the requirements of IAS 17 and IAS 38 were accepted, then obviously this too would serve to reduce the arbitrage opportunities or debates. We believe this would considerably reduce compliance costs, without resulting in a loss of decision-useful information for users.

If this approach were taken, then we would support including leases of intangible assets within IAS 38, provided the scope of that standard were clarified to indicate that fact. We would also agree with continuing to exclude biological assets and exploration

of minerals etc. from these standards. However, we consider that it will be necessary to expand the requirements of IAS 41 *Agriculture* to deal more clearly with the required accounting when the entity has in effect a lease over a biological asset i.e. a right to use a specified biological asset for a period of time, as this does not currently appear to be within the scope of IAS 41.

For example, consider the position of an entity which enters into a 5 year arrangement for the right to use an orange orchard in exchange for a fixed annual payment. During that 5 year period the entity has ownership rights over the annual crop of oranges and maintenance obligations in respect of the trees. However, the entity has no ownership rights over the orange trees, which are expected to last for e.g. a further 10 years after the orchard is returned to the owner. IAS 41 would need to contain further guidance on how the rights and obligations in respect of the trees should be taken into account in any fair value measurement of the "biological asset" if leases of biological assets are to be specifically excluded from IAS 17 (or its replacement).

Contracts that contain service components and lease components

Question 6

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?

From the perspective of lessors, as mentioned in our response to question 2, we believe that the boards should address the lessor accounting in their revenue recognition project. Consistent with the principle proposed in the boards' revenue recognition project, we agree that the lease component and the service component should be accounted for separately when the service component is distinct from the lease component.

However, as mentioned in our comment letter responding to the exposure draft titled *Revenue from Contracts with Customers*, while we agree in principle that each promised good or service should be accounted for as a separate performance obligation only if it is distinct, we find it difficult to pin down the intended meaning of "distinct" and how each separate performance obligation can be identified in practice. Similar to our recommendations in relation to the exposure draft *Revenue from Contracts with Customers*, we believe that more explanatory guidance and enhanced examples should be developed to make the "distinct" principle operational in practice.

For example, illustrative examples should be included to explain how the "distinct" concept should be applied in situations where the lessor is responsible for maintenance and insurance (that is, lessors are reimbursed in the monthly rental payment for maintenance and insurance and taxes but the costs relating to the services may not be separately identified). These arrangements are common in practice, and many constituents are confused as to how to apply the "distinct" concept in these scenarios. However, we also note that if the boards were to deal with all aspects of lessor accounting under the revenue standard, as proposed in our response to question 2, then we expect that the concerns over trying to distinguish between service and lease components would be substantially reduced, given the guidance in paragraph 24 of the revenue exposure draft.

From the perspective of lessees, we agree that the lease component and service component should be accounted for if the service component is distinct and the lessee is able to do so. However, we consider that the requirement in paragraph 6(a) for the <u>lessee</u> to account for the service component in accordance with *Revenue from Contracts with Customers* seems inappropriate as the lessee is incurring an expense in this regard, not generating revenue.

Purchase options

<u>Question 7</u>

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?

We do not agree that purchase options should be accounted for only when they are exercised. We believe that the exercise of purchase options should be capable of anticipation in the same way as options to extend or terminate the lease. For example, a purchase option is not substantively different from a series of renewals that extend over the entire economic life of the leased asset.

As stated in our response to question 2, we consider that including the accounting by the lessor within the scope of the revenue recognition project should result in a single

set of principles relating to the treatment of variable consideration and customers' options to renew agreements. This would then be used to drive the accounting by the lessee. For example, if under the revenue standard the lessor is able to conclude that it has transferred control over the underlying asset to the lessee and therefore de-recognises that asset, then we would expect that it would be appropriate for the lessee to recognise the acquisition of the underlying asset and would accrue the consequential liability arising from that acquisition.

In the meantime, we consider that the requirements contained in IAS 17 concerning the treatment of purchase options result in an appropriate presentation of the lessee's position. That is, the exercise of purchase options is anticipated in the calculation of the minimum lease payments and lease term if, at the inception of the lease, their exercise is reasonably certain. In practice, this effectively results in the exercise of bargain purchase options invariably being anticipated, whereas the exercise of fair market value options is not anticipated. We consider that this is a meaningful and fair representation of the position of the lessee and is generally well understood.

Hence, we consider that if the IASB decides to pursue the objective of improving lessee accounting ahead of resolving the accounting for lessors, it should keep closely to the requirements of the current IAS 17 in this respect when computing the minimum lease payments for non-cancellable leases of more than twelve months duration to be capitalised as discussed in our responses to questions 1 and 3.

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).

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Lease term

Question 8

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?

