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

The proposals require that the lessee report the initial value of the right-to-use asset and the liability at the same amount. This effectively assumes that the cost of the consideration (as represented by the liability) represents a fair value for the right-to-use asset. While this will normally be the case, it will not always be so, for example:

- if the entity has procured a lease at a concessional (or peppercorn) rate from a Government pursuing public policy objectives
- if the other party is a related party, and the transaction is not on a market basis
- if part of the consideration received is for something other than a right-to-use asset or a service component (for example a property lease might encompass the lease of a building and the sale of fixtures and fittings).

It does not appear to the Treasury that simple application of the proposals in the exposure draft will fairly present the economic substance of such arrangements.

Therefore, the Treasury proposes that the standard provide for separate valuation of the right-to-use asset in such cases. This would be similar to the approach adopted with financial instruments (see IAS 39, AG 64). If a loss results from following this approach, the entity (whether lessee or lessor) has entered an onerous contract and this expense should be recognised immediately. Conversely if entering a contract results in a right-to-use that has value over the concessional or peppercorn terms, the resulting income should also be recognised immediately.