



International Accounting Standards Board
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12th January 2011

Dear Madam / Sir

Exposure draft: Leases, ED/2010/9

Centrica Plc welcomes the opportunity to comment on the above exposure draft.

Centrica Plc is a multinational integrated energy group with activities encompassing all aspects of the energy chain. We source and generate energy through our international upstream oil and gas exploration activities, our fleet of gas-fired power stations, our wind power developments and investments in nuclear energy. We procure and trade energy internationally on wholesale energy markets. We supply energy to domestic and business markets within the UK and North America and service energy within those markets. We are the largest energy supplier in the UK operating under the British Gas brand and one of the largest energy suppliers within North America operating under the Direct Energy brand.

We summarise our main comments in the following paragraphs. Our responses to the specific questions in the exposure draft are set out in the appendix.

We support the concept by the Boards to improve accounting in general with principles-based and conceptually consistent accounting models. However, we do not believe that the current accounting framework for leases requires amendment.

We are concerned that contracts which have similar economic consequences will be accounted for differently under the Boards proposals. In addition we are concerned that contracts which in substance are the procurement of energy will be accounted for as leases. We enter into long term contracts for the supply of oil, gas and power. The question arises as to whether such contracts should fall within the scope of leasing at all or whether such contracts fall within the scope of IAS 39 or should fall to be accounted for as executory contracts.

The ED brings forward the scope exclusions contained within IAS 17 which excludes leases to explore for or use mineral, oil, natural gas and similar non-regenerative resources. However, no such scope exemption exists for contracts for the supply of power. We recommend that the Boards consider extending the scope exemption to contracts for the supply of power.

We are aware of the conceptual criticism of the current lease accounting model under IAS 17 and we note that the proposed right-of-use model constitutes a fundamental change to lease accounting. Furthermore we understand the conceptual assumption behind the right-of-use model which views an asset as a bundle of rights that can be divided and separately transferred. However, we disagree strongly to adopt a fundamental change to lease accounting without deliberating arrangements that might be similar to leases. For instance the boundary between leases (particularly those contracts that are currently accounted for as operating leases) and service arrangements is difficult to determine.

We are not convinced that the proposed criteria carried over from IFRIC 4 provide the necessary robust and operational distinctions to determine the possibly very different accounting treatments. We believe a thorough reassessment of the guidance for determining whether an arrangement is or contains a lease is warranted. We recommend that the Boards reconsider the definitions and provide the required clarifications to enable correct and consistent accounting applications within and across industries. In addition we urge the Boards to explain their rationale for the significantly different accounting afforded to leases compared to non-lease executory contracts.

We do not agree with the proposed lease term definitions and believe the proposals will require amounts that do not meet the definition of a liability to be included within the calculation of the lessee's ability to make lease payments. We believe that the lease term should only include optional lease periods that are virtually certain to be exercised and view this threshold as higher than the 'more likely than not' threshold contained within the proposals.

We do not agree that contingent rentals, expected payments under term option penalties and residual value guarantees should be included in the measurement of assets and liabilities using an expected outcome technique. We believe that lease payments should only include payments for the recognised lease term that represent a present obligation of the lessee.

The proposals require the use of significant estimates and judgements and will lead to more subjectivity, uncertainty, complexity and volatility in amounts recognised within the financial statements. The supposed benefits by including contingent features and amounts payable in optional periods leads to information that often might be unreliable.

We believe that the burden and costs of implementation, continuing application and the resulting complexity on the financial statements of the proposals would far outweigh the benefits cited from eliminating the current distinction between the accounting for operating and finance leases, in particular, if clarification over the

differentiation of accounting treatments between lease arrangements and other services arrangements or executory contracts is not provided.

We believe the current accounting model which distinguishes between finance leases and operating leases and the existing accounting treatment which accompanies each classification to be appropriate. We believe transactions should only be accounted for in a similar manner if their economic consequences are comparable. The current accounting model is widely understood and results in accounting which reflects the economic substance of arrangements. We cannot accept such fundamentally different accounting treatment between lease contracts and non-lease executory contracts.

