

15 December 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Sir David

IASB EXPOSURE DRAFT ED/2010/9 – Leases

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments on the IASB Exposure Draft ED/2010/9 – Leases.

Generally, we agree with the adoption of the right-of-use model for lessee accounting in which a lessee would pay for the right to use the underlying asset. This model would better reflect the economics of most leases, and hence would improve the financial information provided to users of financial statements.

As for lessor accounting, we are of the view that the proposals are overly complex and we have significant reservations for the derecognition approach. We recommend that the IASB subsumes the derecognition approach into the purchase or sale contract notion. For a lease arrangement that does not satisfy the criteria of a purchase or sale contract, the lease contract should apply the performance obligation approach, which is conceptually consistent with the proposed right-of-use model for lessee accounting.

Our detailed responses are enclosed in the Appendix of this letter.

If you need further clarification, please contact Ms Tan Bee Leng at +603 2240 9200 or by email at beeleng@masb.org.my.

Thank you.

Yours sincerely,



MOHAMMAD FAIZ AZMI
Chairman

Question 1: Lessees

- (a) **Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We agree with the proposal. The right-of-use model would provide useful and relevant information to financial statements users as compared to the existing IAS 17 Leases whereby the requirement to distinguish between finance and operating lease is often unclear in practice.

- (b) **Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?**

We agree with the proposal. The amortisation of the right-of-use asset is conceptually consistent with IAS 38 Intangible Assets whilst the proposal to recognise interest on the liability to make lease payments, which reflects the time value of money, is in accordance with the Conceptual Framework for Financial Reporting.

Question 2: Lessors

- (a) **Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?**

Having considered the lessor proposals, we find them to be overly complex as effectively there would be three models in accounting for lease arrangement by lessors, i.e. the performance obligation approach, derecognition approach and purchase or sale contract notion, if the ED is finalised in its current form.

Append below our views on each of the proposed approach for IASB's consideration.

Performance obligation approach

We support the performance obligation approach.

In our view, the performance obligation approach appropriately reflects the lessor's assets and obligations under the lease arrangement because the lessor has contractually granted the lessee the right to use its economic resource (the leased asset) in exchange for the right to receive rental payments. Conversely, the lessee recognises a right-of-use asset and a liability to make lease payments under the lease arrangement – which we agreed as mentioned in our response to Question 1. This approach would therefore result in lessee and lessor transactions to be accounted on a symmetrical basis so as to portray the financial effects of the lease arrangement.

Whilst we are conscious of the concerns that the performance obligation approach would “gross up” the statement of financial position of the lessor and therefore would potentially impact financial ratios, we believe the IASB’s proposal to present the gross amounts on a linked (net) basis aptly addresses the concerns and that such presentation would provide a more complete information in the financial statements of the lessor than existing requirements under IAS 17.

Derecognition approach

We do not support the derecognition approach as we have significant concerns with the resultant outcome that would permit the lessor to recognise a day-1 gain disregarding the fact that the lessor may not have satisfied its performance obligation under the lease contract.

In addition, in our view, derecognising the underlying asset in the financial statements of the lessor would not provide a faithful representation of the lease arrangement unless the lease arrangement meets the criteria of a true sale under the purchase or sale contract notion, i.e. such accounting treatment seems to tantamount to omission and hence undermine the information presented in the lessor’s financial statements. Derecognising the underlying asset and recognising only a receivable seem to paint a picture that a lessor only is carrying credit risk, of which, is not true. Unlike the performance obligation approach, the statement of financial position of the lessor does not faithfully present the risks of the lease arrangement.

In other words, we are concerned that the derecognition approach would inadvertently provide information that is misleading rather than information that is complete to users of financial statements.

Furthermore the derecognition approach may result in the following anomaly:

- the lessor may have continual performance obligation under the lease arrangement, for example the obligation to continuously make available the leased asset to the lessee or the obligation to pay rates as the lessor would most likely remain as the legal owner of the asset if the transaction is not a true sale.*
- the derecognition model assumes the lessor has transferred all rights and obligations of a portion of the underlying asset, though the lease contract could be easily cancellable or terminated at the option of the lessee or lessor. We are concern that such model may provide structuring opportunities. If the final Standard retains the derecognition model, we believe the Standard should provide principles or guidance on assessment of termination. The derecognition model may only be applied to non-cancellable lease contracts or lease contracts that most likely would not be cancelled.*

