2 November 2010

Dear IFRS

EXPOSURE DRAFT ON LEASES

The preamble to the proposal states: "*The proposals would result in a consistent approach to lease accounting for both lessees and lessors—a 'right-of-use' approach* ".

- I support the adoption of a 'right-of-use' approach.

- I agree that the proposals would ensure that a consistent approach would be applied to *lessees*; it would mean that both purchased assets and leased assets are treated in a similar manner, regardless of their individual financing arrangements. Therefore, I support this approach.

- However, the <u>proposals do not ensure that a consistent approach would be applied to lessors and therefore I do not support this aspect of the proposals</u> for the following reasons:-

  - It is proposed that there are two alternatives for lessors: the performance obligation approach and the de-recognition approach. These alternatives mean that there will not be consistency across all lessors.
  - Determining which alternative should be adopted would be a matter of considerable judgement.
  - The performance obligation approach requires that an underlying asset is recognised as an asset *twice* in balance sheets: once in the lessor's balance sheet (the underlying asset) and once in the lessee's balance sheet (the right-of-use asset). This would be counter-intuitive to users of financial statements if a 'right-of-use' approach is to be consistent.
  - On the other hand, the de-recognition approach would mean that the underlying asset is removed from the lessor's balance sheet and instead would appear in the lessee's balance sheet as a 'right-of-use asset'. The 'right to receive lease payments' debit in the lessor's balance sheet would correspond with the 'liability to make lease payments' credit in the lessee's balance sheet. These aspects would be consistent and would be simple to understand by users of financial statements.
  - <u>I would therefore only support one approach for lessors: the de-recognition approach</u>.

Regards

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