



16 September 2013

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
1<sup>st</sup> Floor 30 Cannon Street  
London EC4M 6XH  
United Kingdom

*(By online submission)*

Dear Hans

## **RESPONSE TO EXPOSURE DRAFT ON LEASES**

The Singapore Accounting Standards Council appreciates the opportunity to comment on the revised Exposure Draft on Leases (the 2013 ED) issued jointly by the International Accounting Standards Board (the IASB) and the US Financial Accounting Standards Board (collectively the Boards) in May 2013.

### **General**

We continue to strongly support the Boards' joint efforts to improve the existing lease accounting by developing a converged new lease accounting model that would require the recognition of lease assets and liabilities by lessees. We do not believe that retaining the existing requirements in IAS 17 *Leases* and its corresponding literature under the US GAAP, supplemented by additional disclosures, would adequately address the key criticisms on off-balance sheet treatment for operating leases, since disclosures cannot, and should not, be a substitute for an inappropriate accounting treatment.

We also appreciate the significant efforts made by the Boards to address constituents' concerns over the complexity and subjectivity of the lease accounting model that was previously proposed by the Boards in ED/2010/9 issued by the Boards in August 2010 (the 2010 ED), and applaud the IASB members and staff's efforts in increased outreaches to our constituents in the Asia-Oceania region.

Conceptually, we agree that a lease creates a right to use the underlying asset and an obligation to make lease payments for the lessee, and a corresponding right to receive lease payments and a residual interest in the underlying asset for the lessor, which meet the definition of an asset or a liability in the *Conceptual Framework* and should be recognised in the financial statements of the lessee and the lessor at lease commencement, respectively.

We also agree that there are fundamentally two different types of leases with different economic characteristics, namely (i) leases for which the lessee consumes a portion of the

economic benefits embedded in the underlying asset and pays the lessor both to provide a return on the investment in the underlying asset and to recover an amount that represents the portion of the economic benefits consumed, and (ii) leases for which the economic benefits of the underlying asset are largely preserved and the lessee is paying the lessor merely to provide a return on the investment in the underlying asset. In particular, we can appreciate that a single straight-line lease expense would provide information that more closely reflect the pricing of the latter.

Accordingly, we support in principle the use of a dual lease accounting model as we consider that a single lease accounting model that is based on a right-of-use concept would not adequately and faithfully represent the economic substance of some leases. We note in passing that one may view all leases as financing arrangements since payment for the right-of-use (ROU) asset obtained at lease commencement is made by the lessee over the lease term.

However, we are not convinced that the proposed dual lease accounting model in the 2013 ED would necessarily produce information that is understandable and more decision-useful to users of financial statements. In particular, we are deeply concerned with the accounting anomalies that would result from the proposed Type B lessee accounting, which is widely perceived to be a compromise in order to bring all lease assets and liabilities of lessees onto the balance sheet, including a back-loading amortisation method and the resulting balancing charge that does not reflect the consumption pattern of economic benefits embedded in the ROU asset as well as a new class of ‘amortised cost’ financial liability, the accretion of which does not give rise to interest expense in profit or loss.

Weighing the merits and demerits of recognising lease assets and liabilities of Type B leases by lessees, and considering that presenting a single straight-line lease expense would provide better information for such leases, we are prepared to accept an approach that is similar to the current operating lease accounting under IAS 17, *provided that* the ‘more than insignificant’ consumption classification principle is applied consistently to both property and non-property leases. We believe that the impact of the off-balance sheet treatment would be contained (as it is likely that only a small population of leases would fall within this category), and together with enhanced disclosures, would not impair the decision-usefulness of financial statements. Furthermore, a symmetrical accounting for Type B leases between lessees and lessors would enhance the understandability of financial statements.

That said, we are concerned that requiring property lessors to apply the ‘more than insignificant’ consumption classification principle would result in many more property leases being accounted for using the proposed Type A lessor accounting. We are not convinced that the accounting outcome, specifically the accounting for each and every physically distinct portion of a property as a residual asset, would provide better information as compared to an approach similar to the current operating lease accounting as proposed in the 2013 ED where rental income and the fair value (FV) of the entire underlying property are reported in the financial statements of lessors. Furthermore, we can appreciate the concerns of property lessors that applying Type A lessor accounting to multi-unit buildings is often operationally challenging and impracticable. For instance, the lessor would have to determine the FV and cost of each unit in a multi-unit building that is subject to a lease, at different points in time and for numerous times over the economic life of the building, for purposes of establishing

the cost to be allocated to its retained interest in that unit. Accordingly, we are prepared to accept the broad proposals in the 2013 ED for property lessors.

#### Alternative dual lease accounting model

We would therefore table for your consideration our proposed alternative dual lease accounting model (as summarised below), which we believe is a pragmatic and reasonable compromise to achieve accounting outcomes that faithfully reflect the economic substance of leasing arrangements, without being unduly complex and costly:

- Scope exception for *lessors of property leases* – we propose that property lessors would apply an approach similar to the proposals in 2013 ED, except that the lease term would be assessed with reference to the *total economic life* of the *primary asset* for the purpose of lease classification.
- Apply the underlying lease *classification principle* in the 2013 ED (i.e. whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset), with additional application guidance that is based on the classification criteria for non-property leases as proposed in the 2013 ED, consistently to *all non-property leases* and *lessees of property leases*. The *primary asset* would be regarded as the underlying asset when applying the classification principle and assessing whether the lease term is more than insignificant relative to the asset's total economic life.
- For *Type A* leases (i.e. the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset), apply the lessee and lessor accounting as proposed in the 2013 ED.
- For *Type B* leases (i.e. the lessee is not expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset), apply an approach similar to the *operating lease accounting* under IAS 17 by both lessees and lessors.

Under our proposed alternative dual lease accounting model, most leases (regardless of the nature of the underlying asset) would be accounted for as Type A leases by lessees, to reflect the ROU asset acquired and related financing, whilst most property and non-property leases would be accounted for as Type B and Type A leases by lessors, respectively.

