



17 December 2010

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sirs,

Exposure Draft ED/2010/9 'Leases'

With membership in excess of 30,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales (ICAEW). London members, like those of the ICAEW as a whole, work in practice or in business. The LSCA operates a wide range of specialist committees include Technical (Accounting and Auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to bodies such as yourselves.

In this instance the Technical Committee of the LSCA is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2010/9 'Leases' (the Exposure Draft).

General comments

We support the Board's project, that is being undertaken jointly with the FASB, to review the existing leases standard, IAS 17 'Leases' (IAS 17), with the primary objective to ensure that information is provided in entities' financial statements about the amounts, timing and uncertainty of cash flows arising from lease contracts.

In general, we agree with some elements of the Board's thinking regarding the proposed models for lessees and lessors, however we have a number of serious concerns with the proposals overall.

As a result, we strongly believe that the Board should re-issue an exposure draft on this project subject to the feedback that they receive during this comment period. This is encouraged because we believe that;

- the proposals for lessor accounting have not followed due process;
- the proposals as they currently stand will fundamentally impact entities, particular those operating within the leasing industry, and as such would welcome more fieldwork research to be carried out for cost/benefit reasons before these proposals are taken further; and
- a number of the key proposals require further consideration by the Board.

We believe that our serious concerns may lead to misleading and unreliable information being recorded in entities' financial statements, as well as in some instances, providing information that is based too much on management judgment, thus lacking comparability for users. Accordingly the

accounting may not appropriately reflect the underlying rights and liability obligations associated with the lease arrangement. In particular, we have strong concerns with regard to the following:

○ **The accounting model for lessors**

We do not support the use of a two approach model, as we think that lessors should not be required to account for their rights and obligations arising from the lease arrangement based on their exposure to the risks or benefits associated with the underlying asset. We therefore believe that a single model approach should be required. We also do not support the performance obligation approach as, in our view, this approach will lead to assets being recorded which do not reflect the commercial substance of the arrangement. Instead, we favour the derecognition approach and believe it should be the only approach that is permitted for lessors. This is on the basis that the derecognition approach will result in the lessor only reflecting an asset that it will be able to obtain economic benefits from in the future (albeit this asset will represent a portion of the amount of an underlying asset).

○ **The measurement model for lessees and lessors**

We do not support the Board's proposals for measuring the liability and corresponding right-of-use asset for lessees nor for measuring the right to receive lease payments and the corresponding residual asset for lessors (when using the derecognition approach). We do not think that the lease term and lease payments should be based on management's judgement of an expected outcome that takes into account optional and contingent terms of the arrangement. This is on the basis that, in our view, these proposals do not align with the conceptual framework for accounting for a liability. Accordingly, we support a basis of accounting that requires entities' financial statements to record a liability that it has an obligation to provide, and which cannot be avoided.

In this respect, and in general with these proposals, we have major concerns that the current proposals involve too much management judgement, by both lessees and lessors, at inception and throughout the life of the arrangement.

○ **The accounting for short-term leases**

In general, we support the Board's proposals for permitting certain short-term leases to apply simplified accounting requirements. However, in our view these simplifications do not provide sufficient benefits to outweigh the associated costs, particular for lessees.

Comments to questions

Our comments to the questions raised in the Exposure Draft are as follows:

Question 1: The accounting model for lessees

(a) Do you agree that a lessee should recognise 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 agree in general with the Board's thinking that a lessee should recognise a liability, for the obligations that it has entered into under the lease arrangement, and a corresponding asset, for the right-to-use that asset over the term of the lease.

However, we find the proposals unclear and conflicting with regard to what the right-of-use asset actually represents for lessees and thus how a lessee should account for the asset. This is because the proposals imply on the one hand that the asset represents an intangible asset (when accounting for the economic benefits arising from using that asset and any revaluation gains/losses recorded, the requirements mandate the use of IAS 38 'Intangible Assets'), and on the other hand the asset may represent a tangible asset (when presenting and disclosing the asset, the requirements mandate the

use of IAS 16 'Property, Plant and Equipment'). Accordingly, we think that the Board should explicitly state whether a lessee should account for assets arising from an arrangement as tangible assets (in accordance with IAS 16) or intangible assets (in accordance with IAS 38).

