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230701
Website: www.iasb.org

Sir David Tweedie
International Accounting Standards Board
First Floor, 30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Sir David Tweedie:

RE: IASB Exposure Draft "Leases"

Thank you for the opportunity to comment on the IASB exposure draft "Leases". The views expressed in this letter reflect the views of the Province of British Columbia (the Province). These views are based on a commitment to preparing financial statements that are understandable and meet the information and decision-making needs of the public and the Legislature acting on their behalf.

The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. Since the exposure draft relates to IASB standards, the Province will be impacted by the proposed revisions in the near future when several of our entities, which the Province accounts for on the modified equity basis, adopt IFRS in 2011. In addition, IPSASB and PSAB guidance may be impacted by IASB guidance in the future.

The Province supports the current distinction and reporting of capital and operating leases which through a comprehensive assessment of risks and rewards of ownership fairly represents the substance of the agreements. Where significant risks and rewards of ownership are transferred to the lessee, the capital lease accounting treatment acknowledges an in substance purchase and financing arrangement. The treatment for operating leases recognizes the flexibility afforded lessees. The current lease accounting and note disclosure is transparent, well understood by users and does not overstate the lease liability.

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However, if the Boards adopt the recognition of right-of-use assets and liabilities for leases, it is imperative that the recognition criteria do not deviate from the existing definition of a liability. A liability, as proposed in the Measurement of Liabilities exposure draft intended to replace IAS 37, is the amount that the entity would rationally pay at the measurement date to be relieved of the liability. An obligation to make lease payments is a present obligation of the lessee arising from entering the lease, the settlement of which is expected to result in an outflow from the lessee of resources embodying economic benefits. The amount of liability proposed in the current exposure draft on leases goes well beyond the amount that the entity would rationally pay at the measurement date to be relieved of the liability. The lease exposure draft proposes the recognition of a liability for all possible future rental periods, even when the lessee retains discretion over the decision until future periods with no penalty. The liability in the leases' exposure draft would be overstated and is inconsistent with IASB's proposal on liability measurement.

If the right-of-use approach is adopted, then the only liability that should be recognized for a lease is the amount an entity is contractually or legally obligated to pay. The recognition criteria for liabilities arising from leases must remain consistent with the definition of a liability according to the IAS 37 and the Conceptual Framework, and not include optional extensions or contingent amounts. The probability approach in determining the most likely lease term that is "most likely than not to occur" results in including options and events that do represent past events but rather a future event over which an entity retains discretion.

Clarification is required as to whether all rental agreements are considered leases for the purpose of the proposed guidance. For example, does a short term car rental meet the definition of a lease? It is our view that a short term rental such as this does not represent the financing of an asset and should not be accounted for according to the proposed lease guidance. Recording amortization and interest expense rather than rental expense, in this example, is excessive and does not reflect the substance of the agreement.

It is understood that agreements that represent a sale, even if called a lease, do not fall within the scope of the proposed guidance. The criteria presented in the exposure draft to distinguish a sale from a lease are not sufficient to assess the substance of the arrangement. The proposal focuses too narrowly on the existence of a bargain purchase option and not on the preponderance of other relevant indicators of control to determine whether a lease arrangement is more appropriately classified as a sale. We recommend a principled rather than rules-based guidance.

The Province is also concerned that adopting this proposed guidance could have the impact of incorporating additional departures from the conceptual framework in future projects of the IASB.

The Province recommends that IASB and FASB not adopt the proposed guidance on leases, but instead reconsider the fundamental departures from the conceptual framework, the definition of a liability, and the indicators of a sale transaction and re-expose this issue at a later date.

.../3

Responses to specific questions posed in the exposure draft are attached. Should you have any comments or questions, please contact me at 250 387-6692 or by e-mail: Stuart.Newton@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

On behalf of the Province of British Columbia
Sincerely,

Stuart Newton, CA, CIA
Acting Comptroller General

Enclosure

cc: Graham Whitmarsh
Deputy Minister
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A/Deputy Secretary to the Treasury Board
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Question 1: Lessees

(a) Do you agree that a lessee should recognize 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?

The Province supports the current distinction and reporting of capital operating leases which through a comprehensive assessment of risks and rewards of ownership fairly represents the substance of the agreements. The current lease accounting and note disclosure is transparent, well understood by users and does not overstate the lease liability.