Moreover, some are of the view that the asset derecognised by the lessor would neither be reflected in the lessor’s nor the lessee’s financial statements as the lessee only recognises a right-of-use asset (an intangible) even though the underlying asset

(the tangible asset) has been derecognised by the lessor. This view arose as the ED only prescribed that the lessee recognises a right-of-use asset, being an intangible asset, irrespective of the conditions specified under lessor accounting. In other words, it is not clear in the ED whether the lessee would recognise a physical asset if the lessor does not retain exposure to significant risks and benefits associated with the underlying asset, ie the derecognition approach. However some are of the view the lessee will record the right-of-use asset which is the portion of the physical asset derecognised by the lessor. Therefore should the IASB decide to finalise the ED in its current form, we recommend that IASB relook into the lessee accounting in this regard.

Subsume the derecognition approach into the purchase or sale contract notion

As mentioned in the preceding paragraphs, we do not believe it is appropriate to derecognise the underlying asset unless the lease arrangement meets the criteria of a true sale. We therefore recommend the IASB to subsume the derecognition approach into the purchase or sale contract notion as effectively the accounting outcome of both methods are almost similar.

The ED proposed that a lease meets the criteria as a purchase or sale contract if at the end of the contract, the lessor retains trivial residual risks and benefits associated with the entire underlying asset. On the other hand, the ED proposed that a lease is accounted for in accordance with the derecognition approach if the lessor does not retain exposure to significant risks or benefits associated with the underlying asset during the expected lease term.

Whilst the ED attempted to distinguish the derecognition approach from the purchase or sale contract notion by using the connotation of “does not retain exposure to significant risks or benefits” and “a trivial amount of the risks and benefits” respectively, both methods would require the lessor to derecognise the underlying asset (other than the lessor retaining a residual asset under the derecognition approach) and at the same time recognise a lease receivable at the commencement of the lease contract. Although the notion of “trivial” is not found in the IFRS literature and it is unclear from the ED how different it is from “not significant”, it seems to us both notions convey similar meaning.

In this regard we are of the view it is superfluous or unnecessary to explicitly create a distinction between the derecognition approach and purchase or sale contract notion. In addition, such differentiation would only add complexity to lessor accounting.

We therefore believed that by subsuming the derecognition approach into the purchase or sale contract notion, the complexity for lessor accounting would be significantly reduced. And if the lease arrangement does not meet the characteristics of a purchase or sale contract as defined in the ED, the lease arrangement should be accounted for in the financial statements of the lessor by using the performance obligation approach as mentioned in the preceding paragraph.

- (b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

Performance obligation approach

We agree with the proposals. However the explanation in paragraph 41 with respect to the impairment of the right to receive lease payments is not clear.

In our view, the existence of objective evidence that the right to receive lease payments most probably would trigger the termination of the lease contract by the lessor. Therefore it would not be appropriate for the lessor to recognise in profit or loss, an impairment loss on a receivable to which the lease obligation has yet to be fulfilled. A portion of the receivable relates to the right to receive lease payments in periods subsequent to the termination of the lease contract. In other words, we believe it would be conceptually incorrect to require the lessor to charge to profit or loss as impairment loss a receivable to which the obligation has yet to be performed since the lessor has neither earned any income on the related loss nor that impairment loss gave rise to an outflow of economic resource on the lessor's part.

Instead, the Standard should clarify whether there is objective evidence that the right to receive lease payments is impaired when,

- only the impairment loss relating to the due portion of the right to receive lease payments should be recognised in profit or loss;*
- whereas the right to receive lease payments that is not yet due should be reversed from the performance obligation liability.*

Derecognition approach

As stated in our comments in part (a) above, we do not support the derecognition approach and recommended that the derecognition approach to be subsumed into the purchase or sale contract notion. However, should the IASB decides to proceed with the derecognition approach, we believe further clarification / consideration by the IASB is required on the amortisation of residual asset.

We note that the ED does not require the residual asset to be amortised. Hence, the residual asset would be subject to an annual impairment test under IAS 36 Impairment of Assets. In our view, the residual asset should be amortised because the formula proposed in paragraph 50 is an allocation of historical cost of the underlying asset. The residual value does not represent the future value of the residual asset. Alternatively, the Standard could provide an exemption for annual impairment test.

Interaction with IASB Exposure Draft ED/2009/12 Financial Instruments: Amortised Cost and Impairment

Based on the IASB's work plan as at 9 December 2010, the IASB plans to issue a revised impairment requirement in Quarter 2 of 2011 to replace the impairment requirements of IAS 39. The work plan likewise indicated that the IASB also plans to finalise the leases proposals in Quarter 2 of 2011.

