

September 4, 2013

Comment Letter  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

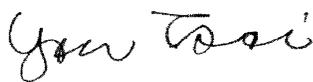
Dear Sir/Madam

**Exposure Draft ED/2013/6**

The Financial Accounting Issues Task Force of the Taiwan Financial Reporting Standards Committee (TFRSC) of Accounting Research and Development Foundation and other interested parties including CPA firms and leasing companies in Taiwan appreciate the opportunity to respond to the above exposure draft.

The attachments (Attachment 1) are our comments to this exposure draft. If you have any questions about our comments, please contact us via [yanntsai@ntu.edu.tw](mailto:yanntsai@ntu.edu.tw) or [louise@ardf.org.tw](mailto:louise@ardf.org.tw).

Sincerely Yours,



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Yann-Ching Tsai., Ph.D.  
Chairman,  
Financial Accounting Standards Committee,  
Accounting Research and Development  
Foundation, Taiwan

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## Opinion on Leases

### Questions regarding lessee accounting model and lease classification

1. Do you agree that leases create assets and liabilities for a lessee? If so, do you think it is appropriate that most leases are at present not reported on a lessee's balance sheet (ie is it appropriate to retain the recognition requirements in IAS 17 Leases regarding operating leases)? Why or why not?

#### Response:

#### KPMG

We support the Boards' principle that assets and liabilities arising under leases be recognised in a lessee's statement of financial position. However, the Boards' work on this project to date has not resulted in a consensus about what a lease represents, or how it should be reported in the financial statements. Hence, we are in favour of improving IAS 17 as an alternative approach to finalising a standard based on the ED.

#### PricewaterhouseCoopers

Not all leases create assets and liabilities for Lessees. Whether a lease creates assets or liabilities depends on the substance of the lease.

### Questions regarding lessee accounting model and lease classification

2. The 2010 *Leases* Exposure Draft (ED) proposed that there would be a single lessee accounting model, in which a lessee would apply Type A lease accounting to all leases. In response to concerns raised by respondents to the 2010 ED and to better reflect the differing economics of different leases, the boards have proposed the dual approach set out in paragraphs 3-5 above. A dual approach adds complexity to the proposals by requiring a lessee to classify its leases and possibly account for those leases in two different ways. Do you think that some leases are economically different from other leases to the extent that a dual lessee accounting approach results in benefits in improved financial reporting that



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outweigh the additional costs of having a dual approach? If so, do you agree with the lease classification proposals, in which most real estate (property) leases would be reported differently from most other leases in a lessee's income statement and cash flow statement? If not, what would you suggest and why?

**Response:**

**Ernst & Young**

Under the right-of-use model, we do not see a conceptual basis for the distinction between the proposed two types of leases. We understand the Type A lessee approach is based on the premise that such leases effectively include a financing component. But conceptually, we do not understand the Type B lessee approach. If the Boards believe Type B leases should have different expense and cash flow presentation, it is unclear why the presentation in the statement of financial position would be the same as Type A leases (i.e., a lessee would be allowed to present right-of-use assets within the same line items as the corresponding underlying assets, irrespective of whether they are Type A or Type B leases).

Also, we question the usefulness of the right-of-use asset measured under the Type B approach to financial statement users. The periodic change in the right-of-use asset is a balancing figure (i.e., a plug), which causes the subsequent measurement of the asset to lose its usefulness.

The amortisation approach for Type B leases would not be easy to apply and would increase the record-keeping burden for lessees since it introduces a new amortisation method.

**KPMG**

We believe that the current accounting model for Type B leases (most property leases) does not have a supportable conceptual basis, as in order to generate a straight-line expense profile, the ROU asset is measured simply as a plug or balancing figure, which is inconsistent with the measurement of other non-financial assets which are measured on a cost basis. We also fail to understand why consumption of the underlying asset should have a direct impact on the amount of interest expense that is



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recognised on the financial liability.

Besides, we believe the accounting to be operationally complex, particularly with respect to the dual model approach to expense recognition as well as the initial measurement and subsequent re-measurement requirements. The model includes new concepts and judgmental thresholds that are not defined or thoroughly explained in the proposals, which will add greater complexity for users, preparers and auditors. We believe the proposals will also allow for lease structuring opportunities and will cause difficulties for users in making useful comparisons between different entities with similar leases.

