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

*(By email: [CommentLetters@iasb.org](mailto:CommentLetters@iasb.org))*

Dear Sirs,

## **RESPONSE TO EXPOSURE DRAFT – LEASES**

The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the above exposure draft (ED) issued by the International Accounting Standards Board (IASB) in August 2010. Our comments on the specific questions in the ED are as follows:

### **Question 2(a): Lessors**

**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?**

In our view, having two approaches, i.e. performance obligation approach and derecognition approach, would replicate the arbitrary line similar to differentiating between operating and finance leases, which the Boards are seeking to remove in the first place. We propose the use of a single derecognition approach. The derecognition approach better represents the economic substance of a lease arrangement as it derecognises the portion of the leased asset from the lessor to the extent of the rights transferred to the lessee. On the contrary, we are of the view that the performance obligation approach does not accurately reflect the economic substance of a lease as the lessor would continue to recognise the underlying asset and a “new” asset (i.e. the right to receive rental payments), which double counts the assets in the statement of financial position of the lessor.

**Question 2(b): Lessors**

**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?**

According to paragraph 55 of the ED, the carrying amount of the residual asset under the derecognition approach can only be adjusted if there is impairment on the residual asset or a change in the length of the lease term. International Accounting Standard (IAS) 16 *Property, Plant and Equipment* allows the assets to be revalued and having restrictions to revalue the residual asset may caused inconsistency in the accounting treatment between the underlying asset and residual asset. We recommend that paragraph 55 of the ED be amended to require the lessor to adopt an accounting treatment for the subsequent measurement of the residual asset to be consistent with the underlying asset.

**Question 3: Short-term leases**

**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?**

We agree with the proposed method of accounting for short-term leases. Our concern relates to using a period of twelve months or less to define short-term leases. In our view, twelve months or less appears to be an arbitrary period. For a landlord that leases its freehold property for three years, the three years appear insignificant to the useful life of the long-lived asset. However, for an asset with a three-year useful life, a lease term of twelve months could be significant.

We propose a principle-based approach towards determining short-term leases and the principle should be the application of short-term lease accounting to those situations where the lease term is clearly insignificant to the life of the asset. We suggest that the definition of a short-term lease in Appendix A Defined terms of the ED to be amended to:

*“A lease that, at the date of commencement of the lease, has a maximum possible lease term including options to renew or extend, that is insignificant to the useful life of the underlying asset.”*

**Question 4(b): Definition of a lease**

**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?**

We are of the view that the scope exclusion for a contract that represents a purchase or sale is not necessary as there is no difference in the accounting treatment between a purchase or sale and a lease. When an in-substance sale transaction occurs, for the lessor, the derecognition approach would apply and a significant portion of the underlying asset will be derecognised for the risks and benefits transferred. As such, the accounting treatment under lease accounting will achieve similar results as the accounting treatment under a sale. For a lessee, accounting for the right-of-use asset and liability to make lease payments akin to a purchase of an asset and payable for amounts due. As such, removing the scope exclusion would reduce the complexity of the standard.

**Question 6: Contracts that contain service components and lease components**

**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 disagree with paragraph 6(c) of the ED where the **lessor**, under the derecognition approach, needs to bifurcate the lease and service components of a contract even if the components are not distinct. If bifurcation of the service and lease components is not possible as they are not distinct, the ED should not require undue separation of the components. Rather, the ED should allow the entity to examine the substance of the contract and determine if the transaction should be accounted for under *Leases* or *Revenue from Contracts with Customers* based on the underlying substance of the entire 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? 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?**

#### ***Expected Outcome Technique versus Most Likely Technique***

We are of the view that the expected outcome technique is not practical for businesses and situations of non-homogeneous populations or small portfolios with insufficient historical data. From practical observations, entities do not adopt a multi-scenario analysis. Implementation of the expected outcome technique may be conceptually right but may create undue burden on the preparers of financial statements. We agree with inclusion of contingent rentals and expected payments under term option penalties and residual value guarantees but would like to propose an alternative measurement basis, which is the “most likely” technique, defined as:

*“The most likely technique would be a specific scenario that is considered most likely and that all the assumptions would be built based on that single scenario.”*

If the “expected outcome” technique is applied, due to the multi-scenarios analysis, there could be cases in which there are insufficient historical data to support the estimates. However, if the “most likely” technique is adopted, the estimates will be made based on the most likely scenario expected to occur which will require less judgment and is less complex.

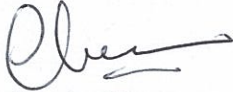
#### ***Consistency of Recognition Principles***

The ED is not consistent in the treatment of contingent rentals for lessee and lessor. Paragraph 14(a) of the ED indicates that the lessee shall estimate contingent rental payable but paragraphs 35(a) and 52(a) allow for a lessor to estimate contingent rental receivable when it can be measured reliably.

Furthermore, under the ED *Revenue from Contract with Customers*, variable consideration will only be included in the transaction price used to recognise revenue when it can be reasonably estimated. We are of the view that the same principle should apply for the ED *Leases*, specifically for a lessee, contingent rentals should only be recognised if it can be reliably measured so as to be consistent with the basis on which the underlying revenue is recognised by the lessee.

Should you require any further clarification, please feel free to contact Ms Grace Chua, Technical Manager, from ICPAS via email at [grace.chua@icpas.org.sg](mailto:grace.chua@icpas.org.sg).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Benjamin Cheam', with a stylized flourish at the end.

Benjamin Cheam  
Chief Executive Officer