We acknowledge that the proposed scope exception for property lessors would result in asymmetrical accounting for property lessees and property lessors. The effects of this asymmetrical lessee-lessor accounting are particularly pronounced in back-to-back lease arrangements, whereby an entity would recognise both ROU asset and lease liability for its head-lease, but not the corresponding lease receivable for its sub-lease, which we acknowledge would not faithfully represent the economics of the back-to-back lease arrangement. However, we note that similar inconsistency already exists in the 2013 ED (i.e. the lessee would recognise both the ROU asset and lease liability, whilst the same lease would not be recognised by the lessor in most cases). In fact, the 2013 ED proposals would be a broader impact as compared to the alternative model, since the former would affect all property leases, except for those that meet the 'major part of economic life' or 'substantially all of FV' criterion, but property leases under which either the lease term or the present value

(PV) of lease payments is insignificant relative to the economic life or the FV of the underlying asset, respectively, would not be affected under the alternative model.

On the whole, we believe that our proposed alternative lease accounting model would produce relevant, useful and understandable information about the financial position and performance of both lessees and lessors, without undue operational burden.

Our comments on the specific questions in the 2013 ED are as follows:

### **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) fulfilment 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.**

We agree with the definition of a lease as proposed in the 2013 ED and support the proposals on determining whether a contract contains a lease. We believe that the proposals would enable a lease to be distinguished from a service or a sale of outputs transaction, to which different accounting would apply. In particular, we support the consistent use of the ‘control’ notion across different IFRSs, including the proposed new Revenue IFRS and IFRS 10 *Consolidated Financial Statements*.

However, we disagree that a capacity portion of an identified asset that is less than substantially all of the capacity of the asset (e.g. a 20% capacity portion of a fibre optic network) cannot be an identified asset, and in particular, with paragraph BC105(c) of the Basis for Conclusions, which states that “it would be unlikely that a customer would have the right to control the use of a capacity portion... because decisions about the use of the asset are typically made at the larger asset level”. In situations where the customer can direct the use of the capacity portion (e.g. an unconditional and exclusive right to use the specified capacity over a period of time) and obtain benefits from such use (including restricting access of others to those benefits), the economic substance of the contract is not different from that of a contract that conveys the right to use a physically distinct portion of an asset (e.g. a specific unit in a building), which can be an identified asset under the 2013 ED. Accordingly, we recommend that the Boards amend paragraph 11 of the 2013 ED to clarify that a capacity portion of an identified asset can be an identified asset, and hence, the right to use that

capacity portion would be a lease if the lessee has the ability to control the use of that capacity portion.

Furthermore, the 2013 ED proposes an entity to determine whether a contract contains a lease at *inception* of a contract, but does not define the term ‘inception’ or provide the rationale for this proposal. It would also appear that the entity would allocate the consideration to the components in the contract at inception of the contract. Yet, an entity is only required to determine lease classification and recognise lease assets and liabilities on the *commencement* date, based on measurements determined as of the same date. It is unclear whether and how lease payments should be adjusted for changes in market conditions between the inception and the commencement date. We recommend that the Boards align the timing of this assessment with those of lease classification, recognition and measurement to avoid unintended consequences to the measurement requirements as proposed in the 2013 ED.

We further suggest the Boards to incorporate existing guidance in IFRS 10, such as the practicable ability to exercise the right and whether the holder of the right would benefit from exercising that right, to help constituents determine whether a supplier’s right to substitute an asset is substantive and to achieve consistent application of similar concepts across different IFRSs.

#### Allocating consideration to components of a contract

We have concerns about the allocation basis for *lessees* as proposed in the 2013 ED. In particular, we disagree with the proposal to require the entire contract to be accounted for as a single lease component, when observable stand-alone price does not exist for any component in the contract (i.e. none of the components are sold separately by the lessor or other suppliers). Specifically, the proposal appears to presume that all such contracts are in-substance lease contract, which may not always be true. Accordingly, we recommend that the accounting for such contracts should be determined based on the nature of the primary component, i.e. account for the entire contract as (i) a single lease component when the right to use the asset is the predominant component in the contract, or (ii) a service contract when the right to use the asset is incidental to the delivery of an overall service for which the customer has contracted.

#### 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?**

We strongly support the Boards’ direction to bring the rights and obligations arising from leases onto the balance sheet as they meet the definition of an asset and a liability in the *Conceptual Framework* that should be recognised in the lessee’s financial statements. Specifically, the lessee controls the right to use the underlying asset during the lease term because it has the ability to determine how and when it uses the underlying asset and how it generates future economic benefits from that right of use, and the lessor is unable to retrieve or otherwise use the underlying asset despite being the legal owner. Similarly, the lessee has

an unconditional obligation to make lease payments since it is unable to avoid payments without breaching the contract once it takes delivery of the underlying asset.

We also agree that there are fundamentally two different types of leases with different economic characteristics, namely (i) leases for which the lessee consumes a portion of the economic benefits embedded in the underlying asset and pays the lessor both to provide a return on the investment in the underlying asset and to recover an amount that represents the portion of economic benefits consumed, and (ii) leases for which the economic benefits of the underlying asset are preserved and the lessee is paying the lessor merely to provide a return on the investment in the underlying asset.

As such, we agree that the accounting and presentation should reflect the different economics of these different types of leases, based on whether the lessee is expected to *consume more than an insignificant* portion of the economic benefits embedded in the underlying asset. In particular, we share the view that the recognition of amortisation and interest expense would faithfully represent leases under (i) above as financing arrangements, but a single straight-line lease expense would provide information that more closely reflect the pricing of leases under (ii) above, even though in theory such leases include an element of financing as payment for the right to use the underlying asset is made over the lease term. We also agree with the presentation of profit or loss items and cash flows as proposed in the 2013 ED, subject to our comments below.

#### Type A leases

For *Type A* leases (i.e. the lessee is expected to consume more than an insignificant portion of economic benefits embedded in the underlying asset), we agree with the proposed accounting, which would faithfully represent the ROU asset that the lessee has acquired and related financing (payments are only made over the lease term), and result in comparable outcomes with other asset acquisition and financing arrangements.

