El Corte Inglés

In this case, under the first-time application model put forward in the ED, regardless of the point in time of the leases at the transition date, the right-of-use asset and the obligation to pay rentals would be calculated on the basis of the remaining payments, i.e. a new time pattern for returns would begin for each lease in which returns would be artificially penalised for over half of the remaining lease and would not be linked in any way to the actual pattern of project returns.

However, if the new standard were applied full retrospectively for the first time, for the hypothetical entity described above with a balanced portfolio in terms of the lease term elapsed, such first-time application would situate the various leases at different points in time with respect to the pattern of returns, i.e. certain leases would be in the first stage of bringing forward expenses whereas others would be reversing the amount brought forward.

Consequently, we believe that it would be appropriate to establish as the basic scenario the full retrospective application of the new standard. There are no conceptual reasons to prohibit when entities have the relevant information available.

However, we understand that only in the case of an entity that has not available the relevant information to apply full retrospective approach, the IASB could allow simplified retrospective as an option for transition.

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Benefits and costs

Question 17

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?

In the absence of the Boards making significant improvements to the ED, we do not agree that the benefits would outweigh the cost. Whilst we appreciate the Boards addressing some of the significant criticisms of the current model (e.g., lessee's off-balance sheet financing), we have concerns that the burden for financial statement preparers to implement and maintain all aspects of the model will be very significant. For example, we anticipate practical difficulties in the measurement of lease payments, determination of lease term, reassessment of lease term and lease payment, and the volume and complexity of disclosure. The proposed model entails the use of significant estimates and judgements such that the burden to audit the accounting treatment will also be high.

Also, we do not believe the Boards members have captured all of the costs associated with the proposal, such as human capital, accounting systems, tax impacts, internal controls and processes, capital requirements for regulated financial institutions, and among others contracts with business partners.

We believe that with the alternatives we have described in our responses to the previous questions, the cost of compliance will significantly decrease while still achieving the Boards' objectives.