

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

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – LEASES

The Institute of Singapore Chartered Accountants (ISCA), formerly the Institute of Certified Public Accountants of Singapore, appreciates the opportunity to comment on the above Exposure Draft (ED) issued jointly by the International Accounting Standards Board (Board) and the US Financial Accounting Standards Board in May 2013.

To solicit meaningful feedback for this ED, ISCA sought views from its members through a two-month public consultation and the ISCA Financial Reporting Committee which comprises experienced technical accounting professionals from large accounting firms. Observations made and useful inputs received by ISCA through our interactions with the stakeholders are also incorporated where relevant.

GENERAL

We believe in the importance of conceptual integrity for all accounting standards so as to achieve high quality financial reporting and we continue to support the Board's efforts in developing an accounting standard for leases which would provide useful information to users of financial statements.

Whilst we are supportive of the Board's core principle to recognise assets and liabilities arising from a lease, we have significant concerns regarding the additional complexities and judgmental areas introduced by the ED. We do not believe that the benefits to users of financial statements, brought about by bringing all leases onto the balance sheet, outweigh the additional complexities within the ED and the costs of implementation to preparers of financial statements.

Given that the Conceptual Framework project is still ongoing and may potentially change the definitions of assets and liabilities, it may be more appropriate at this point in time to improve the existing IAS 17, despite the lack of conceptual integrity in that standard. Once

the Conceptual Framework project is completed, the Board may then consider revising the Leases standard. The above approach would be less disruptive to the market, considering the complexity of the proposals in the ED and the costs involved in the implementation.

Our comments on the more pertinent areas of the 2013 ED are as follows.

THE ACCOUNTING MODEL

Question 2: Lessee Accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for 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? Why or why not? If not, what alternative approach would you propose and why?

Question 3: Lessor Accounting

Do you 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? Why or why not? If not, what alternative approach would you propose and why?

We do not agree with the proposed lessee accounting for Type B leases. The introduction of a new “single lease cost” concept whereby the remaining cost of the lease (unwinding of the discount on the lease liability and the amortisation of the right-of-use asset) is allocated over the remaining lease term on a straight-line basis has little conceptual basis. There is also no symmetry between lessor and lessee accounting for Type B leases. The recognition of a financial liability by the lessee for its obligations to pay lease rentals is not mirrored by a similar recognition of a financial asset by the lessor for the right to receive lease rental income.

We propose that the accounting for Type B leases by lessees follow the approach similar to IAS 17 for operating lease accounting. This would remove the complexities relating to the “single lease cost” concept and asymmetry between lessor and lessee accounting for Type B leases.

Lessor accounting for Type A leases introduces a new “residual asset” recognition model whereby the lessor applies significant judgment in deriving an estimate of the amount of the residual asset to be recognised at commencement date and subsequent dates. The model in itself is complex and requires highly subjective estimate of future events. Whilst we agree with the principle behind the recognition of a residual asset, the complexities in applying this model would result in inconsistent application by preparers of financial statements, thus diminishing much of the benefits to users of financial statements.

Question 4: Classification of Leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

We do not agree with the dual approach within the consumption model for classification of leases. We believe that the additional complexity and cost of determining whether the lease term is for an insignificant/major part of the total economic life/remaining economic life of the underlying asset in Type A and Type B leases respectively or whether the present value of the lease payments is insignificant/accounts for substantially all of the fair value of the underlying asset in Type A and Type B leases respectively, would not significantly improve the current IAS 17 classification criteria.

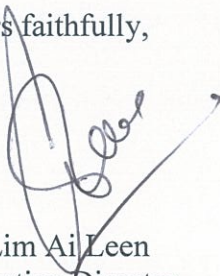
The ED also proposes that for a property lease which contains both land and building, the entity shall regard the remaining economic life of the building (as opposed to land) as the economic life of the underlying asset when applying the lease term classification criteria. The lease term classification criteria of Paragraph 30(a) of the ED stated that if the underlying asset is a property, an entity shall classify the lease as a Type B lease unless the lease term is for a major part of the remaining economic life of the underlying asset.

We do not agree with this proposed classification criteria as this would not be reflective of the economic substance of the situation in Singapore, where the fair value of the land component forms a substantial portion of the fair value of the property (both land and building).

Under the aforementioned classification criteria, leases of properties comprising older buildings with a shorter remaining economic life would most likely fall under Type A lease classification, notwithstanding that the value of such lease properties resides with the land, and that the lease term does not constitute a major part of the remaining lease life of the land. In addition, such Type A classification also suggests that the lessees have entered into a transaction that is economically similar to that of purchasing a building. These Singapore property lessees however would not consume a significant amount of the economic benefits embedded in the property, and classifying such leases as Type A leases would be counter intuitive to the ED's asset consumption principle.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Standards Development and Advisory, or Ms Jezz Chew, Manager, Technical Standards Development and Advisory, at ISCA via email at jumay.lim@isca.org.sg or jezz.chew@isca.org.sg respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ms Lim Ai Leen', with a large loop at the start and a long tail extending to the right.

Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance