ASIAN-OCEANIAN STANDARD-SETTERS GROUP (AOSSG) DISCUSSION PAPER

Leases

Asian-Oceanian Standard-Setters Group

29 - 30 September 2010

WORKING GROUP ON LEASES

LEAD

Accounting Standards Council of Singapore (ASC)

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DISCLAIMER

The Working Group on Leases of the Asian-Oceanian Standard-Setters Group (AOSSG) consists of the staff of the above organizations. Views expressed in this paper including appendix are those of the staff and do not represent the official views of the respective organisations with which the staff are associated. The comments in this paper are to be reviewed and approved by the AOSSG members at the meeting on 30 September 2010 and then submitted to the International Accounting Standards Board (IASB) according to the due process described in the Memorandum of Understanding on AOSSG and the Modus Operandi of an AOSSG Working Group.

Introduction and purpose

1. The purpose of this paper is to summarise the Asian-Oceanian Standard-Setters (AOSSG) Leases Working Group (WG) members' evaluation and comments on the International Accounting Standard Board's (IASB)'s and Financial Accounting Standard Board's (FASB)'s (or collectively the Boards) proposals in the Exposure Draft (the ED) on Leases. The AOSSG members expect the IASB to consider the comments in this paper in the drafting of the final standard.

2. This paper provides a summary report of the key issues relating to the ED proposals which are identified for feedback to IASB. These issues are categorised under six broad questions and have been identified based on the WG members' discussions of the proposals in the Leases project. The detailed discussions and comments of the WG members are summarised in Appendix I to this paper.

Background

3. Many have criticised the existing lease accounting models for failing to meet the needs of users of financial statements as the rights and obligations arising under leases are not recognised for operating leases resulting in a lack of comparability across leases. There is also an element of arbitrariness and undue complexity in distinguishing between operating and finance leases resulting in room for structuring opportunities.

4. The Boards initiated a joint project on leases in 2006 with the objective of creating a single accounting framework for all leases and ensuring that all assets and liabilities from lease contracts are recognised in the statement of financial position. The Discussion Paper was issued in March 2009 and the ED was issued on 17 August 2010. The final standard is expected to be published in the second quarter of 2011. The Boards are still deliberating on the effective date of the final standard, which is expected to be no earlier than 2013.

5. Based on the project developments and the ED proposals, feedback has been solicited from the AOSSG WG members (the WG members) to identify the following key issues for feedback to IASB:
   (a) Lessor accounting model
   (b) Contracts that represent purchases or sales of the underlying asset

(c) Measurement of lease term and lease payments

(d) Purchase options

(e) Contracts with service and lease components

(f) Investment properties

AOSSG members' comments

6. Generally the WG members are broadly supportive of the ED proposals. Nevertheless, there are certain concerns over the proposals, in respect of which the comments and recommendations of the WG members are outlined in the responses to the six discussion questions below:

DISCUSSION QUESTION 1: LESSOR ACCOUNTING MODEL
The exposure draft proposes a new accounting model for leases in which a lessor would apply either a performance obligation approach or a derecognition approach to account for the assets and liabilities arising from a lease depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraphs 28, 29, B22 – B27, and BC23–BC27). Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits[1] 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? 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?

[1] *Paragraphs B22 and B24 in the ED* propose that a lessor shall consider the following factors when determining whether it retains exposure to significant risks or benefits associated with the underlying asset:

<u>During the expected term of the current lease</u>:

- significant contingent rentals during the lease term that are based on the use or performance of the underlying asset
- options to extend or terminate the lease
- material non-distinct services provided under the current lease

<u>After the expected term of the current lease:</u>

- whether the duration of the lease term is not significant in relation to the remaining useful life of the underlying asset
- whether a significant change in the value of the underlying asset at the end of the lease term is expected. In making this assessment, the lessor shall consider the present value of the underlying asset at the end of the lease term and the effect that any residual value guarantees (including those provided by an unrelated third party) may have on the lessor's exposure to risks and benefits.

7. Most WG members prefer a single approach rather than a hybrid approach for lessor accounting to ensure consistency in application. One of the objectives of the leases project is to eliminate the fine and artificial line between operating and finance leases. WG members are concerned that a hybrid approach for lessor accounting retains this artificial line and the consequential potential arbitrariness in lease accounting, which the Boards are seeking to remove.

