31 May 2013

International Accounting Standards Board (IASB)

1st Floor

30 Canon Street

London

EC4M 6XH

Dear Sirs/Mesdames

EXPOSURE DRAFT ED/2013/6 LEASES

I appreciate the opportunity to comment on the revised leases exposure draft (the ED). My comments are based on my extensive experience as a preparer and user of financial statements. The comments in this letter are my personal comments and represent my opinion and not that of my employer or any organisation I am a member of. I value your time; I therefore made my comments brief and candid.

Though the IASB has revised the ED, key elements of the ED have not been changed (e.g. capitalisation of operating leases). The key elements in the revised ED do not provide for balance between benefits and cost.

Paragraph 44 of the IFRS Framework states that "benefits derived from information should exceed the cost". It will be beneficial and necessary for the International Accounting Standards Board (IASB) to perform a thorough cost benefit analysis for proposed significant changes to International Financial Reporting Standards (IFRS) like the Leases ED. The IASB has done well to seek public comment on exposure drafts. Comments from users and prepares will provide the IASB with an indication of what the costs and benefits are.

I believe that the costs of implementing the ED far exceed the benefits. The ED includes some perceived benefits of implementing the proposals and seems to ignore the costs. The IASB should take a closer look at the costs and unintended consequences that may result from implementing the ED. The costs and unintended consequences include:

- increased time it takes to prepare financial statements resulting in reduced relevance;
- learning costs for users and preparers;
- increased complexity will provide an opportunity for some prepares to manipulate financial statements;
- some users needing to make adjustments to calculate assets which are owned by the entity;
- added complexity that reduces understandability and usefulness of the information.

In addition the ED goes against the following sections of the IFRS framework:

a) Substance over form – Entities that enter into lease agreements whereby the risks and rewards of ownership are essentially not transferred do so more for the purposes of convenience and flexibility rather than for financing purposes. As such, capitalising operating leases and accounting for interest would not result in the substance of operating leases being accounted for faithfully.

- b) Understandability The ED makes accounting for leases more complicated and less readily understandable to users. The increased complexity will render the information that will be derived from implementing the ED less useful to users.
- c) Relevance As a result to the overall complexity of IFRS the majority of users of financial statements (providers of capital, financial analysts, managers of companies), place more reliance and relevance on the statement of cash flows instead of the statement of comprehensive income. The ED will not have any significant impact on the cash flow statement and will have minimal impact on net profit/earnings and equity. As such the implementation of the ED will be of minimal benefit to key users of financial statements.

If the IASB insists on requiring all leases longer than 12 months to be capitalised - for consistency purposes, all contracts (in or out of the scope of the ED) that result in contractual payments over a period longer than 12 months would also need to be capitalised. If all leases are capitalised it would be inconsistent not to capitalise other contractual agreements such as licence fee contracts, service contracts and even employment contracts — as the ED's basis for conclusion for capitalising all leases (BC13) would also apply to the fore mentioned contracts and many other contracts that entities typically enter into. Applying the ED proposals will thus reduce the consistency and faithful representation of financial statements.

Due to the complexity and far reaching nature of the ED - there has been nearly 800 comments on the first draft. Judging from comments from users and prepares, the revised ED as a whole adds little or no value and does not meet the IASB's objectives of improving quality and comparability of financial reporting.

I believe the costs of implementing the ED far exceed the intended benefits and that the ED goes against key elements in the IFRS framework. I therefore conclude that the ED should be scrapped in its entirety.

More time and effort should rather be invested in making existing IFRS less complicated and more useful. Simplifying IFRS will add value to preparers and users of financial statements and it will enhance the quality, transparency and comparability of financial reporting.

Yours faithfully,

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