

**TRANSLATION**

Montreal, December 15, 2010

Peter Martin, CA  
Director, Accounting Standards  
Accounting Standards Board  
Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Sir:

Please find enclosed the comments of the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec on the Exposure Draft entitled "Leases."

Please note that neither the Ordre des comptables agréés du Québec nor any of the persons involved in preparing the comments shall have any liability in relation to their use and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

We would appreciate receiving a copy of the English translation of our comments and that they also be forwarded to the International Accounting Standards Board (IASB).

Yours truly,

Annie Smargiassi, CA  
Secretary to the Exposure Draft Review Committee

c.c.: International Accounting Standards Board (IASB)

Enclosures: Disclaimer and comments

## **DISCLAIMER**

Subject to the conditions described herein, the documents prepared by the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec (the Ordre), hereinafter referred to as the "comments," provide the opinion of members on statements of principles, documents for comment, associates' drafts and final exposure drafts published by the CICA Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board and by other organizations.

The comments submitted by the Committee should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

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## COMMENTS OF THE EXPOSURE DRAFT REVIEW COMMITTEE OF THE ORDRE DES COMPTABLES AGRÉÉS DU QUÉBEC ON THE EXPOSURE DRAFT ENTITLED "LEASES"

### TERMS OF REFERENCE OF THE COMMITTEE

The terms of reference of the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec are to collect and channel the views of practitioners in public practice and members in business, industry, government and education, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the Committee members share the results of their analysis. The comments below reflect the views expressed, and unless otherwise specified, all of the Committee members agree on these comments.

The Ordre has not acted upon and is not responsible for the comments expressed by the Committee.

### FOREWORD

The Committee members would like to receive a copy of the English translation of the comments.

### GENERAL COMMENTS

Members point out that the "Leases" Exposure Draft will simplify the requirements but will result in many new estimates when accounting for leases.

### QUESTIONS

#### **Question 1: 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?**

Members agree that a lessee should recognize a liability to make lease payments that meets the definition of a liability and a right-of-use asset that meets the definition of an asset.

- (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?**

Members agree because it allows for a distinction to be made between the financing portion and the operating portion.

#### **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?**
- (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?**

Members do not agree with retaining two approaches for the lessor. In their opinion, the derecognition approach should not be used because it unduly accelerates revenue recognition and a portion of the asset is still presented off-balance sheet. Since the lessor is granting the lessee a right to use an asset, members recommend that only the performance obligation approach be retained because it presents the total assets in the lessor's books.

#### **Question 3: Short-term leases**

**The exposure draft proposes that a lessee or a lessor may apply the 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. 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?**

Members agree for several reasons. First, the fact that the transaction is completed within 12 months justifies not discounting the minimum lease payments. A short-term lease generally means that there is no significant transfer of the risks and rewards of the underlying asset from the lessor to the lessee. This simplified approach would make it easier to account for high volume transactions. The approaches would not provide results that will be materially different in the short term. Members prefer that one simplified method be used for both the lessor and the lessee.

#### **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?**

Members agree with the definition proposed since it reflects the diversity of leases. The definition seems to be more general than the one presented in the current international standard since it mentions "consideration" rather than "payment".

- (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?**

Members agree with the criteria for distinguishing a lease from a contract that represents a purchase or sale. However, they point out that paragraph B9 should also refer to the “Revenue from Contracts with Customers” standard to determine if a sale has effectively taken place.

**(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?**

Members do not believe that the guidance is sufficient to explain all the concepts. They recommend the addition of illustrative examples for cases where the lessor has the capacity to replace the leased assets during the lease term with non-specified assets.

**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?**

Members recommend that intangible assets be clarified in order to avoid having leases excluded from the scope of IAS 17 and IAS 38.

**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?**

Members favour the approach suggested by the FASB because if the service component is not distinct, there is significant risk of arbitrariness in dividing the lease into a service contract and a lease. If the option of separating the two leases is nevertheless retained, members believe that more specific guidance should be provided regarding the allocation and that this guidance be applied in the same way by all the parties involved.

**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?**

No, members do not agree. They point out that there are situations in practice where the likelihood of an option being exercised is very high and there is virtual certainty that the purchase option will be exercised. They mention that in situations where there is quasi-certainty, purchase options should be recognized as though they were 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?**

Members agree with the proposals.

**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?**

Members agree with the proposals but suggest that additional examples be provided in Appendix B.

#### **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?**

Members agree with the proposals. In their opinion, the income statement will present up-to-date information and this approach is consistent with the other accounting standards.

#### **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?**

Members agree with the proposed criteria, which are consistent with the criteria for distinguishing between a purchase or sale contract in B9 and B10.

#### **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?**

Members agree with the proposals. In their opinion, this approach is consistent with current practice.

**(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?**

Members agree with the proposals to present these items on a gross basis since this approach is the most transparent.

- (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?**

Members do not agree with the derecognition approach, for the reasons mentioned previously.

- (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?**

Members agree that assets and liabilities arising on leases should be distinguished. They would like the approach to be the same for lessees and lessors.

#### **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?**

Members agree that lease income and expense should be presented separately and point out that this approach is consistent with the one proposed for the statement of financial position.

#### **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?**

Members agree that cash flows arising from leases should be presented separately since this is consistent with the other items in the standard and with other standards in effect.

#### **Question 15**

**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?**

Members agree with the proposals.

#### **Question 16**

- (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?***

Members agree with the proposals.

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

Members do not believe that full retrospective accounting should be permitted because the costs would outweigh the benefits it would provide.

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

Members do not believe there are any additional transitional issues that need to be considered.

#### ***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?***

Members agree with the Board's assessment.

#### ***Question 18***

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

Members have no other comments on the proposals.