We believe that there are arguments for and against the basis for accounting both as intangible and tangible assets. However we understand that this is an issue which has wide-ranging implications (e.g. taxation) and as such would welcome the Board considering this issue in more detail.

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

We agree with the Board's proposals for the subsequent measurement of the right-of-use asset and the lease liability. However we would refer to our comment above regarding the request for the Board to provide a consistent and clear requirement for the appropriate accounting standard to be used for right-of-use assets (i.e. whether the charge for right-of-use assets' depreciable amount is to be accounted for as depreciation or amortisation in accordance with IAS 16 or IAS 38 as appropriate).

Question 2: The accounting model for 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?

We do not agree with the Board's proposals for lessor accounting with respect to the following specific areas:

- i. We do not believe that there should be two approaches for lessor accounting.

Firstly, we understand that one of the Board's primary objectives for proposing changes to the existing IAS 17 model was to seek to eliminate opportunities for structuring arrangements to achieve a particular accounting outcome. However, by including a two model approach, which centres around the lessor assessing whether it retains exposure to significant risks or benefits associated with the underlying asset in the arrangement, we do not think that the proposals meet the Board's objective. We believe that the basis for assessing the approach to be used retains the subjectivity already contained in the existing IAS 17 model. Accordingly (whilst we do not in general agree with the Board's strong views regarding the flaw with the existing IAS 17 model), we would question the Board's intention for proposing these requirements for lessors, which appear to be contradictory to this primary objective.

Secondly, we think that the Board should require a one model approach for the following reasons:

- to reduce complexity for lessor accounting;
 - to increase comparability of financial statements for investors; and
 - to ensure consistency with the proposals lessee accounting by using a one model approach.
- ii. We do not think that the performance obligation approach is an acceptable model for lessor accounting. The primary reason being that this approach will result in the underlying asset being recorded by the lessor, as well as (i) a receivable asset being recognised by the lessor; and (ii) a right-of-use asset being recognised by the lessee. Accordingly, the benefits resulting from the same underlying asset are being recorded multiple times, a concept that may be ill-understood by users. In our view this proposal would create unnecessary complexity and could be misleading for investors.

From an accounting technical perspective, we consider that there are other flaws and complexities associated with the performance obligation approach (refer to our response to part (b) of this question), including the requirements for reassessment and impairment testing. Should the Board wish to pursue this approach, these requirements would need to be considered further with appropriate guidance provided.

We agree with the Board's proposals that lessors should apply a derecognition approach. We find that this approach provides a conceptually sound basis for lessors to recognise the appropriate assets that form part of a leasing arrangement, both on a commercial basis and an accounting technical basis - the lease receivable and a residual asset (representing the rights to the underlying asset at the end of the lease term) are recognised and the rights transferred to the lessee on the underlying asset are derecognised.

Accordingly, in our view, this approach is consistent with the lessee's accounting model - from the lessee's perspective, the right-of-use asset represents the component of the underlying asset that has been decompartmentalised and derecognised by the lessor (albeit the underlying asset will have been only partially derecognised), therefore implying that the asset has been handed-over from the lessor to the lessee to use.

(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?

We agree with the Board's proposals for the recognition of assets, liabilities, income and expenses for the derecognition approach.

However we do have concern with regard to the residual asset calculation. We find the calculation very mechanical and, as such, have concerns that it may result in inappropriate carrying amounts being established. Particularly, it appears that example 4 generates a different carrying value if the residual asset was calculated using the revised term from inception of the arrangement as compared to reassessing the carrying value during the lease term.