However, if the Boards adopt the recognition of right-of-use assets and liabilities for leases, it is imperative that the recognition criteria do not deviate from the existing definition of a liability. A liability, as proposed in the Measurement of Liabilities exposure draft intended to replace IAS 37, is the amount that the entity would rationally pay at the measurement date to be relieved of the liability. An obligation to make lease payments is a present obligation of the lessee arising from entering the lease, the settlement of which is expected to result in an outflow from the lessee of resources embodying economic benefits. The amount of liability proposed in the current exposure draft on leases goes well beyond the amount that the entity would rationally pay at the measurement date to be relieved of the liability. The lease exposure draft proposes the recognition of a liability for all possible future rental periods, even when the lessee retains discretion over the decision until future periods with no penalty. The liability in the leases exposure draft would be overstated and is inconsistent with IASB's proposal on liability measurement.

If the right-of-use approach is adopted, then the only liability that should be recognized for a lease is the amount an entity is contractually or legally obligated to pay. The recognition criteria for liabilities arising from leases must remain consistent with the definition of a liability according to the IAS 37 and the Conceptual Framework, and not include optional extensions or contingent amounts. The probability approach in determining the most likely lease term that is "most likely than not to occur" results in including options and events that do represent past events but rather a future event over which an entity retains discretion.

(b) Do you agree that a lessee should recognize 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?

The Province supports the current differentiation between capital leases and operating leases, and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the right-of-use asset and liability for all leases, it should be understood that all leases are not, in fact, financing transactions and the guidance should provide for the recognition of rental expense rather than amortization and interest expense when an entity rents an item.

Question 2: Lessors

(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?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the performance obligation approach (if lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term) and the derecognition approach (if the lessor transfers all but a residual asset representing its rights to the underlying asset), the Province does not agree that lessor should recognize an asset and a liability under the performance obligation approach or under the derecognition approach based on lease terms that do not meet the definition of a liability. Under IAS 37 and the Conceptual Framework, "A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits." Both the performance obligation and derecognition approaches include such factors as renewal options, contingent rentals, and term penalties which are all based on future events for which the Province disagrees that it should be included as liabilities. It is unclear how a lessor's performance obligation equates to a future outflow of economic benefits.

(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?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the proposed guidance, the Province does not support that lease terms be based on the longest possible lease term that is more likely than not to occur, since this approach deviates from the basic conceptual definition of liabilities.

Question 3: Short-term leases

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 recognize 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 recognize assets and liabilities arising from a short-term lease in profit or loss, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other IFRSs and would recognize 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?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the boards decide to implement the new standards, the Province agrees with the proposed accounting for short-term leases.

We would like to note, however, that the simplified requirements would not provide significant relief for lessees as they would still have to keep track of all short term leases during the year.

The proposed guidance should provide for the recognition of rental expense rather than amortization and interest expense when an entity rents an item.

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?

The Province agrees that lease is defined appropriately except as noted in (b) and (c) below.

(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?

The Province does not agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale. The existence of a bargain purchase option is not sufficient to evidence a sale. A bargain purchase option can be an indicator that title may be likely to transfer at the end of the lease term, but there are a number of other indicators that need to be considered in the determination of whether an arrangement is, in substance, a sale or a lease. Other considerations include, but are not limited to, the remaining useful life of the asset at the end of the lease term, and the ongoing value to the lessee based on their business plan or intentions. It is the substance of the entire arrangement, rather than a particular term, that indicates the nature of the transaction.

(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?

The current wording in paragraphs B1 – B4 is specific and rules based, particularly paragraph B4 c). The Province believes it provides entities with an option to structure a lease to include fixed per unit output or payment at the current market price per unit of output so as not to categorize their arrangement as a lease, even though the purchaser could obtain all but an insignificant amount of the output or other utility of the asset during the term of the agreement. There is an opportunity that "form over substance" may become the driving force for interpreting an arrangement to be identified as not containing a lease where in substance, it is a lease or it has a lease component to it.

Scope

Question 5: Scope exclusions

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?

The Province is concerned with the lack of clarity in the proposed scope and the inconsistency with earlier pronouncements as it relates to long-term land leases and simple rental agreements.

It is unclear why IASB has reversed its position on whether a very long term land lease represents a sale (finance lease) or a lease. It is worth noting that IASB's new position that long-term land leases "are not purchases or sales of land, no matter how long the lease" is only stated in the Basis for Conclusions (BC38) and not clearly articulated in the actual proposed standard.