8. Most WG members prefer the derecognition approach over the performance obligation approach. Under the derecognition approach, the lessor derecognises the leased asset only to the extent of the rights transferred to the lessee whilst retaining its residual rights (if any). This would better represent the economic substance of a leasing arrangement because the lessor would have satisfied its performance obligation upon delivering the asset to the lessee and given up the right to use and control the asset during the lease term. If the total value of an asset represents the right of use over its total useful life, then the fact that the right of use for a part of the useful life has been leased away means that the value of the remaining asset should be the value of the right of use for the residual useful life of the asset after control of the asset is returned to the lessor. This approach is also consistent with the lessee accounting model because the lessor must have transferred an asset in order for the lessee to have acquired an asset from the lessor.

9. Some WG members who prefer the performance obligation approach think that this approach is consistent with the proposed revenue recognition approach on performance obligations. Also, one of those WG members believes that day one profit should not be recognised for certain types of leases such as leases currently classified as operating leases and therefore applying the performance obligation approach to such leases should be appropriate. On the other hand, most WG members are of the view that the performance obligation approach does not reflect accurately the economic substance of a lease because lessors will continue to recognise both the underlying asset and the rights to receive rental payments, thereby artificially inflating the balance sheet of the lessor. It is contradictory to say that the lessee receives an unconditional right to use the leased asset over the lease term when the lessor continues to have an obligation to permit that use. A liability is recorded in relation to the leased asset, when in reality there is no additional obligation taken on by the lessor. Furthermore, the recognition of the underlying asset is inconsistent with the definition of an "asset" in the *Framework*; where an asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. The underlying asset should not be

recorded as an asset because the inflow of economic benefits is already being recognised in the form of the lease receivable.

10. Adopting a hybrid approach for lessor accounting would introduce an artificial line and consequential arbitrary judgement back into lease accounting, which the Boards are seeking to remove. The Boards would need to provide further clarification on the general principle in determining whether the lessor retains exposure to significant risks and benefits associated with the underlying asset. Paragraph B26 of the ED states that the existence of one or more indicators is not conclusive in determining whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. This leaves preparers of financial statements with little guidance on how that judgment is to be made. This would result in inconsistencies in application and reduced comparability across companies.

11. With the hybrid approach, the Boards would need to address the concerns with the performance obligation approach, which is a rather convoluted way of requiring the gross presentation of an additional asset (ie. the right to lease payments) and corresponding performance obligation thereby overstating assets and liabilities and then requiring a net presentation to offset the effect again.

12. A few WG members have a particular concern that with the hybrid model, the Boards would also need to address the lease accounting for land and building to ensure consistency in application. For example, in the case of a long lease of land for 999 years with a building on it with a life of 50 years, the lessor may have to adopt the derecognition approach for the building and the performance obligation approach for the land. It follows that the lease payments should be split into the two components to account for the respective leases of the land and the building. The Boards should provide further guidance and illustrative examples in this area, for instance on the allocation of lease payments under the current IAS 17 *Leases* for leasehold land and building and the accounting treatment thereof, where reliable allocation between the land and building components is not possible.

13. Thus most WG members urge the Boards to consider a single derecognition approach which would avoid the complexities arising from a hybrid approach and the performance obligation approach.

DISCUSSION QUESTION 2: CONTRACTS THAT REPRESENT PURCHASES OR SALES OF THE UNDERLYING ASSET

The exposure draft proposes that an entity shall not apply the proposed IFRS to a contract, which represent a purchase or sale of an underlying asset, where the contract results in an entity transferring control of the underlying asset and all but a trivial amount of the risks and benefits associated with the underlying asset to another entity. The criteria[2] *for distinguishing a lease from a contract that represents a purchase or sale are set out in paragraphs B9 and B10 of the ED (paragraphs 8, B9, B10 and BC59–BC62).*

Do you agree with the proposed accounting for a contract that represent a purchase or sale of an underlying asset and do you agree with the criteria in paragraphs B9 and B10 of the ED 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?

Accounting for contracts that represent purchases or sales of an underlying asset (In-substance purchases or sales)

14. Half of the WG respondents do not think that the proposed accounting for contracts that represent purchases or sales of the underlying asset (in-substance purchases or sales) is necessary, while other WG members think that the proposed leases requirements should not apply to in-substance purchases or sales as the lessor may have retained title during the term of the contract simply as a

[2] Criteria for distinguishing between a lease and a purchase or sale:

Paragraph B9 in the ED proposes that an entity shall not apply this [draft] IFRS to contracts that meet the criteria for classification as a purchase or sale of an underlying asset. A contract represents a purchase or sale of an underlying asset if, at the end of the contract, an 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. That determination is made at inception and is not subsequently reassessed.