Although both these EDs would be finalised in Quarter 2 of 2011, we note that the leases proposals make reference to the impairment requirements of IAS 39 and there was no discussion on whether the impairment requirements in ED/2009/12, which proposed to move from incurred loss approach to expected loss approach, would be applicable to the lessor's lease receivable. If the proposed expected loss model is applicable to the lessor's lease receivable, the lessor would have to initially adjust its lease receivable using the effective interest method. In this regards, we are concerned that the expected loss model could further add complexity to lessor accounting and how the effective interest method could be applied for lease contracts.

Hence, we strongly urge the IASB to seek views from constituents on this matter before prescribing the expected loss model for the lessor's lease receivable.

Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

- (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).**
- (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in profit or loss, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).**

(See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Lessee

In our view, the proposal would provide, little or none at all, relief as the effect of discounting the lease payments would not be material for a lease contract of less than 12 months. We recommend that the IASB considers allowing the lessee to apply a model that would not need to recognise the rights-to-use asset under short-term leases, similar to the option given to lessor.

Lessor

We believe that the option provided is practical.

However, the ED is unclear whether a lease with a renewable option and where the rate has not been pre-determined in the lease contract could be considered as a short-term lease or whether the lessor would be required to take into consideration the probability of the lessee extending the short-term lease contract. We therefore request the IASB to clarify in the final Standard whether a short term lease with renewal option where the rate has not been agreed could be considered as a short-term lease. We are of the view that a twelve-month lease with a renewable option and where the rate has not been pre-determined in the lease contract should be considered as a short-term lease. Any renewal for such lease should be assessed as a separate lease contract.

Question 4

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?**

We agree with the definition of a lease where it is defined as a contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for consideration.

- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?**

The ED proposed that whether a lease arrangement is a purchase or sale contract depends on whether, at the end of the lease contract, the entity transfers to another entity control of the entire underlying asset and all but a trivial amount of the risks and benefits associated with the entire underlying asset. It appears to us that the IASB would be retaining the “risks or benefits” notion although we understand from other recent exposure drafts which proposed to replace the risks and rewards notion with the control approach, e.g. IASB’s Exposure Drafts, ED 10 Consolidated Financial Statements and ED/2010/6 Revenue from Contracts with Customers.

In our view, like transactions should be treated in like ways by using consistent principles. We therefore recommend that the IASB prescribes consistent principles with

ED/2010/6 in the assessment of whether a lease arrangement is a purchase or sale contract.

Should the IASB decides to retain its leases proposals for purchase or sale contracts, we urge the IASB to explain the reason for doing so in the basis for conclusions so that users of the Standard could better understand and appreciate the spirit and intent of the Standard.

Notwithstanding our comment in the preceding paragraph and our response to Question 2 where our preference is to subsume the derecognition approach into the purchase or sale contract notion, we believe clarity is required on the following with respect to the criteria as drafted in paragraphs B9 and B10 of the ED:

- *Trivial amount of the risks and benefits*

As mentioned in our response to Question 2, the concept of “trivial” is not found in the IFRS literature and it is unclear from the ED how different it is from not “significant”, a terminology which is more commonly used in IFRS. We recommend the IASB to provide further explanation / guidance on the meaning of “trivial” or to replace it with “not significant” if they are meant to give the same meaning. This would avoid confusion during implementation of the Standard.

- *Automatically transfers title*

In lease arrangements that are effectively a purchase or sale contract, the transfer of title would most likely have been stipulated in the lease contract. However some lease contracts might include additional administrative procedures before the title is transferred to the lessee. For example some lease contracts could require the lessor to complete certain standard documentation, i.e. signing a release letter of the leased asset before transferring to the lessee and before the transfer of title could be legally / completely executed. In other words, the transfer of title would not be deemed to be “automatic” in such a situation albeit the lease contract meets all other criteria of a purchase or sale contract.

In this regard, we recommend the IASB to remove “automatically” from the criteria in paragraph B10(b). This would avoid the possibility of inadvertently causing such purchase or sale contracts to fall within the scope of the ED.

- *Linked contracts or arrangements*

Since SIC Interpretation 27 would be replaced by the exposure draft, we urge the IASB to transfer the principles in SIC 27 to the final Standard. This is important because certain financing arrangement (for example, Islamic financing) may take the legal form of a lease. When the lease contract is assessed together with other contracts, it may be an in-substance sale or purchase. The principles in SIC 27 would also help to reduce structuring opportunities.

