15th December 2010

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH

Dear Sir David,

**Exposure Draft ED/2010/9 – Leases**

We are pleased to provide our comments in the relation to the Exposure Draft on Leases.

Overall, we support the proposed standard for leases from the perspective of the lessee, with some minor changes detailed below. We believe the proposed changes for lessee accounting will provide more relevant and reliable financial information for users to make informed decisions.

However, there are specific changes in the proposed standard that we do not support. Our main concerns are set out below.

- We do not support the proposed model for lessor accounting. We believe there should be only one method available in the final IFRS in order to eliminate any subjectivity in determining which method to adopt, and that is the performance obligation approach.

- Even though we support the proposed short term lease measurement accounting requirements, we do not support the proposed definition for short term leases, that being lease contracts with terms of 12 months or less. We believe expanding this timeframe to contracts of 3 years or less would ensure the simplified measurement requirements proposed for short term leases would be applicable to a broader range of lease arrangements and give the relief that this proposed concession is intending to provide.

- We do not support scoping out intangible assets from the proposed leasing standard purely due to this issue not being fully researched. Guidance on how these contracts should be accounted for should be provided in the final IFRS.

- We also have concerns with the proposed criteria that deal with determining if a contract is a sale/purchase contract. We believe the criteria dealing with control is too prescriptive (i.e. being based on legal title transferring at the end of the contract) when there may be transactions that do not meet this criteria but in substance and commercially are demonstrating a sale/purchase contract.

- We have issues with several of the proposed presentation formats, namely the performance obligation approach, sub-lease, and lease income and lease
expense requirements. We believe these proposed presentation formats are cumbersome and will only introduce confusion to users understanding of lease accounting and the financial statements.

- Whilst we are supportive of some of the proposed disclosures meeting the boards’ objectives for lease accounting, we believe that not all of the disclosures are necessary. In particular, a reconciliation of each separate class of assets for the right to use asset. This disclosure is onerous for the preparer whilst bringing little benefit to the user.

- We believe there is a lack of specific guidance in the proposed standard in respect to commercial arrangements that involve back to back lease arrangements. In these situations revenue would be grossed up and accounted for twice, once from the sale and leaseback transaction and then again when the derecognition approach is applied to the sublease of the right to use asset. Commercially these arrangements are only selling the underlying asset to the customer and specific guidance in the final standard is needed to clarify the accounting for such arrangements as it can be interpreted that revenue can be recognised twice under these types of lease arrangements, when following the general guidance.

- We believe the proposed lease standard is silent on how to treat lease modifications. In order to avoid inconsistent accounting treatments the final standard should provide guidance for lease modifications.

Our comments to the specific questions outlined in the Exposure Draft are as follows.

**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 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?

(a) We agree that a lessee should recognise both a right of use asset and a liability to make lease payments. If a lessee acquires the right to use an asset for a determinable price, then this leased asset meets the conceptual framework’s definition/ recognition criteria of an asset and liability, and should be recognised accordingly on the balance sheet.

Additionally, by requiring all leases to be recorded on balance sheet, any subjectivity is eliminated when compared to the current leases model that uses risks and rewards. This will improve the comparability of entity’s financial statements with regard to lease accounting (as opposed to the difference in the business model used by entities in the same industry across the globe) and mitigate any structuring of arrangements to ensure an accounting outcome.

(b) We agree that an amortisation expense should be recognised for the right of use asset. This would accurately reflect the consumption expense associated with the use of the leased asset. We also agree with recognising an interest expense on the lease liability, for the majority of leases.
However, we disagree with recognising an interest expense on a lease liability for all leasing arrangements. The proposed standard isolates short-term leases (that being any lease arrangement for a period of 12 months or less) to only having to recognise the leasing transaction on the balance sheet at the undiscounted value. We believe most businesses would unlikely in practice enter into leasing arrangements for less than 12 months. Typically a lease entered into for 3 years or less would in practice be considered short-term and be a more appropriate period to use (please refer to Question 3, for further discussion on this issue). Telstra currently has more than 60,000 computer leases and 11,000 motor vehicle leases which on average have 3 year terms. The actual financing component for these leases would be immaterial to Telstra, however under the proposals would require a significant amount of costs to change systems and processes in order to capture the interest component within the profit or loss. The costs associated with implementation and ongoing efforts to capture the interest expense would far more outweigh the benefit of disclosing the interest component for these leases.

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?

(a) We do not support having two methods for lessor accounting.

The proposed lessor model is based on the same principles as the current leases standard - risks and rewards model. One of the objectives of the proposed leases IFRS is to remove some of the existing problems in the current leases standard; that is, eliminating the subjectivity in determining the classification of the lease. By using a risks and rewards model for lessor accounting, the same subjectivity would exist and therefore continue to create inconsistencies between entities’ financial statements.

In addition, the proposed lessee accounting model would only have symmetry with the performance obligation lessor approach. If the lessor applied the derecognition approach to a lease transaction, the lessor would have to derecognise a portion of the underlying asset. However, the lessee only would recognise an asset that represents the right of use for that underlying asset. This disconnect would result in the underlying asset (that has been derecognised) not being recorded in either the lessee’s or lessor’s books.

An alternative would be to apply only one lessor method – that being performance obligation method. The proposed guidance for determining whether the derecognition approach should be applied by the lessor is if the lessee takes on a significant portion of the risks and rewards pursuant to the underlying asset – this seems very closely linked to a sale/purchase contract which falls outside the scope of the proposed leases IFRS. The main difference between the two is the terminology used when considering the underlying asset’s risks and rewards, that being “trivial” compared to “significant” amount. In practice, if a lessee
takes on a significant portion of the risks and benefits of the underlying asset, the transaction would also be tailored like a sale/purchase contract which would mean the lessee has control of the underlying asset. As the derecognition approach resembles a sale/purchase contract, we believe the guidance on sale/purchase contracts should be amended to capture all types of arrangements that would result in a sale/purchase, and scope them out of the proposed leases IFRS.

(b) We agree with all elements of recognition for the performance obligation approach. Each proposed element meets the definition requirements contained within the conceptual framework. Also, the proposed accounting treatment mirrors the principles proposed in the upcoming revenue IFRS.

As the derecognition model is not supported, we have not commented further on the proposed accounting requirements other than those in relation to the calculation of the residual asset (refer to question 4(b) for further comments).

Question 3: Short-term leases

(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 the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs 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 agree that both a lessee and lessor should account for short-term leases as proposed in the ED to ensure that all leases are presented on the balance sheet (even those not material/core to the entity).

However, as mentioned in question 1, we believe the definition of short-term leases needs to be amended in order to be more applicable to current business practice. There would be very few instances in business where a lease contract is entered into for less than 12 months and therefore this proposed period is unlikely to reduce the level of work required to record insignificant leases by entities on their balance sheet.

We believe the short-term definition should be amended to a term of 3 years or less. Even though this would not be consistent with the definition of “short-term” in other IFRS, the context of short-term needs to be differentiated for lease arrangements due to the reality of business. This revised term would ensure that the simplified accounting requirements proposed for short-term leases would be
applicable to a broader range of lease arrangements and give the relief that this proposed concession is intending to provide.

**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?

We agree with the proposed definition of a lease.

(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 do not agree with the criteria for determining whether a contract represents a sale/purchase contract or a lease, in particular, the criteria where control (and this title) of the underlying asset is transferred at the end of the contract. There may be situations where legal transfer does not occur but the contract in substance still represents a sale/purchase. For example contracts where the lessee leases the underlying asset for its entire economic life but no legal transfer occurs at the end of the contract.

It seems more relevant to change the proposed criteria for a sale/purchase contract to include only the criterion; “all but a trivial amount of risks and rewards are transferred”. That way the factors contained in B10 are still relevant however other situations like in the above example would also be considered a sale/purchase. Otherwise entities could structure arrangements in ways that achieve certain accounting outcomes by including or excluding the transfer of title at the end of the contract.

Further, there may be contracts that do not fall within the proposed criteria for a sale/purchase contract due to legal title not passing, therefore when applying the derecognition formula for calculating the value of the residual asset, may result in the number zero anyway (i.e.: where all of an asset is transferred). As such, the entries that would be recorded for the “derecognition” would match those for a sale/purchase contract. However, as the contract falls under the proposed leasing standard, additional accounting and disclosures relevant to the proposed leasing standard would be required, creating onerous work for transactions that are really demonstrating a financing arrangement. This inconsistency needs to be addressed by the Board.

