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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

"ED/2013/6 Leases"

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? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

We 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.

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?

We 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 lease is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. However, we have concerns about the significant impact on organisations in dealing with the transitional arrangements for leases which are in existence



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upon the issue of the standard. In addition, we would suggest the definition of a short term lease is extended to 18 or 24 months to reduce the burden on organisations particularly in the transitional period.

Although as we have stated above on balance we agree with the approach being taken, nevertheless, it would appear to us the "dual model" is somewhat inconsistent with the Board's objective for leases and represents a compromise that may be costly and / or impractical to implement.

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?

We 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. However, it would appear to us the "dual model" is somewhat inconsistent with the Board's objective for leases.

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?

No. Classification of a lease should be determined by the contractual obligation of that lease including the risks and rewards of ownership currently used in IAS17 and FRS5 when determining the substance of a transaction.

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?

Yes. We agree with reassessing the measurement of the liability where there is a material change in the underlying lease agreement e.g. Renewal of an agreement or in the case where there was an omission from the original measurement. However, many leases contain automatic renewal options which in our opinion should not be measured until the option has been implemented.

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?

No, variable lease payments should be recorded as incurred. Changing the measurement of variable lease payments would lead to distortions in reporting due to inconsistent discount rates being used.



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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 agree that a flexible approach to transition is preferable which allows entities to select the most appropriate method for them to implement the new standard. The modified retrospective approach as drafted appears unnecessarily complex for Type A leases in particular in the method for calculating the right-of-use assets and we recommend using the Type B method which values the right-of-use asset at an amount that equals the lease liability.

We also recommend that a reasonable transition period is provided to facilitate entities time to adopt the new standard.

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?

The disclosure requirements as set out in the draft ED are in our opinion excessive and unnecessary to enhance the information available to users of financial statements. While we welcome comments at paragraphs 59 and 99 that lessee shall consider the level of detail necessary to satisfy the disclosure objective this could lead to a divergence of views on the level of disclosure that is required.

Question 9 (FASB-only): nonpublic entities

To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:

- (a) To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.
- (b) To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

We have no comment on the FASB's proposal regarding non-public entities.



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Question 10 (FASB-only): related party leases

Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

No comment.

Question 11 (FASB-only): related party leases

Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

No comment.

Question 12 (IASB-only): Consequential amendments to IAS 40

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, 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?

Yes – but only that portion of the ROU which is physically distinct, the lessee (tenant) has the contractual right to control the use of that portion and receives rental income (derives benefits).

e.g. Lessee subletting to third party portion of floor space leased from lessor.

This information would be beneficial to users of the financial statements in determining the lessee's dependence on rental income as disclosures under IAS 40 would apply.

If you have any questions on the above please do not hesitate to contact me. Yours sincerely,

David Roxburgh
Chairperson, Financial Reporting Sub - Committee