- (c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We believe that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient.

Question 5: Scope exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

Leases of intangible asset

We note that leases of intangible assets are excluded from the scope of the ED. Paragraph BC36 of the Basis for Conclusions clarified that although the boards have identified no conceptual reason why a lease accounting standard should exclude intangible assets, the boards decided that they would not include leases of intangible assets within the scope of the proposed IFRS until they had considered the accounting for intangible assets more broadly. However, it is not clear as to why there is a reservation of accounting leases of intangible asset using this ED. Perhaps, the IASB could add some examples in the basis for conclusions to draw out the inconsistencies.

Leases to “use” minerals and similar non-regenerative resources

We understand that leasing of precious metal (e.g., platinum) is now popular among some industries and we recommend the IASB to consider whether leasing of the “use” of such minerals are within the scope of the proposed IFRS.

Leases of biological assets measured at cost

We believe the scope exclusion for leases of biological assets should be limited to biological assets that are measured using the fair value model. In our view, leases of biological assets measured at cost conceptually should be within the scope of the proposed IFRS.

Paragraph 7(b)

The paragraph seems to suggest that if an investment property is measured using the fair value model, a lessor is not required to apply the principles of the proposed IFRS even at initial recognition. This would mean that the lessor would not need to consider whether the

arrangement would meet the definition of a lease or a purchase or sale contract when it enters into a lease of investment property. We believe the lessor should be required to conduct an assessment under the proposed IFRS at the inception of the lease as the outcomes under the two definitions are distinctly different.

In this regard we suggest the following amendments to paragraph 7 (new text is shaded and underlined and deleted text is shaded and struck through):

- 7 An entity shall apply this [draft] IFRS to investment property that it holds under a lease. However, after initial recognition:
- (a) ~~after initial recognition~~, a lessee may measure a right-of-use asset in accordance with the fair value model in IAS 40 Investment Property. The lessee shall recognise in profit or loss changes in the liability to make lease payments arising after initial recognition in accordance with IAS 40.
 - (b) a lessor shall apply IAS 40 and not this [draft] IFRS to leases of investment properties that are measured at fair value in accordance with IAS 40.

Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in *Revenue from Contracts with Customers* to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

- (a) **the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.**
- (b) **the IASB proposes that:**
 - (i) **a lessee should apply the lease accounting requirements to the combined contract.**
 - (ii) **a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.**
 - (iii) **a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in *Revenue from Contracts with Customers*.**

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

*We agree with the IASB proposals as they are conceptually consistent with the proposals in *Revenue from Contracts with Customers*.*

However, we note that the proposals of paragraph B5(c) may be difficult to apply practically. We request that the IASB provides additional guidance / examples for such types of lease arrangement.

We also note that the ED has not addressed situation whereby the service component is distinct but payments cannot be allocated and the lessor applies the derecognition approach. We request that the IASB clarifies its requirement for this situation.

Alternatively, we recommend that the IASB reconsiders its proposals and prescribe the performance obligation approach in paragraph B5(b) for the above two situations to ease the implementation of the proposed IFRS.

Question 7: Purchase options

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

Paragraph BC63 explained that purchase options could be accounted for in the same way as options to extend or terminate the lease and paragraph BC64 then concluded that a purchase option is a means of terminating the lease. However we are of the opinion that the views expressed in paragraph BC64 did not adequately explain the IASB's rationale on its conclusion. We request the IASB to elaborate the explanation in paragraph BC64 and its reason for not incorporating purchase option elements in the computation of the lease liability for a better understanding of the Standard and as to why it is economically different from an option to extend.

In our view, the purchase option contained in a lease arrangement is akin to a derivative and disregarding the purchase option would be similar to treating it as an off balance sheet financial instrument. Hence, we believe recognising the purchase option would provide valuable information to users of financial statements. However, having said that, we acknowledge that accounting for the purchase option would most likely require the use of fair value measurement which may add further complexity to the proposed IFRS.

Question 8: Lease term

Do you 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? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We agree with the proposal. However we request that the IASB clarifies whether the definition of the lease term defined in paragraph B16 would include:

- *lease terms extendable only at the discretion of the lessor that are not explicitly provided for in the lease contract.*
- *lease terms extendable but the rate has not been determined explicitly in the lease contract.*

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Expected outcome technique

We do not support the proposal to require the use of expected outcome technique to determine the present value of the lease payments payable. We believe the 'more likely than not' approach is more appropriate, practical and less complex to apply.