For entities adopting IFRS, under the current IFRS standards, long term leases for land will be treated as a finance lease. This is a change from existing accounting Canadian GAAP. However, if going forward the performance obligation approach is deemed the approach to be followed for certain land leases, this will result in a reversal of the approach required to adopt current IFRS standards.

It should be understood that many leases are not, in fact, financing transactions and the guidance should provide for the recognition of rental expense rather than amortization and interest expense when an entity rents an item.

Question 6: Contracts that contain service components and lease components

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?

The Province agrees with IASB's proposed approach to accounting for leases that contain service and lease components with the exception of paragraph B5(b) of the exposure draft, which states that when a service component is not distinct and the lessor applies the performance obligation approach, then the whole contract will be accounted for as a lease. The Province believes that this allows for possible structuring opportunities. The Province believes there should be no difference in treatment of a service component that is not distinct between the performance obligation approach or the derecognition approach. Therefore, if a service component is not distinct, the service component should be reasonably estimated and payment should be allocated between service components and lease components under both approaches.

Question 7: Purchase options

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?

If a bargain purchase option exists, the contract should be analyzed to determine whether the risks and rewards of ownership accrue to the lessee and is in substance a purchase. If the lessee still has discretion as to whether or not to leave the risk and rewards of ownership with the lessor up until the bargain purchase option is actually exercised, the contract should be treated as a lease and the purchase option should only be recorded if exercised. The Province agrees that a lessee or lessor should account for purchase options only when they are exercised if the arrangement has been determined to be a lease and not a purchase.

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 thelease (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).

Question 8: Lease term

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?

The Province absolutely does not 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. The Province believes that the lease term should be based only on facts that are substantive and not based on options over which there is discretion in the future. Therefore, the lease term should only include the period of the lease that is certain and not any options to extend or terminate the lease.

Question 9: Lease payments

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?

The Province disagrees with the Boards' proposed approach for the measurement of assets and liabilities arising from a lease using an expected outcome technique. Contingent rentals, term option penalties and residual guarantees are future events that do not represent liabilities based on past events and therefore, should not be included in the measurement of assets and liabilities. The Province recommends disclosure of contingent rentals in the notes to the financial statements.

The Province does not agree that lessors should include contingent rentals, 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 because they do not represent assets. The Boards must ensure that items included in the measurement meet the definition of a asset. If the Boards decide to pursue this approach of measurement, they should consider the inconsistency between the conceptual framework and the proposed measurement standard, and ensure that new standards are consistent with the conceptual framework.

Question 10: Reassessment

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?

The Province disagrees with the proposed reassessment approach. The Province believes that reassessment and re-measurement of an asset or lease with respect to a lease transaction should only occur when there is a change in facts or circumstances that is certain, such as a change in the contract terms.

As mentioned in the Province's position on the initial valuation of the right-of-use asset and liability, only terms and conditions that are not subject to the future decisions/actions of either the lessee or lessor should be included in the valuation. This also applies to re-measurement of the right-of-use asset or liability. Therefore, re-measurement should only occur when a lease term option is exercised or a contingent payment is realized, as this will create a liability that should be included in the valuation of the right-of-use asset and liability. The Province would like to note that the reassessment requirements will be onerous for entities that have many leases and the cost of reassessment most likely will exceed the benefit.

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?

The Province agrees with the criteria for classification as a sale and leaseback transaction. The Province agrees that classification should be based on the residual risk and rewards of ownership. There could be deliberate structuring of a sale leaseback arrangement to achieve a particular short term financial or performance measurement outcome that is not in keeping with the substance of the arrangement. The assessment of substance of an arrangement must include all related transactions or agreements to ensure the reporting is representationally faithful.

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).

Question 12: Statement of financial position

(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?

The Province supports the current differentiation between capital leases and operating leases, and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to implement the right-of-use approach, the Province agrees that a lessee should present liabilities to make lease payments separately from other financial liabilities, and should present right-of-assets as if they were tangible assets but separately from assets that are not leased.

(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?

The Province supports the current differentiation between capital leases and operating leases, and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the right-of-use asset and liability for all leases, the lease terms must fit the definition of a liability according to IAS 37 and the Conceptual Framework. With the exception of not agreeing that future events such as renewal options, contingent rentals, and term penalties be included in determining the lease assets and liabilities, the Province agrees that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities as gross amounts in the Statement of Financial Position, totalling to a net lease asset or lease liability to distinguish assets and liabilities that arise from leases from the rest of the lessor's assets and liabilities.