As mentioned in our response to question 2, we consider that the accounting by the lessor should fall under the revenue standard, which would adequately cover issues concerning options to extend an arrangement. The comments below concerning the "lease term" therefore relate primarily to the accounting by the lessee for the "right of use" asset and liability to make lease payments over that lease term if the IASB decides to pursue the objective of improving lessee accounting ahead of resolving the accounting for lessors.

With respect to the lessee, in our view, the length of the lease term from the lessee's perspective should at a minimum be the minimum period during which the lessee does not have any right to cancel the lease, as we do not consider that it would be appropriate for the lessee to assume that the lessor will exercise any right to shorten that period when accruing the obligation under the lease, even if the exercise of such a right appears probable. Our view appears to be contrary to the guidance in B16 to B18, where there appears to be no consideration as to whether the option to renew or cancel is within the control of the lessee.

In terms of whether the lease term can be longer than the above minimum, in our view it would be appropriate to include additional periods only in the following circumstances:

(a) the lessee has the right to renew the lease term (i.e. the renewal is within the control of the lessee) and the exercise of that option is reasonably certain at the inception of the lease i.e. as per the existing requirements in IAS 17 (see, in particular, our comments below relating to fair market renewal options); and/or

(b) the renewal is consistent with the principle set out in paragraph 94 of IAS 38 *Intangible Assets* and the guidance set out in paragraphs 95-96 of IAS 38. Paragraph 94 of IAS 38 states that (emphasis added): *"The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. <u>If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost</u>."*. Note: we consider it is necessary to include such additional text from IAS 38 in order to cater for the situation where the lessor is not a profit-making entity and therefore may not be acting in accordance with normal commercial principles when the lease expires. For example, in Hong Kong all land is ultimately subject to a lease granted by the Hong Kong Government. These leases have a stated expiry date but it is currently a matter of stated public policy that the leases will be renewed without payment of a premium in the vast majority of cases, thereby satisfying the criteria set out in paragraph 96 of IAS 38. We consider that it is a weakness in

IAS 17 that the definition of the "lease term" in IAS 17 differs from the definition of "useful life" set out in IAS 38 in this respect.

In respect of renewals which are not reasonably certain at the inception of the lease, in particular those that involve the exercise of a fair market value option to extend the lease at market rentals at the date of renewal, we believe that if and when the lessee continues to use the underlying asset by exercising their rights, then this represents a new "right to use" asset at that date, which would be subject to initial recognition at that time in accordance with paragraph 12 of the ED.

For example, in Hong Kong both of the following scenarios are common:

(a) A lessee enters into a two year tenancy agreement. At the end of two years, neither party is obliged to enter into a new lease with the other party. However, in practice it is very common that the same tenant will continue occupying the property for many years, with rents being re-set at two year intervals to the prevailing market rent (which may be higher or lower than the existing rent, depending on market conditions at that time, given the high volatility of the Hong Kong property market).

(b) A tenant and a landlord enter into a "5+5" agreement (or, e.g. "3+3"), under which the tenant has the right at the end of the first 5 years to continue the lease for the next 5 years, provided that it agrees to pay the then market rent for such leases (which, as noted for scenario (a) may be more or less than the rent paid during the first 5 years due to market volatility). At the end of the second term, the lease term may be further re-negotiated as for scenario (a) i.e. with no rights or obligations on either side to extend the lease, but market practice being that often leases are renewed with the sitting tenant.

It appears that the ED (and the existing IAS 17) would regard scenario (a) as a 2 year lease, whilst in scenario (b) under the ED the lessee would be required to view the lease as being a 10 year lease, if it was more likely than not, taking into account all the factors set out in paragraph B18, that the tenant will continue to occupy the premises. In addition, if in either scenario the sitting tenant had a statutory or contractual right of "first refusal" for any new lease over the property, then it appears that under the ED the period of the lease term under either scenario (a) or (b) could extend for many renewal periods into the future, if, after taking into account all the factors set out in paragraph B18, it seemed likely that the tenant would continue to occupy the premises. By contrast under the existing IAS 17, the exposure to market rents would generally result in the lessee concluding that at the inception of the lease it was not reasonably certain that the option to extend would be exercised.

We consider that the current treatment under IAS 17 is a meaningful and fair representation of the position of the lessee as the holder of such options and therefore we strongly disagree with the proposed treatment of scenario (b) (and any other similar situations of rights of extension at re-negotiated rents). In our view, the "right of use" asset in both scenarios (a) and (b) should be the right to use the asset over the initial committed lease term as this corresponds to the obligation to pay the pre-agreed rentals. We do not consider that it provides decision-useful information for the tenant in scenario (b) to make an estimate in year 0 of the probable rental market in 5 years time (or however many years into the future that it is predicted the tenant will keeping exercising a right of renewal) and then to discount this estimated amount back to

present value to record an asset which will be expensed systematically over the full ten year period. We also do not consider that there is a present obligation to pay for the "right of use" asset over periods where the renewal terms are subject to further negotiation between lessor and lessee. We further do not consider that it is appropriate to charge a financing expense over this extended period on such future estimates of uncommitted expenditure.

