FEEDBACK REPORT

Exposure Draft *Leases* ED/2013/06

Results of the field-test carried out by EFRAG, ANC, ASCG, FRC and OIC

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Executive Summary

Main findings – application of requirements

1 EFRAG and ANC, ASCG, FRC and OIC (the National Standard Setters or NSSs) have conducted a joint field-test on the proposals included in the IASB's Exposure Draft Leases (ED/2013/6) published in May 2013.

2 Forty preparers participated in the field-test, with the biggest group (twelve) from the retail industry. The majority of the respondents are European listed groups. The appendix provides a list of the field-test participants.

3 Several respondents expressed concerns about the core principle in the proposals (e.g. introduction of a right of use model for all leases). The respondents' concerns are summarised in paragraph 78 below.

4 The most common areas of concern in relation to the questions included in the questionnaire were:

(a) assessment of lease term; and

(b) disclosure requirements.

5 The majority of the respondents (about 67%) report difficulties in applying the proposed guidance on the assessment of the lease term. Respondents noted that:

(a) the decision to extend a lease relies often on the economic performance of the asset (e.g. a store). Estimating the performance over long periods is usually not feasible and presents a very high hurdle. Some suggested that the IASB should limit this assessment to a maximum number of years (e.g. a limit of 5 years, similar to current guidance in IAS 36 *Impairment of Assets*);

(b) it is not clear what amount of vacancy costs, leasehold improvements, relocation costs or termination payments creates a significant incentive to extend (or not to terminate) a lease;

(c) it is not clear if an entity should incorporate in the measurement also the likelihood of buying an economically similar asset; and

(d) it is not clear how to assess the term of rolling leases (cancellable leases), agreements with unlimited extension periods or indefinite agreements.

6 Respondents also express concern about the requirement to reassess the lease term at each reporting date for each and every lease agreement.

7 The majority of the respondents (about 67%) expect difficulties in applying the disclosure requirements. These respondents consider the proposed requirements to be complex, too extensive and too detailed. The following concerns were expressed:

(a) it is not clear, at what level information should be aggregated, especially when leases have different terms and conditions for the same type of underlying assets;

(b) quantitative information (such as reconciliations) will have to be calculated for each contract to prepare the total numbers;

(c) short-term leases are not exempt from the disclosure requirements; and

(d) reconciliations of the opening and closing balances of right-of-use assets and lease liabilities are not useful and existing accounting programs cannot produce them automatically.

Respondents also note that if all leases are recognised on the balance sheet, disclosures should become less extensive and onerous, whereas the proposals result in adding additional disclosure requirements.

Detailed findings

Purpose of the field-test

8 EFRAG and the NSSs have conducted a joint field-test on how the new requirements would affect the current accounting of leases. The purpose of the field-test was threefold:

(a) EFRAG and the NSSs were interested in understanding the nature, terms and conditions of lease arrangements that entities currently have in use and in understanding what the implications of the proposed guidance are;

(b) Participants were asked if any part of the proposed guidance may create implementation or operational difficulties; and

(c) EFRAG and NSSs were interested in understanding the effort required to implement and apply the proposed guidance. While a precise quantification of the cost involved may be complex, entities should be able to achieve a qualitative assessment of the areas and type of cost involved.

9 In particular, the field-test asked questions on:

(a) Identification of a lease;

(b) Separation of lease and non-lease components;

(c) Assessment of the lease term;

(d) Classification of leases as Type-A or Type-B;

(e) Identification of in-substance fixed payments;

(f) Application of the guidance to the sales-and-leaseback transactions; and

(g) Application of disclosure and presentation requirements.

Respondents were also asked to assess the cost of implementing the proposed guidance and to apply the requirements going forward.

10 In describing the findings the terms are defined as follows:

(a) *Some*: below 25% – from 5 up to 10 respondents;

(b) *Many*: above 25% and below 50% – 11 up to 20 respondents;

(c) *Majority*: above 50% and below 75% – 21 up to 30 respondents; and

(d) *Vast majority*: above 75% – 31 respondents or more.