Lastly, we question the usefulness of the dual model's approach of requiring significantly different presentation depending on the classification of the lease, including increasing the number of line items in entities' statements of financial position. Notably, Type B leases would be presented in profit or loss and the statement of cash flows as if they were not financing transactions— despite the fact that the lessee recognises a financial liability measured at amortised cost. The Boards should perform further outreach with users of financial statements to determine whether the increased number of line items and disaggregation in presentation will provide useful and practicable information. Further, the proposals do not specify the line item(s) in which short-term lease payments, variable lease payments, and payments for non-lease components should be presented.

For the above reasons, we believe that the proposed dual model approach does not represent an improvement over current lease accounting.

**PricewaterhouseCoopers**

**2a.**

Agreed that some leases are economically different from other leases and may warrant a dual approach. However, the extent of the complexity of dual approach needs to be minimized.

**2b.**

Agreed in general that how leases are classified into Type A and Type B in the ED.

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However, (1) it is expected more guidance to be provided in the standard in relation to par 29 and 30 for determining “insignificant”, “major” or “substantial all, (2) the proposed accounting treatment for Type B would cause the amortization of right-of-use assets to be lower at the beginning and higher towards the end of lease period which does not reflect the time pattern of the substance on how properties are used, and (3) would the Board please consider a symmetrical approach, i.e. employing the accounting treatment of Type B for Lessor to Lessee.

**2c.** Not applicable.

**Deloitte & Touche**

We recommend that the final standard require lessees to account for all leases under **a single-model approach** that reflects a lease as financing the purchase of a right-to-use asset (i.e., consistent with Type A leases in the proposal). The underlying concept in the ED is that when the underlying asset is delivered, the lessee has an obligation to make lease payments and a right-to-use the leased asset that meet the definition of an asset and a liability in the IASB’s Conceptual Framework and in Concepts Statement 6. Essentially, the transaction is the acquisition of a non-financial asset with deferred financing. Accordingly, we believe that it is appropriate to amortize the right-to-use asset similarly to other purchased non-financial assets, on a systematic basis reflecting the pattern in which the lessee is expected to consume the right-of-use asset’s future economic benefits.

⇒ **Supporting reason:** one of the primary concerns related to the current lessee accounting guidance is that it results in economically similar transactions being accounted for differently -- a result that stems from both the existence of bright lines as well as the dual-classification approach. We believe the proposed approach does not resolve this issue and, instead, may compound it further. Because the proposal not only retains the current dual-classification approach but also introduces a new bright line based on the nature of the underlying leased asset – property versus other than property.

⇒ **Problem:**



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- Leases with similar economics will be accounted for differently solely due to the nature of the underlying assets.
- Definition of property, how broadly the term “property” should be defined.
  - ◆ Cell Towers/ Wind Farms that are attached to property and cannot be removed and used separately without incurring significant cost,
    - By definition: “Other than property” is under proposal Type A lease. However, the benefits derived from these types of assets are significantly dependent upon the location of the assets.
  - ◆ Ships, railcars, storage containers, having characteristics similar to that of a building
- Retain bright lines
- Difficulty in determining what is significant and insignificant

**Other question regarding lease classification:**

**Deloitte & Touche**

*Major part of Remaining Economic life vs. insignificant part of total economic life*

Under current proposal when evaluating the lease terms as part of the lease classification, the approach applied should be consistent for leases of property and other than property. As drafted, the evaluation would consider whether the “lease term for property is for the major part of the remaining economic life of the underlying asset” or the “lease term for other than property is for an insignificant part of the total economic life of the underlying assets”. The inconsistency between focusing on the major part of the asset’s life for property and insignificant part of the asset’s life for other than property may cause confusion. The boards should decide on the use of one metric, either “**major part**” or “**insignificant part**”, for performing this evaluation to eliminate any potential confusion when applying guidance. The boards should also be consistent on whether the evaluation is based on the **remaining**

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**useful life of the asset or the total useful life of the asset.**

**Questions regarding measurement**

3. The boards have indicated in the basis for conclusions that they view ‘significant economic incentive’ to be a similar threshold to ‘reasonably certain’ in IAS 17. However, the 2013 ED includes more guidance than IAS 17 about the factors to consider when determining the lease term. Do you agree with the boards’ proposals regarding the determination of the lease term? If not, what would you suggest and why? Should the lease term be reassessed after lease commencement?

