2013-270
Comment Letter No. 428

13 September 2013

Mr Hans Hoogervorst
Chair
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir

Response to the International Accounting Standards Board (IASB) Leases Exposure Draft 2013/6 published on 16 May 2013 (the ED)

AMP is supportive of improvements to financial reporting. However, we do not support the ED as we do not believe that on-balance sheet accounting of all lease transactions will achieve the stated objectives of the ED, nor improve the quality of financial reporting for users. In particular we are concerned that:

- The proposed on-balance sheet accounting of all leases is not useful for all users and creates unnecessary complexity which is likely to be confusing for many users;
- The proposed accounting is not consistent with other accounting standards;
- The ED requires additional judgment to be applied by preparers which may increase inconsistencies when applied;
- The ED's mixed models of type A and B leases will lead to alternative accounting choices, which will result in accounting inconsistency and may give rise to new structuring opportunities; and
- The costs of implementing the proposed changes are expected to be significant.

AMP proposes as an alternative approach

- Operating leases remain off-balance sheet unless they are onerous;
- Appropriate disclosure requirements be introduced to address concerns raised by users; and
- If the ED is implemented the way it is currently drafted we do recommend IASB considers extending the exemption for leases with a maximum term of 12 months or less, which allows the application of a simplified accounting measurement (i.e. similar to the current accounting measurement criteria for leases).

The appendix to this letter sets out our responses to the specific questions for providers of financial reports included in the ED.

Further discussion
AMP would like to thank the IASB for this opportunity to provide input on the proposed changes to lease accounting.

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If you would like to discuss any of the matters addressed in our letter please do not hesitate to contact either Graham Duff on +61 2 9257 6784, or via email to graham_duff@amp.com.au, or myself.

Yours faithfully,

Lesley Mamelok
Head of Statutory Reporting

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Appendix – Detailed responses to the specific questions set out in the ED

Question 1: Identifying a lease

This revised Exposure Draft defines a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". An entity would determine whether a contract contains a lease by assessing whether:

(a) fulfilment of the contract depends on the use of an identified asset; and

(b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease?

Why or why not? If not, how would you define a lease?

The proposal for the recognition of assets and liabilities with respect to equally unperformed obligations is inconsistent with the approach taken by other standards, particularly IAS 37 which refers to such obligations as "executory contracts" and precludes recognition as liabilities. Thus, under the proposal, economically similar contracts may be accounted for differently depending upon whether they are within the definition of a lease. In our view, it would be better to align the approaches of the standards rather than further refine the definition of a lease.

Question 2: Lessee accounting

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?

The stated objective of the ED is to create useful information about the amount, timing and uncertainty of cash flows arising from a lease. In our view, these objectives are better achieved through disclosures rather than through changes to the recognition and measurement criteria.

We agree that different types of leases should be treated differently. This difference is already addressed through the different treatments required for operating and finance leases under IAS 17.

The proposed distinction between type A and type B leases, both of which are proposed by the ED to be recognised on balance sheet but with different measurement rules, adds unnecessary complexity which is likely to be confusing to users.

In AMP's view the objective of the ED is better achieved through maintaining the existing distinction between "operating" (off-balance sheet) and "finance" leases (on-balance sheet) should be retained, with enhanced definitions and guidance, and appropriate disclosures to provide more useful information to users.

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If the IASB is to proceed with the proposal to recognise operating leases on the balance sheet, we support the proposed election for short term leases to be accounted for using simplified requirements that would be similar to accounting for operating leases under IAS 17. However, we believe the maximum possible term of 12 months is unnecessarily short and should be longer.

Question 3: Lessor accounting

Do you agree that a lessor should apply a different accounting approach to 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?

In AMP's view the existing distinction between "operating" and "finance" leases should be retained, with enhanced definitions and guidance, and appropriate disclosures to provide more useful information to users.

The stated objective of the ED is to create useful information about the amount, timing and uncertainty of cash flows arising from a lease. In our view, these objectives may be achieved through disclosures rather than through changes to the recognition and measurement criteria.

The distinction between leases that would require asset derecognition and those that require assets to be retained on balance sheet is inconsistent with the derecognition criteria for financial instruments set out in IAS 39 and IFRS 9. We do not believe assets subject to leases should have different derecognition criteria to those of financial instruments.

Question 4: Classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property?

Why or why not? If not, what alternative approach would you propose and why?

The classification of leases as type A and type B introduces unnecessary complexity and is likely to reduce clarity of financial reporting, particularly for relatively straight forward operating lease arrangements.

In AMP's view the existing IAS 17 distinction between "operating" (off-balance sheet) and "finance" (on-balance sheet) leases should be retained, with enhanced definitions and guidance, and appropriate disclosures to provide more useful information to users. Under the existing IAS 17 distinction, a lease of land is almost invariably classified as an operating lease and therefore specific requirements for property are not necessary.

In the event that the IASB proceeds with distinction between type A and type B leases, AMP considers that the distinction between property and other assets be retained.

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Question 5: Lease term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors?

Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

We believe lease accounting is best served by a model that provides reasonable stability in estimates, such as estimated lease term.

The introduction of "significant economic incentive" as a criterion adds a layer of unnecessary complexity. It is our view that the current standard works well in regards to identifying the lease term and we suggest it is not altered.

Question 6: Variable lease payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments?

Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Whilst we do not agree with the ED's approach to recognition and measurement, if this approach is adopted we agree with the proposals on the measurement of variable lease payments.

AMP considers the proposals are a reasonable balance between what is known, and what is unknown that may need to be "trued-up" at the appropriate time if factors have changed sufficiently to warrant re-estimation.

Question 7: transition

Paragraphs C2–C22 state that a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach.

Do you agree with those proposals?

Why or why not? If not, what transition requirements do you propose and why?

Are there any additional transition issues the boards should consider? If yes, what are they and why?

We do not support a variety of initial adoption approaches. We do not believe there is any additional value to users in performing a full retrospective restatement.

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Question 8: Disclosure

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?

In the interests of promoting clear and concise disclosure in financial reports we propose limiting the mandatory disclosure requirements to a quantitative maturity analysis of undiscounted lease payments and narrative disclosures about leases, including information about variable lease payments and options.

In our view, the disclosure of a reconciliation of opening and closing balances is unnecessary and should be excluded from the requirements.

Independently of above matter, we are supportive in principle of the approach set out in paragraphs 59 and 99 of the ED which state the entity shall consider the level of detail necessary to satisfy the disclosure objective. In practice, however, it may be difficult to apply this approach as the judgement applied by the entity would be open to challenge by auditors and regulators with the result that entities adopt the "safe" approach of making disclosures regardless of whether they are necessary to meet the disclosure objective. A more practical approach would be to prescribe minimum disclosure requirements for all entities and optional additional disclosures that the entity may make if it assists in meeting the disclosure objective.

Question 9, 10 and 11 (FASB only)

AMP has no comments on these questions as they are related to the FASB standard.

Question 12 (IASB only)

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised ED, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

We agree that a right-of-use should be within the scope of IAS 40 if it meets the definition of investment property.