Paragraph B10 in the ED proposes that an entity shall consider all relevant facts and circumstances when determining whether control of the underlying asset is transferred at the end of the contract. A contract normally transfers control of an underlying asset when the contract:
(a) automatically transfers title to the underlying asset to the transferee at the end of the contract term; or
(b) includes a bargain purchase option. A bargain purchase option is an option to purchase the asset at a price that is expected to be significantly lower than the fair value of the asset at the date that the option becomes exercisable. If the exercise price is significantly lower than fair value, it would be reasonably certain at the inception of the lease that such options will be exercised.

An entity that has a bargain purchase option is in an economically similar position to an entity that will automatically obtain title to the underlying asset at the end of the lease term. By exercising its bargain purchase option, the transferee would be able to direct the use of, and receive the benefits from, the whole of the underlying asset for the whole of its life.

protection against non-payment, in contracts where title is automatically transferred or a bargain purchase option that is reasonably certain to be exercised exists.

15. Under the ED proposals, lessors would account for their existing finance leases under the “derecognition approach” or as “in-substance sales” depending on the extent of risks and benefits transferred to the lessee and whether control is transferred. Several WG members are concerned as to how one would distinguish between “all but trivial amount of the risks and benefits” and “significant risks or benefits”. This would introduce yet another potentially artificial line between the “derecognition approach” and “in-substance sales”, in addition to the other artificial line between the performance obligation approach and the derecognition approach, which contradicts with the Boards’ objective to remove the complexity in distinguishing between operating leases and finance leases. Thus these WG members are of the view that it is not necessary to have separate requirements for in-substance purchases or sales as the complexity of distinguishing leases from in-substance sales or purchases outweighs the benefits. In other words, it suffices that lessors and lessees account for all contracts that meet the definition of a lease under lease accounting.

Criteria for distinguishing a lease from a contract that represent a purchase or sale of the underlying asset

16. Should the Boards retain the proposal relating to in-substance purchases or sales, some WG members consider that the criteria set out in paragraphs B9 and B10 of the ED for distinguishing such contracts from leases are inadequate. The criteria are rather rules-based and can result in artificial distinctions, for example, the inclusion of a bargain purchase option results in a contract becoming an "in-substance purchase or sale" while inclusion of other bargain clauses, such as bargain renewal clauses in perpetuity would not have the same result.

17. To strengthen the criteria for distinguishing in-substance purchases or sales, these WG members propose that the criteria relating to purchase options should be worded more broadly such that it includes other bargain clauses and other circumstances where an entity is likely to exercise the purchase option. There is a need to provide further examples to aid in the consideration of what is “significantly lower” and “reasonably certain” in determining whether a purchase option is a bargain purchase option. The ED proposes that purchase options (in general) are only accounted for when they are exercised, unlike bargain purchase options which would affect the assessment

of whether the contract is an in-substance purchase or sale. Additional criteria for in-substance sales or purchases should be considered, such as other legal criteria under specific lease agreements.

"Control" and "all but trivial amount of risks and benefits" criteria

18. Some WG members have highlighted the importance of unifying the principles in the leases and revenue recognition standards in order to achieve a uniform result across standards. The ED proposes to assess whether "control and all but trivial amount of risks and benefits" is transferred so as to determine whether a contract is an in-substance purchase or sale. This suggests that risks and benefits cannot be decoupled from control. Risks and benefits/rewards will generally derive from control, and thus provide a strong indicator of where that control lies. This is consistent with the tentative decisions reached by the Boards in the joint consolidation project with regards to the interaction between risks and rewards and control. Thus the Boards should ensure that the interaction between "control" and "risks and benefits/rewards" is reflected consistently in the principles in the final standards for leases, revenue recognition and consolidation.

19. Should the Boards retain the proposal relating to in-substance purchases or sales, the WG members suggest the final standard should be amended such that "a contract represents a purchase or sale of the underlying asset if, at the end of the contract, an entity transfers to another entity control of the entire asset ~~and all but trivial amount of risks and benefits associated with the entire underlying asset"~~ and cite the transfer of virtually all of the risks and benefits as an indicator of control. Further illustrations would be useful to distinguish a contract accounted for as an in-substance sale as compared to that accounted for under the derecognition approach for lessor accounting.