**KPMG**

Generally, we agree with the proposals on lease term with the exception of the introduction of the new judgemental threshold of “significant economic incentive”. It is unclear whether this undefined threshold is intended to be a higher or lower threshold than the current practice thresholds of “reasonably certain”, which may lead to different outcomes in its application. Consistent application of this threshold will be crucial for comparability purpose. We question whether the proposals provide enough direct guidance in order to achieve this.

As an alternative, we would prefer the lease term to be the period that the underlying asset is reasonably certain to be under lease. This would retain a generally well understood recognition threshold, reduce structuring opportunities and reduce the need for reassessments due to a change in the lessee’s economic incentive. However, if the Boards retain the current use of significant economic incentive, then we believe further explanation and illustrative examples are required to ensure consistent application in practice.

We note that under current GAAP all lease term extensions controlled by the lessor are included in the lease term. However, that requirement was not included in the ED’s proposed definition of lease term. The Boards should clarify whether lessees and lessors would be expected to include all extensions controlled by the lessor in the

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lease term for accounting purposes.

Generally, we agree with the reassessment of the lease term if there is a change in relevant factors. As the Boards concluded in BC142, an entity should take into account all relevant factors in assessing significant economic incentive. However, many of the factors are interlinked and it would be both difficult and illogical to require an entity to consider any one factor in isolation. Application of this guidance in practice is likely to be operationally impracticable.

**PricewaterhouseCoopers**

- 3a. Agree with the proposal regarding the determination of the lease term in principal but also expect more guidance on how to assess “significant economic incentive”.
- 3b. Not applicable.
- 3c. Agreed that the lease term should be reassessed after lease commencement.

**Deloitte & Touche**

We accept the boards’ conclusion that a lessee’s right to extend a lease beyond the initial non-cancellable period, or to terminate a lease before the end of the lease period should be included in the measurement of lease assets and lease liabilities if specified criteria are met. However, the determination of the lease term should be based on probability threshold method. That is, an entity include optional period in the lease term if the exercise of the options meets a specified probability threshold.

The BC indicates that the boards believe requiring the evaluation to focus on whether the lessee has an economic incentive “provides a threshold that can be applied more easily because it is more objective than a threshold based solely on management’s estimates or intent”. We disagree with this conclusion. As proposed approach requires the lease term to be determined from the perspective of a lessee, we are concerned with how lessors would consider the relevant factors when determining whether the lessee has an economic incentive to excise an option.

Rather, the boards should retain the reasonably certain concept currently included in IAS 17. Any renewal options that are, as assessed at inception of the lease, reasonably certain of exercise would be included in the lease term and measured as part of the



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right-of-use asset and liability to pay rentals. The factors that would be used to evaluate whether a renewal option is reasonably certain of exercise would be the same as those currently used to evaluate renewal under ASC 840 and IAS 17 (generally, whether a significant penalty for non-renewal exists, such as the loss of leasehold improvements). The boards note in the BC that the concept of “significant economic incentive” would provide a threshold that is similar to the concepts of “reasonably assured” and “reasonably certain” in existing US GAAP and IFRS. Accordingly, rather than introducing a new concept, the boards should retain the current requirements which are widely understood.

**Questions regarding measurement**

4. 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?

**Response:**

**KPMG**

*Initial measurement*

We agree with the proposals on the initial measurement of variable lease payments.

In our view the proposals on initial measurement of variable lease payments are a pragmatic solution to a difficult issue. We recognise that as a result of those proposals the actual lease payments a lessee is obligated to make may exceed the estimated lease payments used in measuring assets and liabilities of the lessee and lessor. However, the proposals demonstrate the sharing of risk between a lessee and lessor that is reflected in variable lease payments. In addition, there are many lease arrangements (e.g., leases of retail space with rentals that are a percentage of the lessee’s sales) in which there is significant uncertainty about the timing and amount of variable lease payments. We believe that uncertainty increases the potential complexity and cost of estimating variable lease payments while reducing the

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potential benefits of such estimates. We agree that disclosure of the basis, terms and conditions on which variable lease payments are determined is a more appropriate alternative than recognition and measurement of such payments. Therefore, we support the proposals on initial measurement of variable lease payments, even though they may not be fully consistent with the decisions in the Boards' revenue recognition project.