In addition, we believe “all but a trivial amount of risks and rewards being transferred” is a subjective measure. Apart from the proposed guidance contained in paragraph B31, which discusses this in the context of sale and leaseback arrangements, there is no further guidance on how to determine what constitutes a “trivial amount”. As such, we believe the final standard should provide some guidance on what constitutes a “trivial amount”.

(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 agree with the additional guidance for distinguishing leases from service contracts and believe it is sufficient.
Scope

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS 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 IFRS? Why or why not? If not, what alternative scope would you propose and why?

We agree with the scope exclusions discussed in paragraph 5 of the proposed standard. The scope exclusions deal with distinct assets that need specific accounting guidance that can be found in other current and proposed IFRS.

However, we believe the decision to exclude intangibles from the proposed scope is not justified based on the need for further consideration. It seems through history that the topic of accounting for intangibles is always targeted as "too hard", as a result progress in providing preparers accounting guidance is always delayed. We believe the Board should provide guidance on lease arrangements involving intangibles in the final IFRS.

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:

(a) the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
(b) the IASB proposes that:
   (i) a lessee should apply the lease accounting requirements to the combined contract.
   (ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
   (iii) 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 agree with the broad principles proposed for contracts that have both service and lease components. However, having two methods for lessor accounting would result in added complexity when contracts have both services and lease components as there would be two different treatments for non-distinct service components depending on the lessor model adopted. This is another argument we have against having two methods for lessor accounting.
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 agree with proposal for purchase options. If a lease contract contains a bargain purchase option, this should be considered a sale/purchase transaction on inception due to the high certainty that the asset will be transferred to the lessee at the end of the lease term. Whereas, a lease arrangement that contains a purchase option that is valued at commercial rates does not have the same level of certainty at inception of the lease that the underlying asset will eventually transfer to the lessee. As such, the purchase/sale would not be accounted for until the purchase option is exercised.

Furthermore, if a lessee exercised a purchase option, this would represent a payment for the purchase of the underlying asset. The proposed lessee model is for the lessee to recognise a right of use asset; the purchase option payment does not represent the payment for the purchase of the right to use asset, instead it is payment for the acquisition of the underlying asset. Therefore, this would represent two separate transactions that should be accounted for separately.

Measurement

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 agree with the proposed measurement for lease terms other than our comments on short-term leases. The criteria for inclusion of renewal periods in the lease term being based on “more likely” matches the criteria for recognition of assets and liabilities within the conceptual framework. The leased asset and liability measurement would be misstated if the renewal period was probable and not included. The proposed approach provides a much simpler/practical application for lease term measurement as opposed to other alternatives, for example recognising a separate asset for the term option component.

Factors provided in the proposed guidance are sufficient in order for preparers to determine whether it is more likely than not that the renewal period should be included in the lease term.

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 agree with including contingent rentals, term option penalties and residual guarantees in the calculation of lease payments. The objective of the proposed leasing standard is to provide users with information about the entity's future cash flows. If these components are likely to eventuate, this information would need to be reflected in the financial statements. For contingent rentals, entering into the leasing contract is the actual (past) event that triggers the recognition of leased asset/liabilities and any probable outflow should be included in the initial measurement.

The calculation and reassessment of the proposed leased asset/liability would be more complex; however, the benefit of the information on future cash flows outweighs the costs. Additionally, by not including these payment components, lease contracts may be structured in order to achieve a desired outcome i.e. reducing the amount that is recognised on balance sheet.

Not withstanding the above we do not agree with the proposed measurement methodology, that being the expected outcome technique. This method would measure leased liabilities at amounts that will never represent actual payments and thus are misleading to users’ understanding about future cash flows. Instead basing the liability measurement on a best estimate of the actual amount to settle the obligation seems to be a more practical and useful approach.

We agree that lessor lease payments should only include contingent rentals, term option penalties and residual guarantees, if they can be reliably measured. Even though this brings inconsistencies between lessee and lessor accounting, due to the nature of these payments (i.e. contingent rentals are generally based on the lessee achieving an outcome) the lessee would have a greater capacity in reliably measuring the future outcome. Therefore, the lessor should only include them in their measurement if they have information that would provide assurance over the outcome.