Our view is based on accounting principles but we would also note that Hong Kong has a highly volatile property rental market which would make the application of the re-assessment requirements set out in paragraph 17 of the ED particularly complex and confusing to readers, if the lease term were to include renewal periods where the rent will be re-set to market rents and the income statement were to be charged a higher or lower amount in the current period as a result of estimates of what the future rental market might be.

Lease payments

Question 9

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?

As mentioned in our response to question 2, we consider that the accounting by the lessor should fall under the proposed revenue standard, which we expect would adequately cover issues concerning variable consideration. The comments below concerning "contingent rents" therefore relate primarily to the accounting by the lessee for the "right of use" asset and liability to make lease payments over that lease term.

Under the existing requirements in IAS 17, contingent rentals are dealt with on an as-incurred basis. We consider that the current treatment under IAS 17 is a meaningful and fair representation of the position of the lessee as we do not consider that such payments, which are contingent on future events, meet the definition of a "present obligation" of the lessee. We also consider that to include such amounts which are dependent on trading conditions in the future in the measurement of an asset which will be amortised over the whole period of the lease significantly distorts the expenses reported each period.

For example, in situations where rentals on a newly opening retail outlet are contingent on sales, it is generally the case that sales, and therefore rental costs, are expected to rise in later periods as the shop becomes more established. Recognising an estimate of the total rentals payable over the lease term will significantly distort the reporting of the performance of the shop over the period, by over-charging expenses in the early

years, when these expenses are directly incremental to the performance in later years and will be avoided if such increased sales do not arise.

Therefore, we strongly disagree with the proposal to require the lessee to include such contingent rentals in the measurement of assets and liabilities arising from the lease. We also note that continuing to treat such contingent amounts on an as-incurred basis would be consistent with the current commonly accepted practice under IAS 38 of recognising contingent payments under licenses and franchise agreements on an as-incurred basis, thus ensuring continuing consistency between the application of the two standards in this respect.

In addition to our view being based on accounting principles (for example as set out in IAS 37), we consider that the remeasurement requirements of paragraph 18 would result in excessive amounts of estimation, re-calculation and changes in asset and liability values about future events which are not meaningful for users of the current financial statements. We consider that the current requirements of IAS 17 should be retained, being to expense contingent rentals as and when incurred.

Reassessment

Question 10

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?

As mentioned in our response to questions 2 and 9, we consider that the accounting by the lessor should fall under the revenue standard, which would adequately cover issues concerning variable consideration.

So far as lessees are concerned, we agree with the proposal. However, we also note that if the lease term is restricted as we propose in our answer to question 8 and if contingent rentals are excluded from initial and subsequent measurement as we propose in our answer to question 9, then we believe that the extent to which re-measurement will be required will be greatly reduced in practice. We believe that this will reduce the complexity in the application of the leasing standard without a loss of decision useful information.

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?

We agree with the 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).

Statement of financial position

Question 12

(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?

We agree that if a lessee capitalises the present value of the minimum lease payments (as discussed above in our response to question 1(a)), then the lessee should distinguish liabilities to make lease payments separately from other financial liabilities. However, we believe that such information should be permitted to be disclosed in the notes to the financial statements to avoid too much information being disclosed in the statement of financial position.

We also agree that the resulting right-of-use assets should be presented within property, plant and equipment (PPE), but only on the proviso that all short-term arrangements are excluded from the scope of the leasing standard as set out in our response to question 3. We do not consider that it would be appropriate to include short-term arrangements within PPE, since PPE are defined in paragraph 6 of IAS 16 as tangible items that “are expected to be used during more than one period”.

(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?

For lessors, consistent with our response to question 2, we believe that the lessor accounting should be dealt with under the revenue standard. In particular, we do not support the recognition of rights to receive lease payments and lease performance obligations in the balance sheet as assets and liabilities in circumstances where the revenue standard would not permit recognition of an asset or liability, and we do not consider that netting such amounts rectifies this inappropriate recognition, when compared to other income generating activities.

(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?

For lessors, consistent with our response to question 2, we believe that the accounting for the sale or partial sale of an asset should follow the requirements applicable in the revenue standard, in the same way as the timing of disposals of assets under IAS 16 is expected to be governed by that standard.

(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?