*Reassessments*

We disagree with the proposals on reassessment of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments.

We believe the benefits of the proposed reassessment requirements for variable lease payments based on an index or rate do not justify their costs in economic environments other than highly inflationary economies. Various examples that we have considered demonstrate that the periodic income statement impact of such reassessments is clearly immaterial (usually trivial, even in a highly inflationary economy). Although the balance sheet impact of such reassessments could potentially be material in highly inflationary economies, it is not clear that the benefits outweigh the costs because the reassessment merely results in an equal adjustment of the lessee's right-of-use asset and lease liability (i.e., it is simply a gross- up or down of the balance sheet).

As an alternative, we recommend that the Boards eliminate the requirement for reassessments of lease payments based on an index or rate.

However, if the Boards decide to retain such a requirement, we recommend that it be limited to reporting entities in highly inflationary economies. We also believe the Boards should clarify that a reassessment is required only at the end of the reporting periods in which there is a change in an index or rate on which variable lease payments are based.

**PricewaterhouseCoopers**

Agree with the proposal regarding the measurement of variable lease payments in

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principal but also expect more guidance on how to determine if a variable lease payment is in-substance fixed payments.

**Deloitte & Touche**

We agree that when measuring the lease obligation and right-of-use asset, the lease payments should include those payments that are fixed or in substance fixed payments. With regards to variable lease payments, paragraph BC 148 of the ED discusses three types of distinct variables upon which contingent rentals may be based. (1) index based; (2) usage based; (3) performance based. We agree with the distinction between the three categories identified and believe that the different types of contingencies have very distinct attributes that deserve separate consideration and result in different accounting treatments.

- (1) Index based: we agree that lease payment that are based on an index, such as CPI, should be included in the measurement of the lessee's obligation.
- (2) Usage based: we agree with the proposal that usage based contingent rentals should be excluded from the initial measurement of the lease payments.
- (3) Performance based: We conceptually feel that a probability-weighted amount for performance based variable lease payments should be included in the measurement of the ROU asset and lease liability, such approach is not consistent with the accounting for similar variable payments in several other areas of accounting literature including business combinations, franchise accounting and the boards' current proposals on revenue recognition. We therefore believe that the boards should address contingent payments broadly as a separate project and apply the conclusions reach in that project to lease accounting. In the meantime, we agree that the accounting for performance based contingent rentals should remain unchanged from current accounting (guidance in ASC 840 and IAS 17) and should be amended only once the boards have addressed contingent payments broadly.

**Questions regarding lessor accounting**

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5. The boards are of the view that the lessor accounting proposals will provide a more faithful depiction of how different types of leases are priced by lessors and, thus, provide better information about a lessor's leasing activities to users of financial statements. Do you agree with the lessor accounting proposals? If not, what would you propose and why?

**Response:**

**KPMG**

We do not 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.

The proposed Type B model does not represent an improvement over operating lease accounting under current GAAP. Furthermore, the Type B model is conceptually flawed as although the lessor does not recognise a financial liability, the lessee does recognise a financial asset for its obligation to make lease payments. We do not understand the conceptual basis for the asymmetrical accounting treatment for Type B leases between lessees and lessors or the benefit of only having a single party to a contract recognise a financial instrument. If a Type B lease gives rise to a recognizable right-of-use asset and lease liability for the lessee pursuant to the Boards' conceptual frameworks, it is unclear why the lessor's right to receive lease payments under a Type B lease does not also meet the definition of an asset.

Unlike the proposed Type B model, lessor accounting under Type A is somewhat symmetrical to the lessee accounting proposals, as the lessor would account for a partial disposal of the underlying asset on deferred payment terms, in the same way that the lessee would account of the acquisition of the ROU asset. However, we note that the model itself is difficult to apply, even in simple scenarios (e.g. no variable lease payments, no lease incentives, etc.) with most of the complexity related to the accounting for the residual asset. As such, we have concerns that the model will be even more difficult and costly for entities to apply in complex situations. In addition, although we agree with the partial sale aspect of the model, we do not support



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accretion and recognition of interest income on the residual asset because it is conceptually flawed in the context of a right-of-use accounting model and is inconsistent with how other non-financial assets are accounted for under current GAAP.

