



Comments to Leases (Discussion Paper)

Question 1

The boards tentatively decided to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards.

Do you agree with this proposed approach?

If you disagree with the proposed approach, please describe how you would define the scope of the proposed new standard.

Comment:

We agree, because current rules (IAS 17 and IFRIC 14) already address the subject.

Considering the DP requires a lessee to recognize a right to use an asset, the new standard should consider interaction with IAS 38 and IFRIC 12, for example.

Question 2

Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why.

Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

Comment:

We do not agree with the scope exclusion of non-core asset leases and short-term leases.

The definition of non-core assets that could be excluded from the scope of a new lease rule would possibly mean a significant degree of judgment and, even some assets with this or similar nature could be relevant to specific kinds of entities.

Regarding short-term leases, there would be a risk of scope exclusion of relevant assets or even the possibility of structured transactions designed to avoid recognition of those assets in the financial statements.

Question 3

Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.

Comment:

We agree.

Question 4

The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognize:

(a) an asset representing its right to use the leased item for the lease term (the right-of-use asset)

(b) a liability for its obligation to pay rentals.

Appendix C describes some possible accounting approaches that were rejected by the boards.

Do you support the proposed approach?

If you support an alternative approach, please describe the approach and explain why you support it.

Comment:

We agree, however, in order to avoid asymmetry, we would recommend that the adoption of this approach considers the possible impacts in the lessor's financial statements.



Question 5

The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively decided to adopt an approach whereby the lessee recognizes:

- (a) a single right-of-use asset that includes rights acquired under options
- (b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees.

Do you support this proposed approach? If not, why not?

Comment:

We agree.

Question 6

Do you agree with the boards' tentative decision to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate?

If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.

Comment:

We agree. The proposal establishes an easier accounting treatment for leases.

Question 7

Do you agree with the boards' tentative decision to initially measure the lessee's right-of-use asset at cost?

If you disagree, please explain why and describe how you would initially measure the lessee's right-of-use asset.

Comment:

We agree. Alternative methods would bring excessive difficulties to the preparation of financial statements, mainly due to impacts amplitude the proposed methodology of "right-of-use asset" would have.

Question 8

The boards tentatively decided to adopt an amortized cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset.

Do you agree with this proposed approach?

If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favor and why.

Comment:

We agree.

Question 9

Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.

Comment:

Despite the differences between measurement of obligations related to agreements of leasing and measurement of financial instruments according to IAS 39, it would be useful if the leasing obligations could be measured through their fair value (as allowed by IAS 39, if conditions for fair value are met).



Question 10

Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons. If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

Comment:

We do not agree, for the following reasons: 1) It would be inconsistent with the amortized cost approach; 2) It could lead to differences between IFRS and US GAAP, since the FASB has tentatively decided not to require such revision; and 3) It would be costly for preparation of financial statements to apply the requirement, considering the combination of the right-of-use model and the proposal to retain the scope of current lease standards.

This comment did not reach a consensus inside the group.

Question 11

In developing their preliminary views the boards decided to specify the required accounting for the obligation to pay rentals. An alternative approach would have been for the boards to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities.

Do you agree with the proposed approach taken by the boards?

If you disagree, please explain why.

Comment:

We agree.

Question 12

Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortization or depreciation in the income statement.

Would you support this approach? If so, for which leases? Please explain your reasons.

Comment:

We disagree with the proposed approach. The right-of-use asset would be consumed over the lease term and therefore, it would be expected an amortization/depreciation expense as opposed to a presentation as operating expenses.

Question 13

The boards tentatively decided that the lessee should recognize an obligation to pay rentals for a specified lease term, i.e. in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Comment:

We agree.

Question 14

The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognized as an adjustment to the carrying amount of the right-of-use asset.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Would requiring reassessment of the lease term provide users of financial statements with more relevant information? Please explain why.

Comment:

We agree. Requiring reassessment of the lease term at each reporting date on the basis of any new facts or circumstances would provide users of financial statements with relevant information about the likelihood of continuity or anticipation of long term contracts. The proposed methodology of recognizing changes in the obligation as an adjustment to the carrying amount of the right-of-use asset would be in accordance with the approach adopted under IFRIC 1 and would reduce possible volatilities in profit or loss.

Question 15

The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease.

Do you agree with the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Comment:

We agree.

Question 16

The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements.

Do you support the proposed approach?

If you disagree with the proposed approach, what alternative approach would you recommend and why?

Comment:

We agree with the proposed approach. Therefore, the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Another aspect is that the Board should consider including guidance regarding how such amounts would be measured.

Question 17

The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes.



Which of these approaches to measuring the lessee's obligation to pay rentals do you support?
Please explain your reasons.

Comment:

We support the IASB's proposed approach. Therefore, the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. This approach better reflects the fact that the lessee has entered into an agreement to pay rentals of an uncertain amount; the measurement of the obligation to pay rentals reflects the fact that the probability distribution of the rental payments may be skewed; and it is consistent with how some liabilities of uncertain amount are measured under IAS 37.