Subject to our comments below, we also agree with the proposed initial and subsequent measurements of both ROU asset and lease liability. Generally, the proposed measurement for ROU asset would be comparable to the corresponding underlying assets that are owned by the lessee and would result in an amortisation that reflects the pattern in which future economic benefits are expected to be consumed by the lessee. The lease liability would also be measured in a manner similar to other financial liabilities that are carried at amortised cost. In addition, we can accept the Boards' rationale that prohibiting lease liability to be measured at FV through profit or loss would reduce the complexity of the proposed lessee accounting model.

For ROU assets that meet the definition of, and are classified as, inventories (e.g. leasehold land that is used to develop properties for sale in the ordinary course of business), we are concerned that it is unclear how the proposal to measure ROU assets at cost less accumulated amortisation and impairment would interact with IAS 2 *Inventories*, which requires inventories to be measured at the lower of cost and net realisable value. One could interpret that (i) IAS 2 would be the applicable standard once the ROU asset meets the definition of inventories, i.e. the ROU asset should be capitalised as inventories when development commences, or (ii) the ROU asset is merely a resource necessary to bring the inventories to their present location/condition and would be capitalised as cost of inventories as and when

the ROU asset is amortised in accordance with the 2013 ED (i.e. over the shorter of the useful life or the lease term). We believe that the accounting for ROU assets should follow the requirements of IAS 2 once they meet the definition of inventories. To avoid potential diversity in practice, we urge the Boards to make this clear in the final standard.

Furthermore, for ROU assets that would have otherwise met the definition of property, plant and equipment (PPE) and investment property (IP) if the underlying assets are owned by the lessee, the 2013 ED *permits* revaluation for the former, but *requires* FV accounting for the latter, when the lessee measures the corresponding underlying assets under that class of assets using the revaluation and FV model, respectively. In our view, ROU assets and the corresponding underlying assets that are owned by the lessee are of a different nature and create different rights. Hence, ROU assets should not be subject to the same measurement basis as the corresponding class of PPE or IP, notwithstanding that the ROU and underlying assets would be presented within the same line item under the 2013 ED proposals. Consistent with this view, we believe that the lessee should be permitted, but not required, to measure the ROU assets at revalued amount/FV if it applies the revaluation/FV model to the corresponding underlying assets that it owns. Accordingly, we recommend that the Boards align the remeasurement option for ROU assets arising from leased property that meets the definition of an IP to that for ROU assets relating to PPE, but clarify that the same measurement basis should be applied to all assets within the same class of ROU assets.

#### Type B leases

For *Type B* leases (i.e. the lessee is not expected to consume more than an insignificant portion of economic benefits embedded in the underlying asset), whilst we agree that the rights and obligations arising from a lease are assets and liabilities that should be recognised in the lessee's financial statements at lease commencement, we are deeply concerned with the accounting outcome that is clearly a compromise that the Boards are prepared to accept in order to bring all lease assets and liabilities of lessees onto the balance sheet. In particular, the 2013 ED proposals – recognise the ROU asset and lease liability as well as a single straight-line lease expense, comprising interest on lease liability using an approach similar to the effective interest method and amortisation of ROU asset that is a balancing figure – creates accounting anomalies with the requirements in the *Conceptual Framework* and existing IFRSs. Notably, the proposals introduce a new class of 'amortised cost' financial liability, the accretion of which does not give rise to interest expense in profit or loss, and a new back-loading amortisation method that results in a balancing charge, which not only does not reflect the consumption pattern of economic benefits embedded in the ROU asset, but could also result in corresponding revaluation gains or impairment losses that are not represented by actual increase in, or loss of, the asset's economic benefits. Furthermore, for ROU assets that are measured using the FV model, it is unclear how the proposal to recognise a single straight-line lease expense could be achieved or how the accretion on the lease liability ought to be reflected in profit or loss since technically the ROU assets would no longer be subject to amortisation.

Whilst we acknowledge that the proposed measurement of the ROU asset is the only possible outcome if one agrees that (i) a straight-line lease expense better reflects the economics of the transaction and (ii) the obligation to make lease payments is similar to any financial liabilities that are measured at amortised cost, it is highly doubtful that such accounting would produce information that is understandable and decision-useful to users of financial statements.

Furthermore, in order to achieve on-balance sheet lessee accounting for all leases in a meaningful manner that produces relevant and decision-useful information, the alternative of introducing a single *measurement* model that is based on the proposed Type A lessee and lessor accounting could result in accounting outcomes that would not quite reflect the economics of the leasing transactions. The lessee would have to recognise amortisation and interest expense as if the lease is a financing arrangement, even though the lessee is merely paying the lessor to provide an overall return on its investment in the underlying asset. The lessor would have to apply the proposed Type A lessor accounting to shorter-term leases of long-life assets, such as property and vessels, which we believe would not closely reflect the economics of such leasing arrangements (i.e. the economic benefits embedded in the underlying asset are substantially preserved) and their business model (i.e. leasing assets for relatively short periods to different lessees numerous times over the economic life of the assets).

Weighing the merits and demerits of recognising lease assets and liabilities of Type B leases by lessees on the balance sheet, we are prepared to accept an approach that is similar to the current operating lease accounting under IAS 17, *provided that* the ‘more than insignificant’ consumption classification principle is applied consistently to both property and non-property leases (see comments on question 3 below). Although lessees would continue to apply off-balance sheet treatment to some leases, including shorter-term leases of long-life depreciable assets and certain land leases, it is likely that the impact would be contained due to the small population of such leases – for depreciable assets, only shorter-term leases would be affected; for land, it is uncommon for economic reasons (e.g. significant costs and long useful life of building(s) that would be constructed on the leasehold land) to structure such leases for relatively short periods without renewal options. Together with the enhanced disclosures as proposed in the 2013 ED (subject to our comments in question 8 below), we believe that this accounting model would not impair the decision-usefulness of financial statements. Besides, this approach is consistent with the proposed lessor accounting and symmetrical lessee-lessor accounting would enhance the understandability of financial statements.