**Chailease Finance Company Limited**

In the hearing, "questions regarding lessor accounting", dated August 28th, KPMG stated "we have concerns that the model will even more difficult and costly for entities to apply in complex situations." New lessor accounting requires a lessor to estimate the residual value of leasing assets. This is not only difficult to apply but also costly. The reasons are as followed.

A leasing company may lease variety kinds of assets to clients *across a wide range of industries*, including electronics, manufacturing, chemistry, biotechnology, optoelectronics and etc. Due to uniqueness of each industry, it requires special methods and techniques to evaluate leasing assets' residual value. It may vary from industries, products and manufacturing processes. Therefore, the evaluation is highly professional and complicated, with the needs of expertise, to perform accuracy. Under this circumstance, the cost could be rather expensive.

For example, products and manufacturing processes are relatively stable in the traditional industry. The useful life of equipment is longer and the residual value is better. On the other hand, the electronics industry is much more changing in terms of products and manufacturing processes. New products are always involved with new manufacturing processes and new equipment, so there is almost no residual value for old equipment.

In addition, product types, specifications, development and optimization of manufacturing processes are all factors that can influence on the useful life and the evaluation of residual value and thus are needed to be taken into account. A proper evaluation requires qualified persons with a wide range of knowledge, who are good at technical appraisal of each industry, expert appraisal, usage amount, useful life, costs and expenses calculation, and etc. in order to select the efficient way to perform



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sensible evaluation. Consequently, this may lead to huge costs to a leasing company whose revenue mostly comes from rent.

Even though, it is still hard to identify the technical features and depreciation rate of machines and equipment. Different leasing companies have different evaluation personnel and generate various results. Therefore, the evaluation results may be less convincing and difficult to avoid the risks of “inappropriate evaluation” and “false reports”. Especially for a leasing company with financing as main business, it is really doubtful for its accuracy, feasibility and fair presentation of financial statements.

**PricewaterhouseCoopers**

5a. Agree with the proposed lessor accounting in general.

5b. Not applicable.

**Deloitte & Touche**

We believe the existing lessor accounting requirement are not fundamentally flawed and result in useful information. Accordingly, we believe the boards should retain an approach that is generally similar to the current dual model approach for lessors in IFRS with the lease classification based on principles consistent with the current requirements (see IAS 17.7 and .8). We do not agree with the proposal that lessor accounting should depend on the nature of the underlying leased asset which will result in economically similar transactions being accounted for differently solely due to the nature of the underlying leased asset.

Our recommendations are based on our understanding that users generally have little concern with the information provided by lessors under current accounting guidance. The concerns of those users who believe the existing requirements for lessor do not provide adequate information about a lessor’s exposure to credit risk (arising from a lease) and exposure to asset risk (arising from its retained interest in the underlying asset) could be addressed through additional disclosure requirements

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**Questions regarding the definition of a lease**

6. In response to comments received on the 2010 ED, the boards have changed the proposals regarding the definition of a lease to more closely align the concept of control used within that definition with how control is defined in consolidation standards and in the forthcoming revenue recognition standard. The boards are of the view that this change will provide a better basis on which to distinguish between a lease and a service contract. Do you agree with the proposals regarding the definition of a lease? If not, what would you suggest? Do you think any additional guidance is needed and, if so, what should that be?

**Response:**

**Ernst & Young**

We agree with the direction of the ED regarding scope and definition of a lease, but it needs more clarity to make it operational.

We agree with the concept that a lease should contain the two elements: (a) fulfilment of a 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. However, we do not believe the principle is clearly expressed in the ED. For example, the concept of ‘ability to derive the benefits from use’ is not clearly articulated:

Paragraph 19 appears to be unclear, especially the phrase ‘the asset is incidental to the delivery of services’. Determining whether the customer is seeking the asset versus the output from the asset is judgemental. In particular, it would help practice if an example is provided on power purchase agreements.

**KPMG**

We do not 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. Overall we do not believe the proposals represent a significant improvement over IFRIC 4, Determining whether an Arrangement contains a Lease.



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Firstly, we believe that the ED does not provide sufficient guidance to distinguish between leases and service contracts. We expect this would be a key issue when implementing the proposals, because of the significantly different accounting outcomes for leases and executory contracts as the latter would remain off-balance sheet. Given the potential impact this determination may have, it would be helpful if the proposals contained more detailed examples and application guidance on how to distinguish such arrangements.