We believe that the concerns raised by both the discussion paper and the exposure draft can be addressed through enhanced disclosure, for example, providing disclosure of the present value of the minimum lease payments under operating leases and disclosure of a corresponding 'right-of-use' asset. Such disclosure could be provided for each different class of lease, where material to the financial statements. We do not believe that disclosure should be considered secondary to information presented within the primary financial statements. We believe that enhanced disclosure provides useful information to users of the financial statements.

We would be pleased to discuss our comments letter with the Boards or their respective staff at their convenience.

Yours faithfully

A handwritten signature in black ink, appearing to read 'J. Bell', with a large, stylized flourish extending to the right.

Jeff Bell
Director of Financial Control

Appendix I

Responses to detailed question in the exposure draft

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

The accounting proposed within the ED assumes that all lease transactions are primarily financing arrangements, assuming implicitly that a lessor buys an asset by way of a bank loan. Instead of recognising rental expense a lessor would recognise interest expense and amortisation expense in profit or loss under the right-of-use model. While we agree with this view in relation to long-term arrangements which are in substance financing arrangements, we do not agree that such treatment is appropriate for shorter term arrangements, where the lessee is simply paying a charge to use an asset for a specified period.

The recognition of a right-of-use asset and a lease liability to make lease payments for all lease arrangements will be significantly different to the accounting for non-lease executory contracts. The existing requirements for lease accounting set out criteria for determining whether arrangements contain financial or operating leases and to the extent an arrangement contains an operating lease, the accounting for operating leases and other executory arrangements is similar.

Given the significantly different accounting being proposed under the ED for contracts that are deemed to be leases compared to those that are not leases, we believe that a thorough reassessment of the guidance for determining whether an arrangement is or contains a lease is warranted. We expand upon this in our response to question 4.

We are aware of the conceptual criticism of the current lease accounting model under IAS 17 and we note that the proposed right-of-use model constitutes a fundamental change to lease accounting. Furthermore we understand the conceptual assumption behind the right-of-use model which views an asset as a bundle of rights that can be divided and separately transferred. However, we disagree strongly to adopt a fundamental change to lease accounting without deliberating arrangements that might be similar to leases. The impact on profit or

loss, on the statement of financial position and the statement of cash flows under the proposed lease accounting model might be fundamentally different to the accounting for sale, licensing or service arrangements. For instance the boundary between leases (particularly those that are accounted for currently as operating leases) and service arrangements is difficult to determine. We are not convinced that the proposed criteria carried over from IFRIC 4 provide the necessary robust and operational distinction to determine (the possibly very different) accounting treatment.

The proposed treatment will alter significantly the face of the Balance Sheet, but will not reflect the substance of arrangements, where the risks and rewards are not transferred to lessees and where such arrangements are not financing in nature, but rather payments made to use an asset for a specified period of time.

Under the proposals readers of financial statements will observe a right-of-use and an obligation measured at different values. Understanding what the net position represents and movements thereon will be difficult, particularly when the nature of the lease arrangement is not an in substance financing arrangement.

Additionally the proposed accounting treatment will result in the recognition of an expense that will not reflect the actual pattern of economic benefits received under the right-of-use asset, if the periods of the leases are not significant and for leases which are currently accounted for as operating leases. The expense charged to the Income Statement will not be consistent throughout the period of the lease, as the earlier years of the lease will have a greater expense (the sum of interest expense and amortisation) than the later years.

In addition the reclassification of the current operating lease expense as amortisation of a right-of-use asset will result in an uplift in measuring earnings before interest and tax ('EBIT') and earnings before interest, tax, depreciation and amortisation ('EBITDA'). This will mean any agreements based on EBIT or EBITDA will require re-evaluation. The change may well be confusing to users who regard lease payments as an operating expense that should be included within EBIT and EBITDA.

We expect a lot of practical issues in applying the proposed provisions for lessee accounting. For instance the accounting proposed requires the use of significant estimates and judgements will lead to more subjectivity, uncertainty, complexity and volatility in amounts recognised within the financial statements:

- Subjectivity as to whether an arrangement is a lease or a non-lease executory contract
- Subjectivity as to whether an arrangement is an in substance a purchase or sale which is outside the scope of the leasing ED

- Subjectivity and uncertainty surrounding amounts to include within the financial statements relating to options, contingent rentals that may not occur
- Additional complexity in calculations and gross up effects and impacts on the financial statements and understanding these effects
- Additional volatility in results due to the annual re-assessments

We believe that the burden and costs of implementation and the resulting complexity on the financial statements of the proposals would far outweigh the benefits cited from eliminating the current distinction between the accounting for operating and finance leases.