General information about the participating companies and their lease arrangements

11 The table below shows the number of respondents by country and by industry:

Table 1: Total respondents by country and by industry			
Respondents by country:		*Respondents by industry:*	
Germany	18	Retail	12
Italy	8	Automobile and parts	3
UK	3	Bank	3
France	2	Industry goods and services	3
Lithuania	2	Oil & gas	3
Poland	2	Technology	3
Spain	2	Telecommunication	3
Denmark	1	Construction and materials	2
Finland	1	Personal and household	2
Switzerland	1	Postal services	2
		Power and utilities	2
		Hotel chain	1
		Media	1
	40		40

12 The vast majority of respondents reported a large number of lease arrangements, from hundreds to tens of thousands. Only some respondents reported that a significant number of agreements that would qualify for the short-term exemption. As further explained below in paragraphs 16 to 19, many respondents believed that the short-term exemption will not provide a significant relief for the preparers of the financial statements.

13 The vast majority of the respondents provided detailed information on the type of leased assets. The table below provides a comparison of the extent of use of lease agreements for different types of assets in different industries.

Table 2 – Extent of use of lease agreements

Industry	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Automotive	3	2	2	1	–	1	2	–	–
Bank	2	1	–	–	2	–	1	1	–
Construction & Materials	2	–	2	–	2	–	2	–	–
Hotel chain	1	1	1	–	1	1	1	–	–
Industry Goods & Services	3	2	2	1	3	1	3	–	–
Media	1	–	–	–	1	–	1	–	–
Oil & gas	3	3	3	3	2	1	3	1	–
Personal & Household	2	1	1	1	2	1	2	–	–
Post	2	1	1	2	2	1	1	1	–
Power & Utilities	2	1	2	1	2	–	2	–	1

Retail	**6**	**12**	**4**	**3**	**9**	**4**	**6**	**1**	**1**
Technology	3	1	1	–	2	1	2	1	1
Telecommunication	3	2	3	–	3	–	1	2	–
Total	**33**	**27**	**22**	**12**	**31**	**11**	**27**	**7**	**3**

Where:
(a) property for own use (office space);
(b) property for commercial use (stores, hotels);
(c) industrial equipment;
(d) transport vehicles for industrial use (ships);
(e) cars;
(f) office furniture;
(g) office equipment (PCs, copiers);
(h) portions of capacity of assets (such as pipelines or optical cables); and
(i) other assets.

14 The table shows that the most common assets under lease are property, cars and office equipment. Respondents in the retail industry are likely to be the entities most affected given the high incidence of leased assets.

15 Approximately 50% of the leases have a term of less than 5 years and approximately 30% a lease term between 10 and 50 years. The maximum average lease term of non-property leases is reported to be 15 years. The range of terms for property leases, however, is from 1 to 100 years.

Short-term exception

16 The majority of the respondents confirmed that they have short-term leases but do not quantify their number because they do not have an inventory of these contracts (it is likely that these arrangements are currently accounted for as operating leases). Many respondents noted that these contracts were not numerous and mostly of insignificant value both individually and collectively.

17 The table below shows how many respondents believed that the relief in the proposed Exposure Draft would be applicable to their contracts.

Table 3 – Short-term exemption	
Applicable	21
Not Applicable	16
Not responded	3

18 Many respondents noted that the exception does not provide much relief as it applies only to a limited number of contracts compared to their total population of leases.

Identification of leases

19 The majority of the respondents reported no difficulties in applying the proposed guidance on the identification leases to the chosen sample of contracts. Four companies did not assess the application difficulties.

20 Among those that reported specific application difficulties (eleven), two entities noted that the proposed guidance did not clearly define the ability to replace the underlying (in case of car pool management) and the level of customisation that would create an economic barrier to replace the asset.

21 Two entities noted difficulties in applying the proposed guidance on the right to control the use the asset. These respondents would in particular welcome guidance on certain long-term leases of land and on perpetual rights (e.g. in that situation a right to build on a specified land) as it was unclear whether these would constitute a right to use the underlying asset or not.

22 Two companies encountered difficulties in applying the proposed guidance on the ability to direct the use in the following cases:

(a) Company cars, these respondents argued that employees (and not the entity) had the power to direct their use;

(b) Ship spot charters (only origin, destination and cargos are specified) or time charters (origin, destination and cargos are specified each time during the period);

(c) Refinery utility services or combined heat and power production services; and

(d) Drilling equipment.