### **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?**

Conceptually, we agree that the lessor has an unconditional right to receive lease payments once it has made the underlying asset available for use by the lessee and the lessee has obtained the right to control the use of that asset. Furthermore, the lessor has a right to recover the underlying asset at the end of the lease term (i.e. it has retained some of the economic benefits embedded in the underlying asset) and is able to control the rights retained in that asset. Accordingly, the lease receivable and the retained interest in the underlying asset meet the definition of an asset in the *Conceptual Framework* and should be recognised on the lessor’s balance sheet at lease commencement.

Consistent with our comments in question 2 above, we support the principle of using a dual lessor accounting model to reflect the different economic characteristic of the two

fundamentally different types of leases, based on whether the lessee is expected to *consume more than an insignificant* portion of economic benefits embedded in the underlying asset.

#### Type A leases

We support the proposed accounting as it reflects the economic substance of Type A leases, i.e. the lessor would derecognise the underlying asset to reflect a sale of a portion of the asset that the lessee is expected to consume, and recognise lease receivable for the right of use (and a portion of economic benefits embedded in the underlying asset) transferred to the lessee as well as a residual asset representing its retained interest in the underlying asset. We also agree that the lessor should recognise an upfront profit representing the FV uplift, if any, relating to the right of use transferred to the lessee, since it has satisfied its performance obligation by making the underlying asset available for use by the lessee.

In addition, we can agree with the proposed initial and subsequent measurements of both lease receivable and residual asset, subject to our comments on the inclusion of certain variable lease payments (VLPs) in the measurement of the residual asset (see comments on question 6 below). In particular, we can accept the Boards' rationale that the residual asset should be accreted to the estimated amount that the lessor expects to derive from the underlying asset following the end of the lease term as it would reflect how leasing contracts are priced (i.e. the lease payments would provide a return on the lessor's investment in the entire underlying asset, including the residual asset, during the lease term). However, we note that the 2013 ED introduces a new class of non-financial assets that is measured on a basis similar to amortised cost using the effective interest method. Consequently, the carrying amount of the residual asset at the end of lease term is a hybrid measurement that is neither cost nor FV. That said, we appreciate the Boards' rationale that the nature of the residual asset, and its initial measurement, is somewhat different from other non-financial assets as articulated in paragraph BC249 of the Basis for Conclusions. Accordingly, we recommend that the IASB address the nature of the residual asset and its measurement basis separately in the *Conceptual Framework* project in a holistic manner.

Moreover, we think that there is no conceptual reason to prohibit the revaluation of residual assets, but can agree with the proposed prohibition on cost-benefit considerations as revaluation of residual assets would add complexity to the computation of accretion income and the impairment assessment of the residual asset.

#### Type B leases

Whilst we acknowledge that lease receivable and residual asset are conceptually assets that should be recognised on the lessor's balance sheet, we support the proposed accounting based on an approach similar to the current IAS 17 operating lease accounting. For Type B leases, the economic benefits embedded in the underlying asset are substantially preserved and the lessor is merely charging the lessee for a return on its investment in the entire underlying asset. Accordingly, continuing to recognise the underlying asset, and recognising lease payments in profit or loss on a systematic basis that reflects the economic benefits derived from the underlying asset, would best reflect the economic substance of such leasing arrangements.

### Termination of a lease

We agree with the proposed accounting when a lease terminates prematurely, i.e. the underlying asset is re-recognised at the sum of the carrying amounts of the lease receivable (after any impairment) and the residual asset.

Notwithstanding the above, we think that it is unclear whether the Boards had intended for the proposed accounting to be applied to leases with uneven payment pattern. In particular, there could be different views on whether it would be appropriate to measure the cost of the underlying asset at (i) the carrying amount of the residual asset or (ii) the carrying amount of the residual asset, adjusted for that portion of the upfront payment relating to the cancelled lease term. Option (i) could be justified on the basis that the cost of the portion of the underlying asset, which was previously derecognised and now 'reacquired', is represented by the amount of consideration given, i.e. nil consideration for leases with only upfront payment. On the other hand, the underlying asset that is re-recognised would be measured at the deemed allocated cost based on the actual lease term under option (ii), and any upfront payment that relates to the cancelled lease term is recognised as income and not offset against the carrying amount of the underlying asset. We consider that the accounting under option (i) would better reflect the Boards' thinking that the residual asset is somewhat different from other non-financial assets, and hence, the cost of the underlying asset that is recognised immediately after the termination should be determined consistently with the 'cost' concept in the respective IFRSs, which is typically the amount of consideration given to acquire the asset. To prevent potential diversity in interpretation, we recommend that the Boards clarify that the proposed accounting would apply to all early terminations, regardless of the lease payments pattern.

### Presentation

We agree with the presentation of profit or loss items and cash flows as proposed in the 2013 ED, except as for our comments below.

For leases that are used for purposes of providing finance, presenting cash flows as operating activities would be inconsistent with IAS 7 *Statement of Cash Flows* if the lessor does not lease assets to provide finance in the ordinary course of business. For example, an equipment dealer that ordinarily sells equipment on normal payment terms would present as operating activities cash flows from equipment leases that it occasionally enters into with selected customers when financing is required, whilst another dealer that sells equipment with financing would present cash flows from the financing component as investing activities under IAS 7 if providing finance is not part of its principal revenue-producing activities. Hence, we recommend that the Boards align the presentation of cash flows with how profit or loss items are presented, i.e. in a manner that best reflects the lessors' business model.

### **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?**

As mentioned in our comments in question 2 and 3 above, we agree with the Boards that a dual lease accounting model would better reflect the different economic of two fundamentally different types of leases, and support the classification principle based on whether the lessee is expected to *consume more than an insignificant* portion of economic benefits embedded in the underlying asset, which would result in more appropriate identification of the different types of leases. We also support the application of this principle based on (i) the lease term relative to the economic life of the underlying asset and (ii) the PV of the lease payments relative to the FV of the underlying asset.