We believe that an intermediate lessor which is acting as a principal in both the head lease and the sub-lease should account for its rights and obligations as a lessee under the head lease under the leasing standard in the same way as any other lessee, and should account for its income arising under the sub-lease under the revenue standard in the same way as any other lessor. We believe that any additional information concerning the economic relationship between these two transactions should be disclosed in the notes to the financial statements to avoid too much information being disclosed in the statement of financial position.

If the intermediate party is acting as an agent between the head lessor and sub-lessee then the intermediate party's interest in the transaction should be recognised in accordance with the revenue standard.

Statement of comprehensive income

<u>Question 13</u>

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?

Provided that short-term arrangements are excluded from the scope of the leasing standard, we agree that lessees should distinguish lease expense separately from other expenses in profit or loss. However, we believe that such information should be

permitted to be disclosed in the notes to the financial statements to avoid too much information being disclosed in the statement of comprehensive income.

As mentioned in our response to question 2, we consider that the accounting by the lessor should fall under the revenue standard, which would adequately cover issues concerning disclosure of categories of income.

Statement of cash flows

Question 14

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?

Provided that short-term arrangements are excluded from the scope of the leasing standard, we agree that cash outflows arising from leases should be presented in the statement of cash flows separately from other cash flows.

However, we do not agree that the cash payments by lessees under leases should be presented as financing cash outflows in the statement of cash flows. In our view, the timing of a cash payment does not alter its nature. Therefore, just as the settlement of a trade creditor is classified as an operating cash outflow, then we believe that the settlement of a payment to acquire a non-current asset should be classified as an investing outflow. We consider that this is a current weakness in IAS 7 *Statement of Cash Flows* (specifically IAS 7.17(e)) in respect of finance leases, which should be rectified such that only the interest payable under a capitalised lease arrangement is regarded as a cash outflow relating to financing.

(NB we would consider it particularly inappropriate to include the cash outflows relating to short-term arrangements in “financing activities” as proposed in paragraph 27 of the ED as these are clearly operating cash outflows in the same way as any other recurring business expenses. However, the distinction between operating and investing activities would be resolved in a practical manner if short-term arrangements were excluded from the scope of the leasing standard as proposed in our response to question 3).

In respect of lessors, we agree that the cash inflows should be reported as part of operating activities, but we do not consider it necessary to specifically separate these sources of income from other sources of income from operating activities.

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Disclosure

<u>Question 15</u>

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?

Provided that short-term arrangements are excluded from the scope of the leasing standard, we agree that lessees should disclose quantitative and qualitative information about lease arrangements that they have entered into, in a similar manner as is currently required under IAS 17.

However, we do not consider that it is necessary to include separate requirements for a maturity analysis for the lease obligations as we consider this would be adequately covered by the requirements in IFRS 7 *Financial Instruments: Disclosures* to disclose information concerning liquidity risk.

As mentioned in our response to question 2, we consider that the accounting by the lessor should fall under the revenue standard, which would adequately cover issues concerning disclosure of information concerning contracts with customers.

Transition

<u>Question 16</u>

(a) The exposure draft proposes that lessees and lessors should recognize 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?

As far as lessees are concerned, if our proposals relating to the accounting for short-term leases, contingent rentals and the length of the lease term are accepted (see above for our responses to the related questions) then we would support permitting retrospective adoption of the requirements, as we consider that much of the measurement uncertainty would be eliminated.

In respect of the lessor accounting, the transition should follow the requirements in the revenue standard as noted in our response to question 2.

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?

We believe that the primary focus of financial statements should be to record "actual transactions" that faithfully reflect the entity's true cash inflows and outflows. We and many of our constituents are very concerned that the proposals on lease accounting lack simplicity in conveying relevant, reliable and faithful information and that the new approach would not improve the ability of users to understand financial statements but in fact will result in added confusion.

Specifically, as mentioned in our responses above, there are various aspects of the proposals concerning the accounting for lessors, the length of the lease term, contingent rentals and the inclusion of short-term arrangements under the definition of a "lease", which we consider are unduly complex and are very unlikely to result in information which is easier to understand or more decision-useful than the information currently presented and disclosed in the financial statements under IAS 17. Given this, we expect that the costs of compliance would significantly outweigh any benefits of these particular proposals.

However, if the accounting for lessees was simplified in the manner proposed in our responses above, and if the lessor accounting were brought within the scope of the new revenue standard after due consideration of the conceptual issues relating to identifying the nature of the "asset" transferred by the lessor and the timing of that transfer, then we consider that the benefits of greater consistency of accounting between all lessees and other users of goods and services, and greater consistency of accounting for all forms of revenue generating activities by entities, would be an improvement on the existing IAS 17, IAS 38 and IAS 18 models.

Other comments

Question 18

Do you have any other comments on the proposals?

No other comments.

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