Question 18

The FASB tentatively decided that if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease.

Do you support the proposed approach? Please explain your reasons.

Comment:

We support the FASB's proposed approach. Therefore, if lease rentals are contingent on changes in an index or rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease. If discounted cash flow techniques will be used to measure the obligation to pay rentals, and the discount rate should be the lessee's incremental borrowing rate, so the definition of the lessee's incremental borrowing rate is consistent with the FASB's proposed approach, given that if the rate of interest the lessee would have to pay on a similar lease is not determinable, the lessee's incremental borrowing rate will be the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset. So, in this case, the changes in amounts payable arising from changes in the indices would be recognized in profit or loss.

Question 19

The boards tentatively decided to require remeasurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments.

Do you support the proposed approach? If not, please explain why.

Comment:

We support the proposed approach. Therefore, the lessee should remeasure the obligation to pay rentals for changes in estimated contingent rental payments. This approach provides more relevant information to users.

Question 20

The boards discussed two possible approaches to recognizing all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:

- (a) recognize any change in the liability in profit or loss
- (b) recognize any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Which of these two approaches do you support? Please explain your reasons.

If you support neither approach, please describe any alternative approach you would prefer and why.

Comment:

We support approach "b", mainly because:



- a) The strong correlation between the asset right-of-use and the obligation of the lessee;
- b) Re-measurements would be revisions of estimates and should be treated like that with prospective impacts;
- c) Reduction of possible volatility in the net income; and
- d) The IASB proposes that revisions in the leasing term be treated in accordance with approach “b”.

Question 21

The boards tentatively decided that the recognition and measurement requirements for contingent rentals and residual value guarantees should be the same. In particular, the boards tentatively decided not to require residual value guarantees to be separated from the lease contract and accounted for as derivatives. Do you agree with the proposed approach? If not, what alternative approach would you recommend and why?

Comment:

We agree with the proposed approach. Therefore, the residual value guarantees should not be separated from the lease contract and, consequently, would not be accounted for as derivatives. We believe that this approach would facilitate the understanding of leasing transactions.

Question 22

Should the lessee's obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons.

What additional information would separate presentation provide?

Comment:

The lessee's obligation to pay rentals should be presented separately in the statement of financial position for provide useful information for the users and researchers, mainly because we think this allows better assessing the impact the new approach to lessee accounting proposed by the boards. The lessee shall present its obligation to pay rentals separately from the others financial liability in the statement of financial position for enables users of its financial statements to evaluate the nature and financial effect of the obligation to pay rentals and of the right-of-use asset.

Question 23

This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position.

How should the right-of-use asset be presented in the statement of financial position?

Please explain your reasons.

What additional disclosures (if any) do you think are necessary under each of the approaches?

Comment:

The lessee shall present its right-of-use assets according to the nature of the underlying leased item, but separately from the other assets to enable users of its financial statements to evaluate the nature and financial effect of the obligation to pay rentals and of the right-of-use asset. Apart from the information required by IAS 17 and IAS 37, the lessee shall disclose for each contingent rental:

- (a) the amount initially recognized;
- (b) a description of the basis for determining the amount of the contingent rental; and
- (c) an estimate of the range of outcomes (discounted) and its respective probabilities.

Question 24

Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.

Comment:

Lease transactions with related parties.

Question 25

Do you think that a lessor's right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.

Comment:

Yes, we think that a lessor's right to receive rentals under a lease meets the definition of an asset, because once the leased item has been delivered to the lessee, the lessor's right to receive payments (its receivable) is unconditional.

Question 26

This chapter describes two possible approaches to lessor accounting under a right-of-use model: (a) derecognition of the leased item by the lessor or (b) recognition of a performance obligation by the lessor.

Which of these two approaches do you support? Please explain your reasons.

Comment:

We think that the lessor has a performance obligation to deliver and continue to permit the lessee to use the leased item and honour the contractual terms of the agreement. The lessor would recognize that performance obligation on delivery of the leased item or the signing of the lease contract as a reduction of the asset (leased item), and that obligation would be settled over the term of the lease. We think that the lessor would derecognize the leased item only when all the benefits and risks incident to its ownership of the property are considered.

Question 27

Should the boards explore when it would be appropriate for a lessor to recognize income at the inception of the lease? Please explain your reasons.

Comment:

Yes, we think that the boards should explore when it would be appropriate for a lessor to recognize income at the inception of the lease. We think that the boards would need to consider more extensive guidance for the lessor's accounting.

Question 28

Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons.

Comment:

We think that the accounting for investment properties should be included within the scope of any proposed new standard on lessor accounts together with a more extensive guidance to be provided to lessors.

Question 29

Are there any lessor accounting issues not described in this discussion paper that the boards should consider? Please describe those issues.

Comment:

Lease transactions with related parties.