However, we note that the 2013 ED proposes only a set of classification criteria, whilst the classification principle, on which the classification criteria are premised, is merely discussed in the Basis for Conclusions. As a result, the proposals are perceived not only to be rule-based, but also as deviating from the project's objective of removing existing classification rules that provide structuring opportunities.

In addition, we disagree with the proposed criteria for *property* leases, i.e. whether the lease term is a *major* part of the *remaining* economic life of the *building* or the PV of the lease payments is *substantially all* of the FV of the underlying asset. On one hand, the Boards rationalise the criteria for property leases in paragraph BC55 of the Basis for Conclusions on the premise that the underlying asset is the *property as a whole, including land*, and the land element represents a large proportion of the FV of the property in some instances, i.e. the proposed criteria – ‘major part of the remaining economic life of building’ together with ‘substantially all of the FV of property (including land)’ – would enable the identification of leases with *more than insignificant* consumption of economic benefits embedded in the property as a whole, including land. On the other hand, the Boards propose to assess the lease term relative to the economic life of the building, which appears counter-intuitive to the Boards’ presumption that the land element could represent a substantial proportion of the FV of the property, and hence, the underlying asset should be the property as a whole.

Foremost, we are not convinced by the Boards’ presumption that the underlying asset in a property lease must necessarily be the property as a whole. We observe that land has an indefinite life, but not buildings, which could be reconstructed successively throughout the economic life of the land. Hence, the economic benefits embedded in the land would be consumed together with an indefinite number of buildings to be constructed in the future. By assessing the classification principle based on the property as a whole, including land, the presumption is that it is possible to consume future economic benefits embedded in the land that would be derived together with the other buildings that would be constructed in the future, which we think is conceptually problematic. In a building lease, the economic benefits of the building would deplete as they are consumed by the lessee, for which the lessor would factor into the pricing of the lease contract. However, this economic phenomenon would not be reflected in how the classification principle is proposed to be assessed. Accordingly, we are also not convinced that applying the proposed ‘major part of economic life’ and ‘substantially all of FV’ criteria would result in a classification outcome that is consistent with the ‘more than insignificant’ consumption classification principle.

Besides, in cases whereby land is the primary asset, assessing lease classification with reference to the economic life of the building could have outcomes that are neither consistent with similar land leases nor reflective of the economics of lease transactions (i.e. such a lease

could be accounted for as a Type A lease even though the lessee is not expected to consume more than an insignificant portion of the economic benefits embedded in the primary asset). We note in Example 7 of the Illustrative Examples that the Boards have concluded on the lease classification of a lease of retail space, together with the surrounding land that is used for parking and deliveries, based on the retail building as the primary asset since the main purpose of the surrounding land is to facilitate the lessee obtaining benefits from the use of the retail space. In situations where land is the primary asset (e.g. a plot of farmland) – the use of buildings (e.g. barns and small processing facilities) is to facilitate the lessee obtaining benefits from the use of the land, applying this example by analogy would be inconsistent with paragraph 33 of the 2013 ED, which requires the economic life of the building to be regarded as the economic life of the underlying asset for a lease component that contains both land and a building.

Similar to the Boards' proposal to determine the nature of the underlying asset in a lease component that contains the right to use more than one asset, we believe that the underlying asset in property leases for the purpose of the classification principle should be the primary asset, which in many cases could be the building (in whole or in part) that the lessee has contracted for the right of use.

In addition, we note that economically similar property leases could be classified differently depending on the age of the building and it is unclear why (i) the extent of economic benefits expected to be consumed by the lessee would increase as the building becomes older, or (ii) the Boards' rationale for using 'total economic life' for non-property leases in paragraph BC125(a) of the Basis for Conclusions is not similarly applicable to property leases.

Furthermore, we think that further clarification and refinement is required for the proposed guidance on the classification of lease components that contain (i) the right to use more than one asset (that include a non-property asset) and (ii) both land and building. Whilst the 2013 ED proposes that the classification criteria for (i) and (ii) is applied relative to the economic life of the primary asset and the building, respectively, it is unclear whether and how the 'PV of lease payments' criterion is intended to be assessed, even though paragraphs BC55 and BC56 of the Basis for Conclusions appear to suggest that this criterion would be applied relative to the FV of the underlying asset as a whole.

Accordingly, we recommend that the 'more than insignificant' consumption *classification principle* should be the prescribed classification requirement, which should be applied consistently to property and non-property alike with reference to the *primary asset*. The *classification criteria* should serve as application guidance, rather than rules, based on whether or not (i) the lease term is *more than an insignificant* part of the *total economic life of the primary asset* or (ii) the PV of the lease payments is *more than an insignificant part of FV of the underlying asset*. In our view, even though the consumption principle should be applied with reference to the primary asset, it is necessary for the 'PV of lease payments' criterion to be assessed with reference to the underlying asset as a whole because requiring both lease payments and FV to be split between the primary asset and any other assets could be costly and arbitrary.

Furthermore, we suggest that the Boards clarify whether 'property' would include structures that are situated on land (such as wharf structures and telecommunication towers), and share some similar attributes of property but lack features usually associated with a building.

Although the 2013 ED neither define nor prescribe a threshold for ‘insignificant’, the illustrative example suggests that 16.6% and 27.8% of economic life and FV, respectively, would not be deemed to be insignificant. We suggest that the Boards should develop examples on other than clear-cut scenarios to help constituents apply the principle-based proposals as intended and to prevent constituents from misinterpreting the benchmark at an artificially high level.

In addition, for a lease component that contains more than one ‘non-distinct’ asset (e.g. an entity could benefit from the leased assets only when they are used together and the assets are not sold or leased separately in the market), it is not always clear how the primary asset should be determined for lease classification purposes. We further note that ‘primary asset’ is not defined in the 2013 ED (although the illustrative examples in the 2013 ED explain that a primary asset is the predominant asset for which the lessee has contracted for the right to use) and recommends that the Boards provide further guidance on this area.

