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December 14, 2010

Technical Director  
International Accounting Standards Board  
30 Cannon Street  
London, UK EC4M 6XH

**Re: Invitation to Comment, Exposure Draft: Leases**

Dear Sir or Madam:

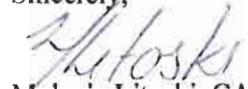
ENMAX Corporation appreciates the invitation to provide comment on the International Accounting Standards Board's (IASB) Invitation to Comment, *Exposure Draft "Leases"*.

ENMAX Corporation (ENMAX or the Corporation) is an energy distribution, supply and service-company and a wholly owned subsidiary of The City of Calgary, headquartered in Calgary, Canada. ENMAX operates and competes in Canada's electricity industry. ENMAX Power Corporation, a subsidiary of ENMAX Corporation, and its predecessors have provided Canadians with safe and reliable electricity for more than 100 years. Due to the fact that the Corporation has rate-regulated activities, ENMAX will adopt International Financial Reporting Standards (IFRS) effective January 1, 2012 and will be impacted by the proposed changes to the lease standards.

ENMAX agrees that the right-of-use model is appropriate in circumstances where lease contracts provide an alternative to asset ownership. We are supportive of the Boards efforts to recognize leases on the balance sheet, if done in a practical and disciplined manner. However, we believe that the Boards should also consider whether this model is appropriate for lease arrangements where direct ownership of the underlying asset is not feasible or the lessee motivation is for reasons other than for financing purposes. In Canada, examples include long-term contractual arrangements that are set by statute, such as power purchase agreements.

ENMAX respectfully provides the following comments, included in the attached appendix, to the questions raised in the Exposure Draft ED/2010/9.

Sincerely,



Melanie Litoski, CA  
Vice President, Financial Reporting

## **Appendix: ENMAX Corporation's responses to the questions raised in the Exposure Draft**

### **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?**

We do not support the conceptual justification for this approach. We see significant complexities and financial impacts of adopting this approach and caution the Boards that broad brush standards such as these may impact underlying business decisions not just provide accounting treatment for those decisions. We believe that the emphasis placed on creating liabilities in relation to lease obligations in order to remove off balance sheet financing has overshadowed the justification for creating right-of-use assets. We believe that a right-of-use asset does not correctly represent the underlying economic nature of a leased asset in all cases.

**b) Do you agree that a lessee should recognize amortization 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 support the conceptual justification for this approach. It would be appropriate to amortize the right to use of an asset over the length of the lease and it would be appropriate to recognize financing charges for the delay of payment from the date the asset was obtained for use.

### **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?**

In both instances, we support a derecognition approach as it reflects the nature of the leased asset. The lessor is giving up their right to actively use the asset, or a portion of the asset, in return for a right to receive rental payments. Substitution of operating revenue with rental and finance revenue reflects the more passive source of income and reduction in exposure to operational risks. Also, we do not believe that a lease contract where the lessor retains exposure to significant risks or benefits creates a liability as the signing of a contract does not itself constitute a past event obligation. Under the proposals in the exposure draft “Revenue from Contracts with Customers”, performance obligations are not recognized as contract liabilities unless they are considered onerous or if the timing of receipt of cash flows is different than the timing of recognition. We believe a consistent approach should be applied to leases.

**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 method would you propose and why?**

As explained in part a), we do not support the proposal for the performance obligation approach and would propose using the derecognition approach for all leases.

**Question 3: Short-term leases**

**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 the statement of financial position, 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?**

We propose that short-term leases for both the lessee and lessor should be accounted for consistently under the approach proposed for lessors. This simplified approach would reduce the cost of accounting for leases that are likely individually immaterial. We also propose that the Board review the criteria for the lease to be considered short-term in nature. The current criteria of less than one year applies to such a limited number of leases, and depending on the type of asset being leased, may actually be less short-term in substance than for instance an asset with a lease term of two years and a forty year useful life.