The expected outcome technique may be more appropriate for estimating outcomes of a large population of items. As it is unlikely that the possible outcomes of the abovementioned items would be large, we therefore are not persuaded by the proposal to require the use of expected outcome technique. This technique, in our view, may not result in the measurement of a lease liability that would reflect an outcome that could be more reliable than the most likely approach given the judgement required to weight the possible outcomes by their associated possibilities.

Contingent rentals

We do not support the inclusion of contingent rentals that are not based upon a market index in the measurement of the right to receive lease payments. Where the contingent rentals are not based upon a market index but on the performance of the lessee (for example, contingent upon revenue to be generated by the lessee), the contingent payment should not be fully considered a lease since the contingent payment is exposed to different risks which is not similar to a lease. Indirectly, the lessor has invested into a business venture of the

lessee by contributing an asset for a specific time and therefore, should be accounted for like any other business venture. In addition, the inclusion of contingent rentals would entail the forecast of future events which could pose pragmatic difficulties.

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

Subject to our disagreements in the preceding paragraphs, we agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We agree with the proposals.

Question 11: Sale and leaseback

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We agree with the criteria for classification as a sale and leaseback transaction.

Question 12: Statement of financial position

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

We agree that a lessee should present liabilities to make lease payments separately from other financial liabilities as this would reflect the nature of the lease liabilities. By

presenting separately the lease liabilities from other financial liabilities, this would help investors and users to analyse the financial statements easier.

However, we do not agree that the right-of-use asset, which conceptually is an intangible asset, to be presented as if they were tangible assets within property, plant and equipment or investment property as appropriate. We believe the right-of-use asset should be presented in the statement of financial position on the basis of the nature of the leased item under the element of intangible asset.

- (b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We generally agree that a lessor applying the performance obligation approach to present gross in the statement of financial position the underlying asset, the right to receive lease payments and the lease liability, totaling those amounts to a net lease asset or lease liability. Such presentation would provide improved information to financial statements users.

However, we urge the IASB to allow an option to present the information in the notes to the financial statements as presenting all the information on the face of the statement of financial position may clutter or confuse users of the financial statements.

- (c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

If the final Standard maintains the derecognition approach, we agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment. This would provide more useful information to users of financial statements.

- (d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

We agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position. This would be consistent with the presentation requirements for lessors and lessees that are not in a sublease arrangement.

Question 13: Statement of comprehensive income

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We agree that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss as this would better reflect the entity's performance.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows as this would help users better understand an entity's cash flows arising from lease arrangements.

As for the classification of cash flows arising from leases, we believe that it should be consistent with the lease classification in the statement of financial position.

Hence, for lessee accounting, we do not agree that such cash flows should be classified as financing activities as it is not intuitive. In substance, the lessee is only purchasing an asset on a credit term. In our view, leasing of assets is more akin to maintaining the operating capability of the entity or investing in an asset intended to generate future income and cash flows. Therefore, we believe that it should either be classified under investing or operating activities. In this regard, we urge the IASB to reconsider its proposal and should the IASB decides to retain its proposal, it would be helpful if further explanation is provided in the basis for conclusions so as to assist users of the Standard to better understand the rationale and intent of the requirement.

For lessor applying the derecognition approach, we believe derecognition of the carrying amount of the underlying asset that represents the lessee's right to use the underlying asset

during the term of the lease is akin to a disposal of property, plant and equipment. In this regard, we are of the view that the cash flows arising from such activities should be classified as investing activities unless the lease arrangement is part of the normal operating activities of the entity, which would then be classified as operating activities.

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognised in the financial statements arising from leases; and**
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows**

(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We agree with the disclosure requirements as proposed in the ED.

Question 16: Transition

- (a) The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?**

We agree with the proposed transition requirements.

- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?**

We are of the view that full retrospective application of lease accounting requirements should be permitted as an option as it would improve comparability of the information presented in the financial statements.

- (c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?**

No.

Question 17: Benefits and costs

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We agree with the IASB's assessment that the benefits of the proposals would outweigh the costs albeit there may be some initial implementation costs associated with upgrading of accounting system. We believe that a more liberal option given to short term leases could further help to reduce the cost of implementation.

Question 18

Do you have any other comments on the proposals?

No.