We also note that the proposed classification criteria would create practical implementation challenges for leases of land in jurisdictions that do not sell freehold interest in land (e.g. the use of land is only granted via land-use rights for a substantial period of say 70 years). In such situations, assessing consumption based on the economic life of the land would always result in a Type B lease classification, and yet both the lessee and the lessor have no practical ability to assess consumption based on the FV of the land in the absence of market transactions on the sale and purchase of freehold land.

We believe that the Boards’ proposal to neither require nor permit reassessment of the lease classification after the commencement date is inconsistent with the proposal to require reassessment of the lease term in accordance with paragraph 27 of the 2013 ED. Specifically, a re-assessment of the lease term could result in a change in the conclusion on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. Accordingly, we recommend that reassessment of the lease classification should be required when there is a change in the lease term, and that the Boards develop guidance on the accounting for a reclassification of the lease.

### **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?**

We can support the proposed definition of the lease term, including the use of ‘significant economic incentive’ concept in assessing whether an extension or a termination option should be considered in the determination of the lease term. We also agree with the proposed criteria for reassessment of the lease term and the explicit clarification that a change in market-based factors (e.g. market rate to lease a comparable asset) would not, in isolation, trigger re-assessment.

Conceptually, we think that there is no unconditional obligation or right to lease payments (or no unconditional right to avoid lease payments) until the lessee exercises the extension (or termination) option, and hence, lease payments should not be adjusted for cash flows relating

to periods under the option in the measurement of lease assets and liabilities. However, we appreciate that incorporating the ‘significant economic incentive’ concept to reflect an entity’s reasonable expectation of the lease term would result in an outcome that better reflects the economics of leasing arrangements and is comparable to economically similar transactions. As such, we can support the proposed definition of the lease term, except that we recommend that the Boards (i) replace the proposed ‘significant economic incentive’ concept with the existing ‘reasonably certain’ concept in IAS 17, which the Boards note would provide a similar threshold and has worked well in practice, and (ii) retain the proposed application guidance in paragraph B5 of the 2013 ED on how ‘significant economic incentive’ should be assessed as application guidance on the application of the ‘reasonably certain’ concept.

Furthermore, we observe that the definition of lease term as currently drafted could lead to an inconsistent outcome between an extension and a termination option, even when the ‘significant economic incentive’ criterion is not met. For leases with an extension option, the default lease term is the non-cancellable period, unless the lessee has a significant economic incentive to exercise the extension option. For leases with a termination option, the default lease term is the non-cancellable period, less the period covered by the termination option, unless the lessee has a significant economic incentive not to exercise the termination option. We believe that the contractual lease term, to the extent that it is consistent with the non-cancellable period, should be the lease term for measurement purposes, unless there is a significant economic incentive to exercise an extension or a termination option, in which case the lease term would be the extended period or the reduced period, respectively. Accordingly, we recommend that the Boards amend the requirements to include a termination option in the lease term only if the lessee has a significant economic incentive to exercise the termination option.

#### **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?**

Conceptually, we believe that all forms of VLPs should be included in the measurement of lease assets and liabilities because they meet the definition of an asset for the lessor and a liability for the lessee (i.e. the lessee has no unconditional right to avoid payment) – it is only the amount to be paid that is uncertain.

Besides, excluding VLPs that are performance-based or usage-based in the measurement of lease assets and liabilities may not reflect the economics of leasing arrangements and is not consistent with how contingent consideration is accounted for in other standards/projects (e.g. the proposed new Revenue IFRS). For lessees, the amount of lease liability and ROU asset recognised could be grossly understated if lease payments are structured substantially in the form of performance/usage-based VLPs. For lessors, VLPs that are not recognised as part of the lease receivable would be included in the measurement of the residual asset, which appears counter-intuitive particularly if they are expected to be received. This would result in an understatement of the lessor’s lease receivable and profit on the lease as well as an overstatement of the residual asset at lease commencement. Moreover, profit relating to such

VLPs would be released to profit or loss over the lease term, unlike profit relating to index/rate-based VLPs which are recognised on lease commencement, even though the pricing of the lease reflects an expectation of all forms of VLPs. Furthermore, the residual asset would include various components (i.e. economic benefits retained in the underlying asset as well as expected VLPs on the lease) of different nature and economic characteristics, thereby obscuring the asset and credit risks to which the lessor is exposed, which we note is one of the criticisms of the current lease accounting that the Boards are attempting to address.

However, we understand, and can appreciate, that constituents are concerned that the conceptually superior alternative of including all forms of VLPs in the measurement of lease assets and liabilities is not just operationally challenging, but highly judgemental and subjective, especially for longer-term leases. There are also concerns that such subjectivity and uncertainty could significantly reduce the reliability of information included in the measurement of lease assets and liabilities.

Moreover, we understand that in practice, performance-based or usage-based VLPs are not common for non-property leases. For property leases, the impact of the accounting anomaly for Type A lessor accounting is expected to be contained since most lessors would account for property leases using the proposed Type B accounting.

Accordingly, weighing the costs and subjectivity against the benefits of the proposals, we can appreciate the pragmatic approach that the Boards have taken in the 2013 ED as it would provide significant operational relief to entities (such as retailers of real estate leases with lease payments that are based in whole or in part on the retailers' turnover), and are prepared to accept the proposed requirements on VLPs, i.e. include in lease payments only VLPs that depend on an index or a rate and those that are in-substance fixed payments, on cost-benefit considerations.

#### VLPs that are in-substance fixed payments

The 2013 ED does not define 'in-substance fixed payments' but explain in paragraph BC153 of the Basis for Conclusions that "those payments are unavoidable, and hence, economically are indistinguishable from fixed lease payments". We further observe that the scenarios illustrated in Example 17 in the Illustrative Examples feature mainly price 'floor'.