**Question 4: Definition of a lease**

**a) Do you agree that a lease is defined appropriately? Why or why not?**

**If not, what alternative definition would you propose and why?**

We agree with the definition of a lease in accordance with IFRIC 4.

**(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?**

We agree with the criteria outlined in paragraphs B9 and B10 as the majority of risks and benefits of the underlying asset have transferred indefinitely at inception of agreement.

**(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?**

We agree with the guidance in paragraphs B1-B4 is sufficient in accordance with IFRIC 4.

**Question 5: Scope exclusions**

**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?**

We agree with the scope exclusions. The additional scope exclusion that leases to explore for natural resources must now only be non-regenerative resources is appropriate as these resources fit under the scope of IFRS 6.

**Question 6: Contracts that contain service components and lease components**

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?

We agree with approach suggested by the FASB as it is consistent with the revenue recognition exposure draft.

**Question 7: Purchase options**

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 support the proposed approach that purchase options are only accounted for when they are exercised.

**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?

We support the proposed approach that the lease term should be the longest possible term that is more likely than not to occur. The more likely than not determination for all possibilities would result in a lease term calculation that is a reflection of the economic substance of the agreement.

**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?**

We do not 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. We propose that contingent rentals and expected payments under term option penalties and residual value guarantees only be included in the measurement if the outcome is reasonably certain to occur (i.e. an even higher probability than ‘more likely than not’). Therefore, instead of an expected outcome technique, this would be an all or none determination.

We support the proposal on the requirement of reliable measurement for lessors. The criteria of ‘reasonably certain to occur’ as suggested in the prior paragraph would imply that the payments could also be measured reliably by the lessor.

**Question 10: Reassessment**

**Do you agree that lessees and lessors should re-measure 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?**

We support the proposed approach. Requiring reassessment of the lease circumstances would provide financial statement users with relevant information on significant changes to the lease obligation due to current decisions of the organization's management. We would suggest that further guidance be issued regarding the requirement to determine if the facts or circumstances indicate that the change in the liability is considered significant or insignificant.

**Question 11: Sale and Leaseback**

**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 support the proposed approach. Both identification of sales and leases are separately and clearly defined via the Exposure Draft. We suggest that added guidance regarding accounting for subleases is added which would avoid the impact of having a substantial increase to amounts recognized on the balance sheet in both assets and liabilities as a result of the proposed guidance.

**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?**

**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, totaling 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?**

**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?**

**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?**

In all four above instances, we believe that there is no added benefit to the user of disclosing this information on the statement of financial position. We believe that disclosure by the lessee or lessor in the notes provides certain users the information they may desire, without overwhelming more casual users of the financial statements.

**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?**

We believe there is no added benefit to the user of disclosing this information on the statement of comprehensive income and that it places too much prominence on leasing activities vs. other operating activities. We believe that disclosure by the lessee in the notes provides certain users the information they may desire.

**Question 14: Statement of cashflows**

**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?**

We believe there is no added benefit to the user of disclosing this information on the statement of cashflows and that it places too much prominence on leasing activities vs. other operating activities. We believe that disclosure by the lessee in the notes provides certain users the information they may desire.

**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?**

We agree with the proposed disclosure.

**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?**

We agree with the proposed approach. The approach provides appropriate cost/benefits, moreso than either permitting grandfathering of existing leases or a full retrospective application.

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

We agree with permitting the option of full retrospective application for those entities that wish to incur the costs to do so.

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

No.

**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?**

We disagree with the assessment of costs and benefits. The approach incorporates too many subjective assumptions to be made and additional disclosures which may overwhelm and confuse users of the financial statements. The approach also has been vague in certain definitions and guidance which increases professional judgment required and in turn may reduce comparability. The relief provided to financial statement preparers and auditors in regards to short-term leases, is not sufficient.

**Question 18: Other comments**

**Do you have any other comments on the proposals?**

No.