**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 agree with the proposed reassessment requirements on lease asset/liability measurements. Requiring reassessment adjustments only for significant changes ensures both better quality information for users in addition to less compliance costs for preparers.
Sale and leaseback
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?

We agree with the proposed criteria for applying sale and leaseback accounting. If the first element, of the overall transaction between the transferor (lessee) and the transferee (lessor), is not considered an upfront sale as per the requirements in the proposed IFRS then the transaction purely represents a loan arrangement with the financier and should be accounted for accordingly.

The proposed requirements for adjustments for fair value true-up, i.e. if either elements of the sale and lease back transaction do not constitute fair value, is also supported.

Presentation
The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

The proposed presentation formats for lease transactions would result in expanding financial statements and significantly changing their format. We question whether these presentation changes would assist users to clearly understand lease arrangements, or whether they would add to their confusion.

Our comments to each proposed presentation format have been provided below; refer to questions 12 to 14.

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?

We agree that the right of use asset should be presented as a tangible asset as part of PPE, as the right to use relates to an underlying asset. The underlying asset would be a tangible asset and would usually form part of PPE.

We believe the right to use asset should be presented separately from other PPE assets in the notes to the financial statements, as the right of use asset is measured differently from other PPE assets.

Further, we believe that the lease liability should be separately presented from other financial liabilities in the notes as the inputs that impact the measurement of the lease liability are unique only to this type of lease liability and should be considered separately by users.

(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?

We disagree with the proposed presentation format for performance obligation lessor accounting. We believe it would introduce confusion for users in understanding these types of lease arrangements and draw attention away from the overall net asset position of the entity. We believe it would be more appropriate to only show the underlying asset in the statement of financial position, as this better reflects the future economic benefit of the asset. This asset should be referenced to a note that instead shows the proposed presentation format for the performance obligation approach. This would be better suited as the note isolates and shows users the implications of leasing assets.

(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?

As mentioned above, we do not support the derecognition approach to lessor accounting. Notwithstanding this, we agree that the right to receive lease payments should be separated from other financial assets in the notes to the financial statements. It would mirror the proposed presentation format for lessee lease liabilities, hence providing a consistent presentation treatment for leasing transactions.

We also believe the residual asset should be shown separately from other PPE items in the notes to the financial statements as the proposed measurement of these assets is different from other PPE items.

(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?

We disagree with lessors having to distinguish assets and liabilities that arise under a sublease in the statement of financial position. The proposed format would bring confusion to the statement of financial position and detract from users understanding. If the proposed presentation format was applied, more items would be required to be separately disclosed in the statement of financial position than currently shown for intermediate entities. The proposed format would require these entities to still show a right to use asset (in the form of a partial asset known as the residual asset), even though commercially this asset is not being used and controlled by the intermediate.

As intermediate entities enter into subleases purely to provide a different option for customers to source equipment that they control, the intermediate does not normally own or use the asset being sub-leased. As such, it would seem more appropriate to have the intermediate only show a lease receivable and payable to better represent the commercial construct of the subleasing arrangement on the statement of financial position. All additional information with respect to the subleasing arrangement should be disclosed in a note.
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?

We disagree with having to present lease income and expenses separately in profit or loss as this will increase the size of the income statement and bring very little benefit to the users. A more appropriate approach would be to provide separate disclosure for each lease profit and loss component in the notes.

Furthermore, the proposed presentation requirements provide an option for lessee’s to present separate lease income and expenses in either the income statement or the notes. Whereas the proposed presentation requirement for lessors is to only disclose in the income statement. We believe this would produce inconsistencies in the income statement presentation between lessee and lessor accounting. As such, we believe all lease profit or loss items should be disclosed in the notes.

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?

We agree. Separate disclosure within the statement of cash flows for all lessee and lessor cash flows will isolate these cash flows, providing useful information for users to determine the impact on the entity’s cash flows from lease transactions.

Disclosure
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?

We agree that the proposed disclosures will provide users with an understanding about amounts recognised in financial statements relating to leases and the effect on future cash flows.