We believe the current two-model approach of recognising operating leases and finance leases to be appropriate. It is widely understood and results in accounting which reflects the substance of arrangements in place. We cannot accept such a fundamentally different accounting treatment between lease contracts and non-lease executory contracts.

We consider additional disclosure could be made to address the concerns of the Boards and do not consider disclosures to be secondary to information contained within the primary financial statements.

Question 3 Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following 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:

- (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 recognise 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 recognise assets and liabilities arising from a short-term lease in profit or loss, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other guidance and would recognise 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 consider that leases which are not in-substance financing arrangements should continue to apply the existing accounting requirements accounting for lease rentals on an accruals basis similar to the current operating lease accounting by lessees required under IAS 17. Short-term leases would apply this treatment. We believe that the costs of complying with the Boards' proposed requirements will far outweigh the benefits to users, which could be just as well served through disclosure.

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 believe that the Boards should provide additional application guidance clarifying various aspects of the definition and identification of a lease and take this opportunity to address many issues which have arisen within IFRIC 4, (Determining whether an arrangement contains a lease), as part of the proposed standard. While we understand the basic definition included in the ED (i.e., that a lease is a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration), there are a number of concerns we have with aspects of the definition that are unclear.

In addition we are uncertain as to the Board's rationale for the significantly different accounting afforded to leases compared to non-lease executory contracts and urge the Boards to explain their rationale. Under the ED, the differentiation between lease arrangements and non-lease executory contracts is critical due to the dramatically different accounting that will be afforded to each. The existing requirements for lease accounting set out criteria for determining whether arrangements contain financial or operating leases and to the extent an arrangement contains an operating lease, the accounting for operating leases and other executory arrangements is similar. Given the significantly different accounting being proposed under the ED for contracts that are deemed to be leases compared to those that are not leases, we believe that a thorough reassessment of the guidance for determining whether an arrangement is or contains a lease is warranted. We believe additional clarification and guidance is necessary to ensure proper application.

Conceptually leases are considered an alternative to asset ownership and obtaining separate financing to purchase the asset (resulting in an asset and liability) contrary to executory contracts, which do not involve the transfer of ownership or control.

Executory arrangements convey certain rights and obligations and the definition of an asset is not met for those separate rights and obligations since the purchaser's benefit is not received until the performance of an act (e.g., the purchaser receives no value until performance of the service) and the definition of liability is not met as the counterparty has not yet performed the obligating event (e.g., the service). However, we are uncertain if the Boards conceptually consider leases in this manner and urge the Boards to explain their rationale.

We note that the definition of a lease in the ED brings forward the principles contained within IFRIC 4 (Determining whether an arrangement contains a lease), and as noted above, we urge the Boards to take this opportunity to address many issues which have arisen with aspects of the definition and identification of a lease.

In practice, we have found the application of such definitions to our various energy procurement contracts difficult. Issues we have found include:

- The meaning of fixed price, or fixed price per unit of output. For example we have power procurement contracts that are priced on a fixed price per unit of output, but which escalate against an inflation index each year. Should the meaning of fixed price per unit of output be interpreted literally, which would mean such contracts would fall to be accounted for as leases given such pricing per output is not fixed literally or should the meaning be interpreted more broadly? In our view, the meaning of fixed price per unit of output should be interpreted more broadly, including arrangements under which the price per unit of output is pre-determined. Pricing against such inflation indices is common within the energy industry and should not preclude the correct accounting treatment as non-lease executory contracts or as derivatives.
- The meaning of current market price per unit of output. For example, we have power procurement contracts that are priced on a per unit of output basis with reference to market-based indices. For example, power procurement contracts with wind farms, whereby power is non-firm may be priced at a discount to the market price at the time of delivery. Again, should the meaning of current market price per unit of output be interpreted literally, which would mean such contracts would fall to be accounted for as leases given the pricing per output is not literally the market price at the time of delivery, but rather a discount to the market price or should the meaning be interpreted more broadly? We believe the meaning should be interpreted more broadly. Pricing on a per unit of output basis against market based indices is common within the energy industry and should not result in incorrect and inconsistent accounting applications of accounting for energy procurement contracts as leases.

