

27 August 2013

Comments regarding Revised Exposure Draft: Leases

I have the following comments regarding the Leases Exposure Draft published in May 2013:

1. Complexity of the rules:

While I agree that obligations relating to operating leases should be included in the statement of financial position in order that readers of financial statements can better understand the financial position of an organisation, the rules in the exposure draft are overly complex and application thereof relies on a significant amount of subjective judgement. I believe that obligations should only be recognised to the extent that payments under leases are not cancellable (e.g. up to the next break clause). A straight line lease cost recognition should be mandated for all operating lease types in line with current standards.

2. Treatment of foreign exchange gains and losses relating to foreign currency denominated lease obligations:

The exposure draft requires foreign currency denominated lease obligations to be revalued at each reporting date and for any resulting gains and losses to be dealt with through profit or loss. Given that the associated lease right of use asset will be recorded in the reporting entity's functional currency and not revalued, this will give rise to potentially significant volatility in reported results as foreign currency exchange rates change and impact the value of the lease obligation. This is especially so if an entity has significant foreign leased properties. Hedging such volatility so as to avoid the resultant income volatility could also be difficult without significant restructuring of operations. A better treatment, in my view, would be to allow foreign currency translation gains and losses relating to outstanding operating lease obligation liabilities to be dealt with through reserves rather than profit or loss.

Thank you.

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