Long-term leases of land

20. Paragraph BC38 in the Basis for Conclusions on the ED states that long-term leases of land should be within the scope of the proposed IFRS. Most WG members agree with this conclusion as scope exclusions should be based on the nature of the leases rather than arbitrary definitions of lease tenures while a few WG members think that long-term leases of land (and in particular those granted by the state) should be allowed to be treated as in-substance purchases or sales. In those jurisdictions, the lessee has acquired the right to do a variety of things with the leasehold

interests of the long-term land leases just as if these leasehold interests were outright purchases like freehold land. Such leases may be renewable at very nominal amounts and can be extended indefinitely with minimum requirements, provided that the lessee uses the land according to the agreement with the land owner (government). In applying the proposed requirements, the lessee would have to amortise the right of use asset over the lease term with an indefinite extension option. Thus those WG members would like the Boards to consider expanding the criteria for in-substance purchases or sales to include the indicators discussed above so that certain long-term leases of land (and in particular those leased from the state) may qualify as in-substance purchases or sales. Otherwise the Boards would need to provide further guidance on the amortisation requirements for such leases.

DISCUSSION QUESTION 3a: MEASUREMENT OF LEASE TERM

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that assumes 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 (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).

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?

21. The majority of the WG members are supportive of the proposal that the 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.

22. One WG member does not agree with the ED proposal and considers that the future liability to pay rentals does not exist unless and until the option is exercised by the reporting entity. The option, however, meets the definition of an asset and the premium for the option would have been included in the rentals for the initial period. The WG member recommends that only those renewal options for which there is no commercial likelihood of non-renewal, and early-termination options that have no commercial effect in practice, should be included as part of the lease term, and additional guidance on the assessment of genuine options would be required.

23. The WG members note that the Boards have acknowledged such concerns in paragraph BC116 in the Basis for Conclusions on the ED and explained that using the most likely lease term is a practical solution to the problems associated with the accounting for leases with options. If optional periods are not included in the lease term, the right-of-use asset and the lease liability might be understated. Thus a majority of the WG members believe that a "more likely than not" approach reflects management's intent and represents an actual possible outcome. It is also less costly for preparers to apply as compared to the other approaches (for example, the component or probability-weighted measurement approach), while providing users with more accurate measurement than the disclosure approach.

DISCUSSION QUESTION 3b: MEASUREMENT OF LEASE PAYMENTS

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131).

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?

24. Many WG members express objection to the ED proposal to use an expected outcome technique to measure lease payments. Rather than mandating the use of the "probability-weighted" approach for the measurement of lease payments in all cases, the WG members believe that the Boards should permit the use of the "most likely" approach (particularly in single item or small portfolio situations) if this approach results in more relevant and decision-useful financial information.

25. Although some WG members are agreeable to the use of the expected outcome technique for measuring lease payments, those WG members also question why the approach is not consistent with the proposed "more likely than not" approach to measuring lease renewal options.

26. In a probability-weighted model, an entity would need to consider the existence of a continuum of outcomes, thus making the technique complex to implement in practice. Although the ED clarifies that the expected outcome approach is to be applied for a reasonable number of outcomes, this may also mean that the approach would be subject to abuse as the entity need not take into account every possible scenario. Whilst the use of a statistical method based on possible outcomes and probabilities typically works well for large homogeneous populations, the WG members do not believe that it is generally appropriate for single items or small portfolios as there is often no or insufficient historical data. In many circumstances, the expected outcome approach would not be an appropriate basis for measuring the amount of contingent rentals and residual value guarantees and hence would be no more accurate than a most likely rental payment estimate. Therefore, the WG members urge the Boards to permit the use of the "most likely" approach for the measurement of lease payments in order to result in more relevant and decision-useful financial information. It is also important to ensure that the measurement basis that is eventually chosen and applied in the measurement of lease payments is consistent with other uncertain positions across all standards including IAS 37 *Liabilities*.

DISCUSSION QUESTION 4: 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?

27. More than half of the WG member respondents support the ED proposal that a lessee or a lessor should account for purchase options only when they are exercised. A contract ceases to be a lease when an option to purchase the underlying asset is exercised and should be accounted as a purchase as this essentially represents the termination of the right of use of the asset and the lessee is being granted access to the underlying asset instead.

28. The WG members view such purchase options as fundamentally different from renewal options. A renewal option provides an additional period of a right to use while a purchase option gives

access to the underlying asset and terminates the right of use of the asset. These are different in substance and require different accounting. Thus the exercise price of the option is not a lease payment and should not be included in the measurement of assets and liabilities arising from a lease contract.