- The meaning of 'output or other utility' and whether this should be viewed in a physical or economic context. For example with power procurement contracts, whether the output of a power plant is just the physical outputs produced (power, steam, heat) or includes by-products and other benefits such as renewable obligation certificates, levy exemption certificates and similar carbon credits? We consider the output of an energy asset to include both its physical and economic outputs/ benefits
- The meaning of 'ability or right to operate' which can be unclear in the context of outsourcing arrangements.

We urge the Board to reconsider the definitions and provide the required clarifications to enable correct and consistent accounting applications within the industry and across industries.

(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?

The ED explains that a contract that represents a purchase or sale of an underlying asset if, at the end of the contract an entity transfers to another entity control of the entire underlying asset and all but a trivial amount of the risks and benefits associated with the underlying asset, are outside the scope of the ED. It is unclear to us how contracts that meet the definition of a purchase / sale (as defined by the ED) would be accounted for if they are excluded from the accounting for leases. Similarly, no transition provisions are provided in the ED for existing leases (under IAS 17) at the date of initial application that would no longer be considered leases. If the Boards retain the purchase option exclusion, we recommend providing additional application guidance regarding these matters as well as specifically addressing how they affect the lease term.

(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 do not consider the guidance contained within the ED for distinguishing leases from service contracts to be sufficient. As we note in our response contained within part (a), the accounting for contracts which are treated as leases is drastically different to the accounting for contracts which are treated as non-lease executory contracts. Given the importance of this differentiation, we believe that a thorough reassessment of the guidance for determining whether an arrangement is or contains

a lease is warranted. We believe additional clarification, application guidance and examples are necessary to ensure proper application. The Boards should provide their rationale for the significantly different accounting afforded to leases in comparison to non-lease executory contracts.

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

We note that the scope exclusions currently in place have been brought forward into the ED and we do not object to the scope exclusions. However, we recommend that the Boards consider extending the scope exemption to contracts for the procurement and supply of power.

We enter into long term supply contracts for the supply of oil, gas and power. The question fundamentally arises as to whether these contracts should fall within the scope of leasing at all or whether such contracts fall within the scope of IAS 39 or should fall to be accounted for as executory contracts.

IAS 17 and the proposed ED scope excludes leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources and we urge the Boards to extend the scope to contracts for the procurement or supply of power to ensure similar arrangements are accounted for consistently.

As noted in our responses to questions 1 and 4 we urge the Board to take this opportunity to deal with many of the issues which have arisen with the definition of a lease as contained within IFRIC 4 so clarity is provided as to contracts which should fall to be treated as leases and those contracts which do not. In addition, we urge the Boards to provide clarification over the conceptual reasons for the differences in accounting for leases and for non-lease executory contracts and to consider broadening the scope exclusions accordingly.

Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

- the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

- the IASB proposes that:
 - a lessee should apply the lease accounting requirements to the combined contract.
 - a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
 - 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 believe that all services should be excluded from the amounts recognised for leases and accounted for separately by both lessees and lessors in accordance with other accounting standards. That is, separation of the lease and service component should be required and not elective. Including amounts for non-distinct services to be provided in the measurement of a lessee's right-of-use asset is inconsistent with the accounting for other executory contracts. The presence of an immaterial lease component in an arrangement could require an entire contract to be accounted for as a lease, which could have a material effect on an entity's financial position, affect comparability and reduce decision-usefulness of the financial information reported.

Question 7: Purchase options

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

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 believe that purchase options should be accounted for in the same way as extension options. A contract that contains renewal options for the whole of the useful economic life of an asset is no different in substance to a purchase option. We consider that purchase options should only be considered if it is virtually certain that they will be 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 do not agree with the proposed lease term definition from both a conceptual and practical application perspective. We believe the proposal requires amounts that do not meet the definition of a liability to be included within the lessee's liability to make lease payments.