Secondly, as acknowledged by the Boards (BC105(d)), the proposed criteria to determine the right to control the asset would narrow the scope of the proposals and result in certain contracts currently accounted for as leasing arrangements, no longer meeting the definition of a lease. This appears to be inconsistent with the Boards' objective to improve transparency of existing lease accounting by increasing the recognition of assets and liabilities arising from current lease arrangements. Specifically, we do not believe the guidance in paragraph 19 regarding additional goods or services provided by the supplier is clear and believe it will result in a number of arrangements currently accounted for as leases no longer meeting the definition of a lease (see examples below).

As a result of the concerns raised above, as an alternative approach we recommend retaining the current criteria of IFRIC 4 and the corresponding guidance in U.S. GAAP. We believe that IFRIC 4 is generally well understood and is relatively consistently applied in current practice. In addition, we believe that IFRIC 4 could be further enhanced to address known practice issues – e.g. pricing and unit of account issues. Maintaining the current guidance in IFRIC 4 would ensure more existing lease contracts meet the scope of the proposals and greatly reduce potential structuring opportunities. Such an approach would also help to reduce the overall complexity of the proposals and allow for more consistent application.

**PricewaterhouseCoopers**

- 6a. Agree with the proposed ED regarding the definition of a lease in general.
- 6b. Not applicable.
- 6c. Yes, we would think additional guidance is needed for how a lease contract is

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differentiated from a service contract.

**Deloitte & Touche**

We agree that the definition of a lease should focus on whether the arrangement is (1) dependent on the use of a specified asset, and (2) conveys the right to use the asset for a period of time. This is generally consistent with the requirements in IFRIC 4 and ASC 840. However, we do have concerns with the scope of the proposal, the impact of substitution rights on the identification of the specified asset, and the evaluation of which party has control under arrangement.

For substitution rights, the proposal is unclear as to when substitution rights are considered substantive. In particular, the boards should clarify or provide additional guidance for evaluating when substitution rights are considered non substantive as a result of a barrier to exercise the substitution right. As written, the examples within the ED are somewhat contradictory on how to evaluate whether an economic barrier exists that would preclude the consideration of substitution right when identifying a lease.

For control issue, the ED indicates that a customer's "involvement in designing the asset or in determining the terms and conditions of the contract" should be considered in determining if a customer has the ability to direct the use of the asset. However, the ED does not provide any guidance on how the customer's involvement in the design of the asset should be considered in relation to a customer's involvement with the continuing activities. For example, if a customer is actively involved in the design of a power plant, but has only limited involvement in the future operations of the asset, it is unclear on how the evaluation should consider the customer's involvement in the initial activities.

**Other issues regarding the 2013 ED Leases**

**Deloitte & Touche**

1. Presentation on Statement of financial position

We expect most lessees will present the right-of-use asset within property, plant



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and equipment. However, for financial institutions, it is not clear how regulators will view the right-of-use asset for purposes of determining minimum regulatory capital requirements. If regulators view the right-of-use asset as an intangible, it may not be considered an asset included in the leverage ratios and would be subject to a higher risk weighting for the risk-based capital ratios.

2. Lease Modifications

The ED notes that a change in the contractual terms of a lease that is considered substantive would be accounted for as new lease, with the replacement of the previous right-of-use asset and lease obligation with a new asset and obligation related to the new lease. For both leases classified Type A or a Type B lease, the lease obligation on the previous lease will generally be more than the carrying value of the right-of-use asset. Accordingly, when an entity derecognizes the right-of-use-asset and related lease obligation as a result of a lease modification, this would result in a gain being recognized. The boards should consider whether it is appropriate to recognize this gain, particularly when the parties negotiating the lease amendments typically consider the terms of the current lease as part of the negotiations.

**Accounting Research and Development Foundation**

The 2013 ED proposes that if an entity (the transferor) transfers an asset to another entity (the transferee) and leases that asset back from the transferee and the transferee obtains control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IFRS X *Revenue from Contracts with Customers*, the transferor shall account for a sale in accordance with applicable Standards and for the lease in accordance with lessee accounting in this Standard. Our regulatory authority is concerned about the potential effect of this requirement because it will provide an opportunity for entities to structure this kind of transactions to create profit. Therefore, it may be more appropriate to require entities do not recognize profit or loss immediately in sales and leaseback transactions.