

Question 3: Short-term leases

The following language in paragraph 64 lacks clarity: “Such lessees would recognise lease payments in profit or loss over the lease term”.

If an undiscounted liability and a corresponding right-of-use asset are recognised in relation to such short-term leases, then I believe that the lease payments would be recognised as a *reduction in the liability* and not *in profit or loss* over the lease term as stated in paragraph 64. The amortisation of the right-of-use asset would be recognised in profit or loss over the lease term.

As it stands, the language in paragraph 64 almost seems to suggest that lease payments for short-term leases should be charged direct to profit or loss, without recognising a liability and right-of-use asset in the statement of financial position.

Question 5: Scope exclusions

Would it not be practicable/sensible to recognise a class of lease that is exempt from the requirement to recognise it as an asset and liability on the statement of financial position, for reasons of immateriality?

Question 8: Lease term

I 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. I believe that this approach will reflect the value of both the right-of-use asset and the obligation to pay lease rentals in the statement of financial position.

While agreeing with the principle, I find the illustration in B17 extremely difficult to follow from the point where it states: “Therefore there is a 60 per cent chance that the term will be 15 years” Nothing in what currently precedes this statement allows me to arrive at the conclusion that the probability of the lease term being 15 years has changed from the 30 per cent as originally stated. Having the same probabilities attached to the 15 year and 20 year outcomes, as in the current example, does not help clarify the situation and perhaps an example with the following terms and probabilities may illustrate the principle more clearly:

20 per cent probability of 10-year term
25 per cent probability of 15-year term
40 per cent probability of 20-year term
15 per cent probability of 25-year term

Questions 12, 13, 14: Presentation

I do not believe it would be appropriate to separately identify balances, transactions and cash flows relating to leases in the primary statements as:

- it would give undue and unwarranted emphasis to such items; and
- it would add unnecessary clutter to the primary statements that are already long and complex.

Any additional information should be provided in the notes to the accounts, similar to the current IAS 17 disclosures for finance leases.

Question 16: Transition – simplified retrospective approach

Group financial statements often present five year summary information for the income statement, statement of financial position and statement of cash flows. The simplified retrospective approach of only restating as far back as the beginning of the first comparative period will result in a significant and misleading lack of comparability with earlier periods in such five year statements. While agreeing that users should not be *required* to implement on a fully retrospective basis because of the cost concerns, they should be explicitly *allowed* to do so if they wish.

Question 16: Transition – recognition

On transition, there is currently no option when measuring the present value of the remaining lease payments, to use the rate the lessor charges the lessee as the discount rate, meaning that the liability on transition can only be measured using the lessee's incremental borrowing rate. There could be a significant difference in the value of the liability to make lease payments between a lease held on transition and a similar lease acquired after transition. Why is there no option on transition to use the rate the lessor charges the lessee as the discount rate?

Other comments

(a) The lessee's incremental borrowing rate

Further guidance should be provided for calculating the lessee's incremental borrowing rate in the situation of lessees who are a reporting entity within a Group that has a central treasury function for funding investment. In such situations, should the incremental borrowing rate for the lessee be the same as the incremental borrowing rate for the Group as a whole?

(b) Effective date

From a practical Group reporting point of view, I believe that the best way to implement the requirements of the ED is to capture the new lease information for the earliest prior period at the time when that period is actually reported.

For example, if the effective date of the new IFRS were for annual periods beginning on or after 1.1.2012, then the earliest prior period to be restated would be 31.12.2010. In the Group I work for, I would propose collecting the new lease information as at 31.12.2010 at the same time as the actual Group results for 2010 are reported. This approach has the twin advantages of collecting the information while the leases are still current and being able to validate the information against the existing lease disclosures in our current IAS 17 reporting.

I fear we have missed the boat to accomplish this in time for a 1.1.2012 effective date and would therefore suggest that the effective date should not be earlier than annual periods beginning on or after 1.1.2013.