



FOR GENERATIONS

September 13, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Via email to director@fasb.org

RE: Exposure Draft – Leases

Dear Sir or Madam:

British Columbia Hydro and Power Authority (BC Hydro) is responding to the International Accounting Standards Board's Exposure Draft on Leases. We appreciate the opportunity to provide comments.

BC Hydro is a Crown Corporation of the Province of British Columbia. As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, conserve and supply power. BC Hydro is one of the largest electric utilities in North America, serving 95 per cent of British Columbia's population and delivering electricity to approximately 1.9 million customers through a network of nearly 76,000 kilometers of transmission and distribution lines, 31 hydroelectric facilities, and three thermal generating plants, totaling approximately 12,000 MW of installed generating capacity.

BC Hydro's responses to the exposure draft are below. Overall, we support the "right of use" model but believe there needs to be further clarification of what constitutes "significant", "insignificant", "substantially all" and "major part" which will lead to inconsistent application without further clarification. We also believe further clarification of Type B leases is required as we don't believe certain lease arrangements (office lease arrangements, for example) should be treated as finance leases. We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to the Exposure Draft.

Yours very truly,

Cheryl Yaremko
Executive Vice-President, Finance and Chief Financial Officer
BC Hydro

Question 1: Identifying a Lease

This revised Exposure Draft defines a lease as “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. An entity would determine whether a contract contains a lease by assessing whether:

- (a) Fulfillment of the contract depends on the use of an identified asset; and**
- (b) The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.**

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease, is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

BC Hydro Response

We agree with the definition of a lease as proposed. We are supportive of the revised scope for identifying a lease with the focus on the ability to direct the use of an identified asset and the ability to derive the benefits from the use of such assets. We agree with the conclusion that the ability of a customer to specify the output of an asset would not, in isolation, mean that a customer has the ability to direct the use of that asset and should be treated the same way as any customer that purchases services.

BC Hydro enters into energy purchase agreements (EPAs) whereby output is purchased from a supplier that owns and operates a facility capable of generating electrical power although BC Hydro has no control over the asset. We do not believe that should be treated as an embedded finance lease. The revised exposure draft seems to support this position. However, any further interpretative guidance to support that conclusion would be appreciated.

Question 2: Lessee Accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

BC Hydro Response

We agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. However, we

believe further clarification of what determines “insignificant” vs “significant” is required. Not having specific criteria will lead to inconsistent application across organizations. We also believe further clarification with respect to treatment of Type B leases is required. We do not believe that all Type B leases should be classified as a finance lease. For example, if a company has an office rental agreement whereby they rent one floor of a larger building that also has other tenants, how would a company reasonably estimate the value of the space they rent?

Question 3: Lessor Accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

BC Hydro Response

We agree that there should be a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits of the underlying asset. However, as mentioned in our Question 2 response, we believe further clarification is required as to what constitutes “significant” vs “insignificant”. A lack of a clearer definition will lead to inconsistent application of the accounting guidance across organizations.

Question 4: Classification of Leases

Do you agree that the principle on the lessee’s expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

BC Hydro Response

We agree that the classification of leases should be based on the expected consumption of the economic benefits of the underlying assets. However, we believe that further clarification is required with respect to Type B leases and what constitutes a “major part” and “substantially all”. The subjective nature of the proposed guidance for the classification of leases as either Type A or Type B introduces added complexity in applying the proposed requirements and potentially causes disparity in practice in the recognition, measurement and presentation of expenses and cash flows arising from a lease. We recommend that specific guidance, which could include quantitative thresholds, be provided to facilitate greater consistency in the classification of leases.

Question 5: Lease Term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

BC Hydro Response

We agree with the proposals.

Question 6: Variable Lease Payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

BC Hydro Response

We agree with the proposals.

Question 7: Transition

Paragraphs C2–C22 state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the boards should consider? If yes, what are they and why?

BC Hydro Response

We agree with the proposals, however, a significant amount of work will be required to review the impact on all contracts prior to adoption. For BC Hydro, we expect the impact on our EPA's to be significant and will take a significant time commitment to complete a review of all outstanding contracts. Therefore, we recommend the Board allow for a reasonable lead time from when the standard is finalized and adoption is required.

Question 8: Disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

BC Hydro Response

We agree with the disclosure proposals.

Question 12: Consequential amendments to IAS 40

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased

property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

BC Hydro Response

We agree with the proposals.