Under the proposals, the residual asset has to be subsequently measured at cost. We believe that the residual asset should not be accounted for any differently to other assets falling in the scope of IAS 16/IAS 38 (refer to our comments in response to question 1), thus permitting an entity to choose a cost model or revaluation model for subsequent measurement of the residual asset. We do not support the view that preparers should have the option to solely accrete the value of the residual asset to reflect the time value of money.

Question 3: Short-term leases

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 disagree with the Board's proposals for defining and accounting for short-term leases.

Whilst we welcome the proposals for including simplified accounting requirements for certain lease arrangements, we think that the simplifications should be enhanced. In this regard, we agree with the comment in paragraph BC42 which questions whether the cost of tracking and recording a large number of short-term leases would outweigh the benefits associated with the accounting for the rights and obligations arising from the arrangements. As such, we strongly believe that, for pragmatic reasons, more simplifications are required and/or scope exemptions should be provided for certain lease arrangements. We would therefore encourage the Board to continue to explore the potential for this.

We also do not support the Board's proposals for defining a short-term lease as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less. This is on the basis that we do not think that the definition should take into account options to renew or extend. As is discussed further in our response to questions 8 to 10, we support an approach for the accounting of lease arrangements (both from the perspective of the lessee and the lessor) based on the contractual obligations that are required to be made under the terms of the arrangement ('an obligation only approach'). In this regard, by including options to renew or extend in the definition of a short leases would not be in line with this view and therefore believe that the definition should be changed appropriately, for example a short term lease being a lease for which the maximum contractual lease term is twelve months or less from the date of inception of the arrangement.

Finally, we find that the proposed accounting for short-term leases is inconsistent between lessees and lessors for the following reasons:

- (a) Greater simplification has been permitted for lessors as they would not be required to initially record any accounting entries for short-term lease arrangements, whereas lessees would; and
- (b) When taking the lease arrangement as a whole (i.e. from the perspective of the lessee and the lessor), the proposals would mean that the full fair value of the asset (right-of-use asset for the lessee and the underlying asset for the lessor) would be recorded twice within the entities' statements of financial position. We find this concept conflicting and potentially misleading for users.

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 Board's proposals (subject to our comments made in response to question 8).

- (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 proposed criteria to distinguish between a lease and a purchase/sale. However, we believe that the following should also be addressed by the Board:

- (a) The use of the word 'trivial' when defining a purchase /sale contract. Paragraph B9 states: "A contract represents a purchase or a sale of an underlying assets if, at the end of the contract, an entity transfers to another entity control of the entire underlying assets and all but a trivial amount of the risks and benefits associated with the entire underlying asset". We are concerned that "a trivial amount of risk and benefits" could be interpreted inconsistently by different preparers. We therefore propose that the Board reviews this criterion and either removes the reference to "trivial" or provides guidance in the final standard on how to apply it in practice.
- (b) The inconsistency of the notion of control between the Exposure Draft on Revenue Recognition, which discusses a purchase/sale being based on the transfer of control of goods and services (paragraph 25 of the Exposure Draft on Revenue Recognition), as opposed to control being based on the risks and benefits associated with the underlying asset in this Exposure Draft. We would also welcome the Board giving consideration to how the definition of control in relation to a lease arrangement will fit into the notion of control within IFRIC 12 'Service Concession Arrangement's – IFRIC 12 focusing on a series of indicators for determining control, including entitlement of any significant residual interest of an asset and the regulation of what services must be provided with the assets, to whom and at what price.

(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 have significant concern with the guidance for assessing whether the contract is, or contains, a lease on the basis of the substance of the lease, because the proposals include the guidance that is currently contained in IFRIC 4 that we believe needs improving. We therefore would encourage the Board to carry out a detailed review of IFRIC 4 in order to provide significantly more robust principles for distinguishing between a service and a lease contract for inclusion in these proposals.