29. Some other WG members consider that a lessee or a lessor should not account for purchase options only when they are exercised. Providing a purchase option is essentially similar to providing renewals that extend over the entire economic life of the lease; hence the accounting should be similar. The main concern is that the ED proposal might place undue emphasis on legal form instead of substance. To address this concern, the WG members recommend that the final IFRS clarify that it is the underlying characteristics of the lease (purchase or renewal) option, rather than the terminology used for the lease option, that should be assessed in determining the accounting for the lease option. A lease renewal option that allows renewal of the lease for the entire economic life of the asset would be no different in substance to a lease purchase option.

DISCUSSION QUESTION 4: CONTRACTS WITH SERVICE 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?

30. The majority of the WG members are supportive of the ED proposal that a contract with distinct service and lease components should be split.

31. In a contract where the service component is not distinct_from the lease component, most WG members believe that a lessee or lessor should not be required to bifurcate the lease and service components. If the services are truly non-distinct, it is difficult to see how a lessor might be able to bifurcate the service from the lease component. This is in any case inconsistent with the ED *Revenue from Contracts with Customers*, which envisages different non-distinct services being accounted for as a single performance obligation. Thus the more fundamental issue would be for the Boards to ensure that the criteria for identifying distinct elements are appropriate and sufficient, which uses the same principles as those in the proposed revenue recognition requirements, rather than requiring a lessor that applies the derecognition approach to bifurcate the service and lease components.

32. As currently drafted, the proposal presumes that where the service component is not distinct from the lease component, the entire contract has the underlying substance of a lease. The WG members believe that the lessee or lessor should apply the lease requirements to the entire contract only if it has been specifically assessed that the underlying substance of the entire contract meets the definition of a lease and suggest that the Boards incorporate this requirement into the final IFRS.

DISCUSSION QUESTION 6: INVESTMENT PROPERTIES

The exposure draft proposes that an entity shall apply the proposed IFRS to investment property that it holds under a lease. However:

(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

Do you support the proposed approach? Why or why not?

33. Most WG members are supportive of the proposal that a lessor should apply IAS 40 *Investment Property* rather than the proposed leases standard to leases of investment properties that are measured at fair value in accordance with IAS 40, as this would result in more decision-useful information for the users of the financial statements. However the ED requires a lessor to apply the proposed leases standard to leases of investment properties that are measured at cost in accordance with IAS 40. The WG members are concerned that the difference in treatment of leases of investment properties would result in the financial statements of companies engaging in the same leasing business becoming incomparable if the companies adopt different cost bases for their properties. Whether the investment property is carried at cost or fair value should not have any bearing on the leasing activity.

34. In order to avoid confusion, the WG members propose to scope out all investment properties (accounted for at fair value and at cost) from the proposed lease requirements and to address all issues relating to investment properties under IAS 40. This can be justified on the basis that there is an economic difference between leasing out a long-lived appreciating asset (such as land and buildings) and leasing out a short-lived depreciating asset (such as most plant and equipment). Granting a lessee a right-of-use over short-lived depreciating assets has a significant impact on their residual value, thus it is more reasonable to unbundle the leased asset into the lease receivable and the residual asset, as compared to long-lived appreciating assets.

Conclusion

35. In conclusion, the WG members are generally highly supportive of the general approach of the proposed leases requirements which would enhance the comparability across leases by reflecting all lease assets and liabilities on the statement of financial position, and reflect better information about expected cash flows relating to the effects of contingent features and amounts payable in optional periods.

36. On the other hand, given the major overhaul in the leases accounting requirements, the administrative burden and other costs to the preparers of the financial statements arising from the implementation of the proposed lease requirements cannot be ignored.

37. In summary, the WG members' recommendations to IASB support the use of principle-based approaches which reflect the underlying substance of the contracts, and aim to reduce arbitrary

judgement and complexity in the application of the standard, hence resulting in more decision-useful financial information. Amidst the numerous changes proposed in the ED, the WG members urge the Boards to look into the various proposals to reduce the subjective and judgemental areas in the final standard. Using a single derecognition approach for lessor accounting and allowing the use of the "most likely" approach for lease payments, for instance, would involve less judgemental estimates and less costly disclosures compared to the ED proposals, and yet achieve greater reliability of information reported in the financial statements.

38. Last but not least, in view of the significant changes in the ED proposals, the WG members would like to emphasise it is imperative that the Boards give adequate consideration to all the feedback on the ED proposals, especially on the lessor accounting treatment which is hardly discussed in the Boards' Discussion Paper on Leases, and that ample time be allowed for the implementation of the proposed changes so as to ensure a smooth transition by the large number of companies impacted by the proposals.