However, we believe some of the proposed disclosure requirements are onerous in respect to collecting the information whilst bringing little benefit to the user. In particular, the need to provide a reconciliation of the opening and closing balances for the right of use asset on each class of the underlying asset is excessive. There is little benefit gained in disaggregating each asset class information and it would be more suitable to show this reconciliation disclosure on an aggregate basis only.
Also, we believe the reconciliation for lease liabilities for lessor accounting seems irrelevant, as users can obtain a majority of the information from the rest of the financial statements.

Transition

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?

We agree that there needs to be a retrospective approach to the proposed standard for any outstanding leasing contracts. The alternative of applying a prospective approach for outstanding leasing contracts at the time of application causes too many comparability and system issues. For example, there may be existing leasing contracts that have been classified as operating and have lease terms greater than five years at the date of application; if we adopt a prospective approach, these contracts would be accounted for differently to new leasing contracts since application of the new leasing standard. Trying to decipher the financial impact of all leasing arrangements on the entity would become an onerous task. Furthermore, internal systems would need to be in place to track old leasing contracts separately from new leasing contracts. This will create additional work processes that in the long-term would become redundant.

The proposed transitional model seems to benefit both users and providers by providing a more simplified approach to measuring existing lease contract assets and liabilities to ensure the user has comparability whilst not requiring the preparer to calculate unnecessary amounts that are not relevant to the future value, as all leased assets and liabilities are to be based on remaining obligations.

However, we believe there needs to be some guidance on how to treat current IAS 17 finance leases when the contract term features either a transfer of title at the end of the lease or bargain purchase option. If the proposed requirement for leases is applied then these old contracts would be regarded as a sale/purchase contract. How would any resulting differences between balance sheet items be recorded? For example, if the lessee’s leased asset and leased liability amounts did not equal at the time of proposed leases IFRS application, how should the excess be treated? The Boards should address this gap in the transitional requirements in the final IFRS.

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

We do not agree with a full retrospective application. We believe it would require additional measurement calculations to determine carrying values that would bring little benefit to users. As per our comments in question 16a, we support a simplified retrospective approach instead.

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

Yes, we believe there is a need to provide transitional guidance on how to treat the lease liability incentives that exist for current operating lease contracts.
We also believe that transitional provisions should be provided for outstanding sale and leaseback transactions, in order to clarify how the original sale arrangement would be treated under the new proposals.

Benefits and costs

Question 17
Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We agree. We believe the proposed lease model overall provides consistency in accounting for all lease transactions whilst reducing the subjectivity. The benefit to users in being able to compare entities’ financial statements on a like for like basis outweighs the initial implementation and continuing costs to account for lease contracts, as proposed.

Other comments
Question 18
Do you have any other comments on the proposals?

Yes, we believe there needs to be guidance on how to treat lease incentives if they form part of the lease contract. The proposed lease standard is silent on this issue.

Telstra has entered into property leasing arrangements where some form of lease incentives have been received. As the proposed standard does not provide any guidance on how to treat lease incentives it would require us to use professional judgment on how to account for these items. In order to avoid potential inconsistencies in the accounting treatment for lease incentives, guidance should be included in the final standard on this issue.

We also believe there is a lack of specific guidance in the proposed standard in respect to commercial arrangements that involve back to back lease arrangements. By following the general accounting guidance in the ED, revenue would be grossed up and accounted for twice, once from the sale and leaseback transaction and then when the derecognition approach is applied to the sublease of the right to use asset. This is because both of the transactions in these arrangements are treated as separate transactions (i.e. sale and leaseback and a sublease).

We believe that commercially these arrangements represent the sale of one underlying asset to the end customer. Therefore, specific guidance for these types of transactions is needed in the final standard to clarify the accounting for such arrangements.

We believe the exposure draft is silent on how to account for lease modifications. Even though the proposed standard provides guidance for reassessment, we believe this is only relevant when there are significant changes in the preparers’ estimates i.e. items that already exist in the original lease contract. It is normal practice for Telstra to modify existing lease arrangements and therefore specific guidance should be included in the final standard.
Please contact me on +61 3 9634 6470 if you need any further explanation on any of the comments made in this submission.

Yours sincerely

[Signature]

David Anderson
Director Corporate Accounting