In general we find IFRIC 4 unclear and difficult to apply in practice (principally because of the use of certain words e.g. specified, implicit and alternative), and therefore are concerned that these practical issues are likely to continue to exist when applying these proposals in a leasing context. In particular:

- i. Paragraph B2 and B3 identifying when an asset is implicitly identified in the contract – we would welcome the Board to provide examples of how the guidance may be applied to more common types of assets, for example motor vehicles and photocopies (as opposed to aircrafts). We also believe that there may be other significant criteria that should be taken into account when assessing if an asset may be able to be substituted by another asset, and that the Board should look to incorporate into the guidance – the physical location of the asset and the integrated nature of the asset with other assets.
- ii. Paragraph B4(c) – we find the wording in the criteria confusing to understand and therefore would welcome the paragraph to be re-worded and an example given to explain how the criteria would be applied in practice.

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 proposed scope exclusions for:

- i. biological assets and leases to explore for or use minerals, oils, natural gas and similar non-regenerative resources as the accounting for such assets is covered in other IFRSs; and
- ii. intangible assets as they are considered to represent different types of assets (compared to tangible assets) which may be used in multiple lease arrangements, thus for pragmatic reasons we believe the proposals to therefore not be appropriate for intangibles. However we find that the proposals do not adequately explain why intangible assets are excluded from the scope and therefore believe that the Board should include an explanation to assist users understand the basis of this conclusion.

We also agree with the Board's proposals that:

- i. long-term leases of land should not be excluded as there is no conceptual basis for differentiating between these types of leases and other leases; and
- ii. investment properties which are measured at fair value by a lessor should remain to be accounted for under IAS 40 as the standard already deals with the accounting of such assets in a relevant and reliable manner for users. Accordingly, we think that as investment properties are differentiated from tangible assets used in the operating activities of businesses, for instance as they are held for different purposes such as capital appreciation, they should fall outside the scope of these proposals.

Question 6: Contracts that contain service components and lease components

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 the Board's proposals in principle for both lessees and lessors that a service component and a lease component included in a contract should be accounted for separately when those components are distinct, subject to the following two points:

- (a) Based on our view that we do not support the performance obligation approach (as discussed in our response to question 2), paragraph (b)(ii) should be deleted as it would no longer be applicable; and
- (b) As we discussed in our response to the Exposure Draft of Revenue Recognition, we find the guidance in paragraph B7(b)(ii) (which is contained in paragraph 23(b)(ii) in the Exposure Draft on Revenue Recognition) unclear. In our view this paragraph is unnecessary when determining if a service component is distinct, and therefore should be deleted.

We do however have some concern, that in certain circumstances, the costs associated with meeting the proposals may outweigh the benefits, for instance where the service component is considered to be relatively insignificant compared to the arrangement as a whole. Accordingly, for pragmatic reasons, we would welcome the Board to consider providing a scope exemption in certain circumstances.

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 agree with the Board's proposals that a lessee or a lessor should only account for a purchase option when it is exercised on the basis that we do not consider the option to be a component of the arrangement until such time that it is exercised. Where these options exist, we believe that they must be adequately disclosed so as to ensure users understand the uncertainty and timing of the associated cash flows - refer further to our comments made in response to question 15.

We would also note that this is considered to be the case only when the option is at a fair value, as when the option is a bargain purchase option (as defined in paragraph B10) the contract would fall outside the scope of the standard as it would qualify as a sale/purchase.

Question 8: Measurement of the 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?

As already indicated in our response to question 3, we support an obligation only approach that accounts for lease arrangements (both from the perspective of the lessee and the lessor) based on the unavoidable contractual obligations that are required to be made under the terms of the arrangement. In addition to this, we believe that this obligation-only approach for recognition and measurement must be supported by a requirement to provide enhanced disclosures about the uncertainty and timing of cash flows, especially regarding contingent rental and renewal option estimates - refer further to our comments made in response to question 15.

Accordingly, we do not agree that the lease term for a lessee or for a lessor should be based on the longest possible term that is more likely than not to occur. Coupled with our comments that have been made in response to question 9, we believe that these proposals will lead to unreliable information being recorded in entities' financial statements as they are reliant upon significant management judgement being applied. This significant subjectivity is also considered to reduce comparability for users. Furthermore, when considering the proposals regarding reassessment, we think that these

proposals will be economically and practically unfeasible for entities' to meet on both an initial and ongoing basis.

The basis for supporting an obligation only approach is because in our view an entity should only record a liability based on their contractual obligations. We believe that the Board's proposals are conflicting to the principles contained in IFRS accounting framework.

Question 9: Measurement of the 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 with the Board's proposals for accounting for lease payments.

As noted in our response to question 8, we support an obligation only approach that is based on the requirement to recognise a lease liability in line with the unavoidable contractual obligation that the entity is exposed to under the arrangement (and the requirement to provide enhanced disclosures about uncertainties and timings of cash flows). We therefore do not believe that an entity should be required to recognise a lease liability (and a corresponding right-to-use asset) based on what it *expects* to pay. Overall we think that this view would result in more reliable information being recorded in entities' financial statements.

We particularly support this obligation only approach with regard to the practical issues surrounding how to determine contingent rentals that are based on asset usage and performance. We believe that the current proposals would create a complex and costly requirement for entities to monitor over the life of a lease arrangement. Contingent rentals that are outside the lessees control and which could not be avoided should be included, for example those based on an external index or rate.

We are also concerned that the use of a probability weighted approach to calculating the expected lease payments is overly complicated and may give a semblance of reliability that is not borne out in practice. We would prefer an approach that looks to management's estimate of the unavoidable rentals that are more likely than not to be paid.

Taking all the above into account, we consider that the accounting for a lessee and a lessor should be the same such that both parties to the arrangement should measure term option penalties and residual value guarantees only when they can be reliably measured. This will result in the penalty options/guarantees only being recognised on an incurred basis/when they are actually exercised. We acknowledge that there may be an 'implementation gap' between the timing of when the lessee and lessor both become aware of the information for recognising the penalty option/guarantees, however this gap arises simply as a result of market conditions.

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?

Based on our responses to the above questions 8 and 9 on measurement, this question is not considered applicable. In our view, an entity should take account of contingent rentals and renewal extensions when they become contractually binding and therefore reassessment would be considered at this point as necessary.

However, should the Board proceed with the proposals as currently drafted, we would welcome the requirement for reassessment being on indicator-only basis rather than mandating annual reassessment, but would appreciate additional guidance being provided for assisting when a 'significant' change has occurred.

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 agree in general with the Board's proposals regarding the criteria for classification as a sale and leaseback for both the transferor and the transferee, subject to the following:

- (a) Based on our view that we do not support the performance obligation approach, paragraph 68(a) should be amended to use the derecognition approach; and
- (b) As we have already discussed in our response to question 4(b), the same points regarding (i) the use of the word 'trivial'; and (ii) the inconsistency of the notice of control, apply.

Question 12: Presentation in the 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?

We agree that separate presentation will assist users to adequately understand the nature of the leasing arrangement entered into and show how the different assets, which are used within an entity's business, have been acquired/financed. We do not believe that in all cases such disclosure needs to be made on the face of the statement of financial position rather than in the notes. IAS 1 paragraph 55 already provides that additional line items etc should be given in the statement of financial position where such presentation is relevant to an understanding of the entity's financial position. We do not believe it is appropriate to mandate such additional disclosure on the face of the statement of financial position in all instances.

(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?

As noted previously, we do not support the performance obligation approach.

(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?

We agree that there should be separate disclosure of rights to receive lease payments and of residual assets from other assets. However, as noted in our response to question 12(a), we do not believe that in all cases such disclosure needs to be made on the face of the statement of financial position rather than in the notes.

Any requirement should reflect existing requirements already contained in IAS 1. For example, for a lessor the right to receive lease payments would seem to be analogous to trade and other receivables and therefore would fall to be separately disclosed under IAS 1 paragraph 54.