Whilst we can appreciate the Boards' rationale for including VLPs that are in-substance fixed payments in the measurement of lease assets and liabilities, we do not believe that the aforementioned intended scope would be appropriate when lease payments are structured substantially in the form of performance-based or usage-based VLPs. Such arrangements typically include protective rights that restrict the lessee's ability to avoid using the underlying asset. In such arrangements, the lessor would have determined the contractual rate to achieve at least an expected minimum return on its investment in the underlying asset, which could be viewed as in-substance fixed payments. From the lessee's perspective, the VLPs are generally unavoidable so long as it is in business and it is only the amounts that are uncertain. We believe that it would be appropriate to include such VLPs for measurement purposes, even though some may view these VLPs as avoidable in the strictest sense. Otherwise, the proposals could encourage the structuring of lease payments entirely in the form of performance-based or usage-based VLPs to effectively avoid recognising lease assets and liabilities. Accordingly, we recommend that the Boards enhance the robustness of the 'in-

substance fixed payments' concept to capture various forms of VLPs that are in-substance fixed for measurement purposes.

### Re-assessment of VLPs

In the 2013 ED, the Boards simplify the accounting for VLPs by including only VLPs that depend on a rate or an index in the measurement of lease payments, but at the same time, proposes a periodic re-assessment of lease payments for changes in the reference rate or index. Whilst we appreciate that the periodic re-assessment would provide more accurate information about lease receivables and liabilities at each reporting date especially for longer-term leases, it would also increase ongoing costs of compliance for preparers. Moreover, in situations where the reference rate or index is highly volatile, providing an updated but constantly changing lease receivable or liability position is probably no better than recognising such changes in the profit or loss as incurred. Weighing the various considerations, we recommend that re-assessment of VLPs that depend on a rate or an index should only be required when a trigger event occurs, such as when there has been a substantial change in the reference rate/index, or a change in that rate/index has resulted in a re-assessment of (i) the lease term or (ii) whether the lessee has a significant economic incentive to exercise an option to purchase the underlying asset.

### Residual value guarantees (RVGs)

We agree with the proposed accounting for RVGs by *lessees*, i.e. include amounts expected to be payable under RVGs in the measurement of lease assets and liabilities, on the basis they meet the definition of a liability (i.e. no unconditional right to avoid payment) and are part of the cost of ROU assets that ought to be recognised in the lessee's financial statements.

Conceptually, we think that the proposed accounting for *lessors* (i.e. only fixed amounts to be received under RVGs are included in the measurement of lease receivables whilst other RVGs are merely considered in the impairment assessment of residual assets) does not reflect the economics of leasing arrangements as RVGs are considered by lessors in the pricing of leasing arrangements. Furthermore, there is no conceptual basis for a different lessee and lessor accounting since a contractual obligation to make payments under RVGs by the lessee must necessarily create a corresponding contractual right to receive such payments for the lessor.

However, we appreciate the Boards' rationale for the proposed lessor accounting for RVGs other than in-substance fixed payments as articulated in paragraph BC221 of the Basis for Conclusions and can accept the proposed accounting for such RVGs. Notwithstanding so, the 2013 ED is unclear on how the amount receivable under these RVGs should be accounted for when it becomes due from the guarantor, which we believe should be adjusted against the carrying amount of the residual asset. This approach is not only consistent with the proposed Type A accounting (i.e. the lessor should not recognise a gain on the residual asset before it is sold or re-leased), but would also avoid the recognition of an impairment loss immediately after the end of the lease term (that has been deferred because the RVG has been considered in the impairment assessment of the residual asset during the lease term), which is both counter-intuitive and misleading. Hence, we recommend the Boards to clarify that amounts receivable under RVGs that are other than in-substance fixed payments should be recognised only when they are due by adjusting against the carrying amount of the residual asset.

### **Question 7: Transition**

**Paragraphs C2–C22 state that a lessee and a lessor would recognise 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?**

We support the proposed accounting policy choice of either a full retrospective approach or a modified retrospective approach, considering that the full retrospective approach would provide better information but could be operationally impracticable. In addition, we agree with the proposed transition reliefs and appreciate that the modified retrospective approach would provide operational relief especially for entities with numerous leasing arrangements.

### **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?**

We observe that the proposed disclosures would increase significantly as compared to the existing requirements under IAS 17. Certain proposals, such as the reconciliation of opening and closing balances of ROU assets, lease liabilities, lease receivables and residual assets as well as the reconciliation of undiscounted cash flows to lease liabilities and lease receivables, would require the tracking and compilation of information that is not currently required to be disclosed. Whilst we can appreciate that these additional disclosures would enable users of financial statements to better understand the amount, timing and uncertainty of cash flows arising from leases, we are concerned that the costs of preparing and reporting some of the proposed disclosures are likely to outweigh the benefits of enhanced disclosures.

Those proposed disclosures that could be unduly costly without significantly improving the usefulness of financial information include:

- Reconciliation of opening and closing balances of lease liabilities separately for Type A and Type B leases
  - We do not think that such reconciliations would have much information value since the same measurement basis applies to lease liabilities for both Type A and Type B leases, and separate reconciliations are already made for ROU assets of Type A and Type B leases. We recommend that lessees are only required to disclose reconciliation of lease liabilities on an aggregated basis, if the Boards decide to proceed with the proposed Type B lessee accounting.

- Maturity analysis of lease liabilities of lessees and lease receivables of lessors for a minimum of each of the first 5 years and a total for the remaining years
  - We observe that IFRS 7 *Financial Instruments: Disclosures* requires an entity to use its judgement to determine an appropriate number of time bands for the maturity analysis of financial liabilities. It is unclear why the Boards believes that the proposed time bands for lease liabilities and lease receivables would provide useful information, given that most longer-term leases would have a lease term exceeding 5 years. We suggest that the Boards align the maturity analysis requirements for lease liabilities and lease receivables to those for other financial liabilities.

Based on the current drafting of the 2013 ED, we observe that lease liabilities of lessees and lease receivables of lessors would continue to be within the scope of IFRS 7. However, the 2013 ED explicitly proposes that a lessor would disclose qualitative and quantitative information relating to risks arising from leases required by IFRS 7, but is silent on whether a lessee is required to make similar disclosures under IFRS 7. To avoid potential diversity in interpretation, we recommend that the IASB clarify the applicability of IFRS 7 disclosure requirements on the lease liabilities of lessees.

### **Question 12 (IASB-only): 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?**

We do not agree that a ROU asset should be within the scope of IAS 40 if the leased property meets the definition of IP. We believe that the nature and economic characteristics of ROU assets are different from IP, and hence, the measurement of ROU assets would be best dealt with in the new Leases IFRS. This approach, together with our recommendation on the remeasurement option for ROU assets that meet the definition of IP, would be consistent with the proposed scope and remeasurement option for ROU assets that are PPE.

### **Other comments**

#### **Sale and leaseback transactions**

The 2013 ED proposes that in sale and leaseback transactions, the requirements in the proposed new Revenue IFRS should be applied when determining whether the transfer of an asset should be accounted for as a sale. The 2013 ED further stipulates that the transfer is not a sale when the leaseback provides the transferor-lessee with the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, which occurs when

either the lease term is for the major part of the remaining economic life of the asset or the PV of lease payments accounts for substantially all of the FV of the asset.

We agree with the use of the ‘major part of remaining economic life’ or ‘substantially all of FV’ criterion to conclude whether the transferor-lessee has obtained substantially all of the remaining benefits of the asset, but observe that it runs contrary to, and raises further question on, the Boards’ rationale for applying the same criterion to property leases to determine whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. Moreover, consistent with our comments on question 4 above, in cases where land is the primary asset, we believe that applying the ‘major part of remaining economic life’ criterion with reference to the building in the context of sale and leaseback transactions could similarly result in outcomes that are not reflective of the economics of such transactions.

Take, for example, an entity (the transferor-lessee) enters into a contract to sell a property, comprising a building with remaining economic life of 10 years as well as the freehold land on which it is constructed. The transferor-lessee concurrently enters into an arrangement to lease back the building (and indirectly the land) for 8 years. Applying the ‘control’ principle in the proposed new Revenue IFRS to the entire sale and leaseback transaction should theoretically lead to a conclusion that the transfer is a sale since the transferee-lessor has obtained control of the property as a whole. However, as the lease term is for the major part of the remaining economic life of the building, it would be concluded under the 2013 ED that the transferor-lessee has the ability to direct the use of and obtain substantially all of the remaining benefits from the property, and hence, the transfer is not a sale.

We believe that our recommendation under question 4 to assess lease classification with reference to the *primary asset* would address the above issue. In the above example, the primary asset for the purpose of assessing whether the transfer is a sale would be the land, being the predominant asset promised in the sale and leaseback contract with the transferee-lessor, but the primary asset for the purpose of assessing lease classification would be the building, which is the predominant asset for which the transferor-lessee has contracted the right of use. Given that the primary asset for the transfer and lease is different, the former would necessarily meet the requirements to be recognised as a sale whilst the latter would be recognised as a building lease in accordance with the requirements of the Leases IFRS. We believe that this accounting outcome would better reflect the economics of the entire sale and leaseback transaction, which is to enable the transferor-lessee to unlock the value in the land.

### Contract modification

The 2013 ED proposes that an entity should account for a modified contract as a new contract when the modification has resulted in a substantive change to the existing lease, such as changes to the contractual lease term or lease payments.

It is unclear how this proposal would interact with the derecognition criteria under IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9 or IAS 39, a financial asset is derecognised when the rights to the asset’s cash flows have expired, substantially all risks and rewards of ownership of the asset have been transferred, or when the entity has not retained control over the asset; a financial liability is derecognised when it is extinguished, exchanged with another instrument with substantially

different terms or when its terms are substantially modified (i.e. the PV of cash flows under the new terms is at least 10% different from the PV of remaining cash flows under the original terms).

Accordingly, we recommend that the Boards reconcile the proposals to the derecognition criteria in the financial instruments standard and require similar quantitative assessment in the financial instruments standard to determine when changes to the contractual lease term or lease payments are considered a substantive change.

#### Short-term leases

The 2013 ED proposes to define short-term leases as leases with a maximum possible term – including *any* extension options – not exceeding 12 months.

We note that the inclusion of all extension options in the criteria for short-term leases, regardless of the likelihood or otherwise of an exercise by the lessee, could result in different accounting for economically similar transactions. For example, a lease with a non-cancellable term of 12 months would meet the definition of short-term leases. However, the converse is true for a 12-month lease with an option to extend for another 12 months, even when the likelihood of the lessee exercising the option is remote. The former is exempted from recognition on lease commencement date, while the latter would be accounted for using the proposed general lease accounting based on a lease term of 12 months.

Accordingly, we recommend that the Boards amend the criteria for short-term leases along the line of “non-cancellable period, adjusted for periods covered by an option to extend or terminate the lease if the lessee has a significant economic incentive to exercise that option, of 12 months or less” (i.e. consistent with our comments on the determination of lease term under question 5 above).

#### First-time adopters

The 2013 ED proposes to prohibit first-time adopters from applying the proposed transitional provisions and reliefs that are applicable to the finance leases of an existing IFRS preparer.

Whilst we note the IASB’s rationale that carrying forward the accounting and measurement under the previous GAAP – potentially with significant differences from the requirements of IAS 17 – could result in a lack of comparability with other IFRS preparers, we are concerned that requiring first-time adopters to apply a full retrospective approach to finance leases could result in prohibitive costs of implementation and could well be impracticable for entities with numerous leasing arrangements.

Accordingly, we suggest that the IASB reconsider permitting first-time adopters to apply the transitional provisions and reliefs as proposed in the 2013 ED to leases that are classified as finance leases under the previous GAAP, and if not, to develop operational transitional reliefs to alleviate the implementation burden on first-time adopters.

We hope that our comments will contribute to the Boards' deliberation on the 2013 ED. Should you require any further clarification, please contact our project managers Siok Mun Leong at [leong\\_siok\\_mun@asc.gov.sg](mailto:leong_siok_mun@asc.gov.sg) and Chia Chia Chionh at [chionh\\_chia\\_chia@asc.gov.sg](mailto:chionh_chia_chia@asc.gov.sg).

Yours faithfully

Suat Cheng Goh  
Technical Director  
Singapore Accounting Standards Council