We believe that the lease term should only include optional lease periods that are virtually certain to be exercised. We view this threshold as higher than more likely than not. Under this approach only optional lease periods for which a lessee is likely to exercise its extension, due to the existence of a significant economic incentive to renew or penalty for non-renewal, should be included in the lease term.

We understand that the Boards have chosen the longest possible lease term that is more likely than not to occur at least, in part, due to concerns that other thresholds would allow entities to structure lease contracts to achieve desired accounting results that are inconsistent with the economics of the arrangement. However, we believe

that options to extend or terminate a lease generally have economic substance and provide flexibility to a lessee without unconditionally committing the lessee for the optional periods. We do not believe that the liability to make lease payments should include payments that the lessee could feasibly (i.e. economically) avoid.

The proposals require entities to estimate renewals into the distant future, which from a practical perspective will be difficult to undertake and result in subjectivity. Revisions to estimates would result in changes to amounts recognised in the primary statements resulting in volatility in amounts reported. We do not consider such volatility to be beneficial to users of financial statements.

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.

Use of an expected outcome technique will require entities to derive estimates from a probability of expected outcomes requiring use of forecast data beyond planning cycles. An expected outcome calculation can become complex based on the nature of contingent payments, contractual features and the number of reasonably possible scenarios. To perform this for each lease could be a very time consuming and costly process. This process will be made even more complex by the requirement to reassess these probability-weighted estimates when facts or circumstances change. We do not consider that the significant estimation uncertainty inherently involved in the proposed model is necessary or results in more decision-useful information for financial statement users.

We believe that lease payments should include only payments for the recognised lease term that represent a present obligation of the lessee. That is, only payments that a lessee has a present obligation to pay should be recognised in the liability to make lease payments recognised by the lessee and the right to receive lease payments recognised by the lessor. We believe that adequate disclosure of the nature and potential magnitude of uncertain payments under lease arrangements should provide financial statement users with sufficient insight into amounts that could become payable in the future.

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?

We believe that the model as proposed will create significant practical and operational issues and have concerns that the cost of performing the proposed reassessments may outweigh the benefits.

In addition we have concerns regarding the frequency of the required reassessments. The proposals would require entities to institute processes to monitor actively a potentially wide array of relevant factors to identify on a timely basis the facts or circumstances that would indicate a change in the recognised amounts.

We suggest replacing the requirement to undertake reassessments each reporting period for changes in facts or circumstances and instead including a requirement for annual reassessment of lease term and payments. Precedence for annual reassessments exist within IAS 16 and IAS 38 which require annual reassessment of depreciable / amortisable lives of long-lived tangible and intangible assets with finite lives, respectively. We believe this approach will simplify the process, reduce the costs of compliance yet still provide relevant and representationally faithful information to users of the financial statements.

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 note that the proposed changes represent a fundamental change to current sale and leaseback accounting under IFRS and urge the Boards to provide practical application guidance. In addition we note that the ED does not provide transition guidance regarding sale and leaseback transactions.

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 strongly that the benefits of the proposals would outweigh the costs.

The implementation and application of the proposed model would be costly for Centrica as a lessee and lessor and we expect a lot of practical issues in applying the proposals. The proposals require the use of significant estimates and judgements and will lead to more subjectivity, uncertainty, complexity and volatility in amounts recognised within the financial statements. The supposed benefits by including contingent features and amounts payable in optional periods leads to information that often might be unreliable.

We believe that the burden and costs of implementation and the resulting complexity on the financial statements of the proposals would far outweigh the benefits cited from eliminating the current distinction between the accounting for operating and finance leases.

Question 18 : Other comments

Do you have any other comments on the proposals?

Impairment assessment for right-of-use assets

Although the ED references other standards (IAS 36) for impairments of recognised right-of-use assets, we believe that it would be beneficial to include application guidance within the leases standard or as consequential amendments to the other

applicable standards on whether or not and how the liability to make lease payments should be considered in the impairment assessments for right-of-use assets.

Incremental borrowing rate

We encourage the Boards to provide additional clarifying guidance relative to the determination of a lessee's incremental borrowing rate that preparers could apply in various circumstances. Examples include situations in which leases are entered into by subsidiaries, are denominated in foreign currencies and in which lessees are unable to obtain 100% third party financing other than through a lease.