(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?

As noted previously, we do not support the performance obligation approach which drives the disclosures in paragraph 43.

We agree that there should be separate disclosure of sublease arrangements as they expose an entity to different risks and benefits that would not otherwise arise. In particular an entity may be exposed to risks arising from an onerous lease arrangement which, as a result of entering into a sublease arrangement, may be mitigated. However, as noted in our response to question 12(a), we do not believe it is appropriate to mandate such additional disclosure on the face of the statement of financial position in all instances.

Question 13: Presentation in the 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 agree with these proposals as we believe that there should be consistency between the level of disaggregation within the primary statements. Therefore, as commented in our response to question 14, we support the separate presentation of income and expenses, assets and liabilities arising from leasing arrangements.

However there is concern how the presentation of income and expenses would fit where an entity chooses to present the analysis of expenses by function in the statement of comprehensive income. Where the analysis by function presentation is applied, it is considered that the income and expenditure arising from the lease arrangement should be presented in the notes instead – this would then align with the requirement in IAS 1.104.

Question 14: Presentation in the 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?

We agree with these proposals.

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

(a) identifies and explains the amounts recognised 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 note that paragraph 71 requires an entity to consider the level of disclosure needed, how much emphasis to place on the requirements and also that useful information should not be obscured by the inclusion of a large amount of insignificant detail. Given this, we believe that paragraphs 73 to 86 could be better worded so that they indicate the nature of the information to be considered in arriving at the qualitative and quantitative financial information to be disclosed to meet the objectives in paragraph 70. As currently worded "An entity shall disclose ..." preparers may ignore the helpful paragraph 71 in applying the remaining paragraphs.

The disclosure requirements here also need to better reflect those in IAS 1 relating to sources of estimation uncertainty. The Board's current proposals require estimation to be made in respect of contingent rents and lease terms which will give rise to estimation uncertainty.

We believe the proposed disclosures are also appropriate (subject to the comments made above) based on our support for an obligation-only approach (as discussed in our response to questions 8 to 10).

Question 16: Transition

- (a) The exposure draft proposes that lessees and lessors should recognise 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?**
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**
- (c) Are there any additional transitional issues the boards need to consider?**
- If yes, which ones and why?**

We believe that lessees and lessors should have a choice on adoption of using either the simplified approach or a retrospective approach. In addition it should be possible to apply the simplified approach from an earlier date to all leases entered into before that date. Such an approach has been adopted in other standards, for example IFRS 3 and IAS 27.

We agree in principle with the Board's proposal to permit a simplified retrospective approach for pragmatic reasons, even though ordinarily we would advocate full retrospective application.

However, based on our view that we support an obligation-only approach (as discussed in our response to questions 8 to 10), we believe that full retrospective application would also be feasible. This would further be acceptable if our suggestions regarding more simplifications for short-term leases (as discussed in our response to question 3) were incorporated into the final standard. Furthermore, we acknowledge that there are concerns regarding the element of 'front-loading' profit upon initial application which would therefore be mitigated if full retrospective application were required.

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?

As a general point, we have concerns that the level of fieldwork that has been carried out to support the benefits of the new proposals outweighing the costs for entities is insufficient. We have noted some of our concerns above (refer to our response to question 2, 3, 6 and 9).

Accordingly, we would welcome the Board to give further consideration to the cost/benefit issues by undertaking more fieldwork in this area, and taking into account how they would impact on small and medium-sized entities should they be adopted into the IFRS for SMEs.

Question 18: Other comments

Do you have any other comments on the proposals?

We have no further comments.

We trust you find our comments helpful in the consultation process and please do not hesitate to contact our Chairman, Brian Creighton on +44 (0) 207 7893 3415 if you wish to discuss any of our comments further.

Yours faithfully

A handwritten signature in black ink that reads "Brian Creighton". The signature is written in a cursive style with a period at the end.

Brian Creighton
LSCA Technical Committee Chairman