(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?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. Thus, a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments for leases that meet the definition of a liability according to the IAS 37 and Conceptual Framework. However, if the Boards decide to adopt the right-of-use asset and liability for all leases, the lease terms must fit the definition of a liability according to IAS 37 and the Conceptual Framework. With the exception of not agreeing that future events such as renewal options, contingent rentals, and term penalties be included in determining the lease assets and liabilities, the Province agrees 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 to distinguish assets and liabilities that arises from lease from the rest of the lessor's assets and liabilities.

(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?

The Province agrees that lessors should distinguish assets and liabilities that arise under a sublease in the Statement of Financial Position to provide clear distinction between lessees and lessors that are in a sublease arrangement and those that are not. The recognition should reflect the contractual terms and the facts of the agreements.

Question 13: Statement of comprehensive income

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?

The Province thinks that, if both amounts are material, lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss. The Province thinks that note disclosure is sufficient when either or both amounts are not material.

Question 14: Statement of cash flows

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?

The Province thinks that cash flows arising from leases should be presented in the Statement of Cash Flows separately from other cash flows, for example, if leasing is the main source revenue of an entity or if the amounts of cash flows arising from leases are material enough to warrant a separate line. Otherwise, it would be appropriate to include cash flows arising from leases in the miscellaneous category.

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) identifies and explains the amounts recognized 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?

The Province agrees that lessees and lessors should disclose quantitative and qualitative information that identifies and explains the amounts recognized in the financial statements arising from leases. However, the Province feels that the disclosure requirements, as required by paragraphs 70 – 86, are excessive. Although paragraph 71 allows an entity to consider the level of detail necessary to satisfy the disclosure requirements in paragraphs 73 – 86, an entity must engage in significant analysis to assess the level of detail required. The Province finds that these information disclosure requirements are excessive from which benefits, if any, are outweighed by the associated cost of analysis and could open up disagreements with the auditors in the future. The Province recommends that entities disclose its minimum lease payments on its leases as required under current GAAP and disclose the nature and terms of its lease transactions in a business-model context as is currently done in the Management Discussion and Analysis (MD&A).

.../14

Question 16: Transition

(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?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the right-of-use asset and liability for all leases, the lease terms must fit the definition of a liability according to IAS 37 and the Conceptual . With the exception of not agreeing that future events such as renewal options, contingent rentals, and term penalties be included in determining the lease assets and liabilities, the Province thinks that for comparability of the information, lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach.

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the right-of-use asset and liability for all leases, the lease terms must fit the definition of a liability according to IAS 37 and the Conceptual Framework. With the exception of not agreeing that future events such as renewal options, contingent rentals, and term penalties be included in determining the lease assets and liabilities, the Province thinks that for comparability of the information in the Management Discussion and Analysis (MD&A), full retrospective application of lease accounting requirements should be permitted as an option.

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

Aside from the issues already discussed, the Province is not aware of any additional transitional issues that the Boards need to consider. However, additional transitional issues may arise once entities start trying to implement these changes.

Question 17: Benefits and Costs

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?

The Province does not agree with the Boards' assessment that the benefits of the proposals would outweigh the costs of the proposed requirements of this lease exposure draft. In addition to the enormous effort involved with changing the accounting treatment of thousands of operating and capital lease contracts into the new approach for lessees and lessors, the continuous annual assessment to assess whether there are significant changes to these lease arrangements add unnecessarily to the significant analysis involved in this process.

Question 18: Other Comments

Do you have any other comments on the proposals?

The Province supports the current differentiation between capital leases and operating leases and does not agree with the right-of-use approach in recognizing assets and liabilities. However, if the Boards decide to adopt the right-of-use asset and liability for all leases, the lease terms must fit the definition of a liability according to IAS 37 and Conceptual Framework. The Province believes that the lease exposure draft is fundamentally flawed in its inclusion of future discretionary terms as present liabilities and assets. The definition of liability under the Conceptual Framework and IAS 37 states that there is no liability to be recognized until there is a past event. The Province believes that contingent events still to happen in the future or subject to an entity's discretion should not be recognized as lease liability.

We also recommend that illustrative examples should be presented in a non-authoritative appendix to the guidance, otherwise the standards may become rules based rather than principles based.