23 Four respondents reported difficulties in assessing the ability to derive the benefits from use of the underlying asset. In particular, one respondent believed that it was inappropriate to base the assessment on the supplier’s investment capacity or asset’s technical capabilities rather than the objective of management entering the contract.

24 Two entities noted that the proposals could result in divergence in practice as the analysis on the ability of other entities to supply some consumables, might lead to different conclusions and therefore different accounting outcomes despite having similar lease agreements. These respondents believed that the ability of some other entities to provide consumables (or not), should result in consistent accounting for transactions that are economically similar.

25 One entity was unsure if the ability to derive the benefits from the underlying assets was met when an entity committed to buy less than 100% of the output but had a right of first refusal on the remaining output.

26 The following issues were also noted:

(a) Assessment would be hindered because of complexity of some multi-component contract (like hardware, software and maintenance agreements);

(b) In some jurisdictions the ownership may be separated from the land-use right, which might result in classification of a land lease contract as a lease of an intangible asset;

(c) For lessors, accounting for leases of a single fibre optical cable for a more than insignificant part of useful life may be impracticable as the carrying amount (or cost) of a single fibre may be not determinable;

(d) There might be conflicts between the lease proposals and IFRS 11 *Joint Arrangements*; and

(e) It was not clear whether reciprocal services should be identified as leases.

27 Some respondents identified contracts that would be considered leases under the new guidance but were not identified as leases under current requirements of IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, such as:

(a) Leases of small equipment with the delivery of consumables provided by the supplier at a lump sum (e.g. coffee machines, ambient music or diffusion of scents); and

(b) All-inclusive logistic services (flow and storage space).

28 Some respondents identified contracts that in their opinion would cease to be identified as leases under the proposals. Those types included leases of equipment (e.g. drilling equipment and equipment used to provide combined heat and power production services) where the entity is expected to obtain 100% of the output and the pricing has certain characteristics – see paragraph 9(c) of IFRIC 4.

29 Leases of sites on telecommunication towers might not qualify as leases under the proposals because it was hard to assess what type of asset a place on the telecommunication tower was. Consequently, a place on the telecommunication tower might not qualify as an identified tangible asset.

Separation of components

30 The majority of the respondents supported the proposals on separation of service components and allocation of the price. One respondent noted that the proposals would require an extensive analysis of all contracts.

31 However, many respondents expected implementation difficulties. Indeed, some respondents noted that there were arrangements where the client received multiple lease components and/or additional services but the contract did not specify the prices of each component.

32 Three respondents noted difficulties in determining observable prices because prices might be volatile. Although, these respondents might have available industry data, but they were unsure whether or not these would qualify as 'observable prices' when the components could not be purchased separately.

33 Examples of contracts that gave rise to problems were:

(a) multi-component contracts containing for example local taxes, insurance and reimbursement for low usage;

(b) contracts with maintenance agreements for industrial equipment (especially on transition); and

(c) contracts with components that are not precisely specified, such as hardware/handset components with rent/service components.

34 Respondents noted that:

(a) the level of separation was not specified and that the assessment might be highly judgemental. An example was given of an all-in-one lease of a hotel chain and whether separate components should be assessed at the level of individual hotels, fixtures, fittings and equipment, or individual assets;

(b) paragraph 20 of the Exposure Draft would require entities to investigate if other third parties, that supply the required goods or services, exist in the market. This could be difficult and was not relevant, as the existence of other suppliers should not change the nature of the arrangement; and

(c) prices for the separate components of a lease might not be observable due to a low volume market or fluctuating prices.

Assessment of lease term

35 The majority of the respondents reported difficulties in assessing when an option granted a significant economic incentive to extend or not terminate a lease.

36 Some respondents believed that the guidance was difficult to apply for the following reasons:

(a) it was not clear what quantitative level of incentives, penalties or relocation costs would create a significant incentive;

(b) it was not clear how to weigh the different factors included in the proposals; and

(c) it was not clear how the level of customisation of the asset should affect the assessment.

One respondent was concerned that auditors would give greater weight to asset-based or contract-based factors (e.g. incentives or option value) rather than business factors.

37 Many respondents argued that the proposals might result in unreliable measurement because they required assessment of future events. In particular, it was noted that:

(a) Entities only forecasted a limited period (a 5-year period was commonly mentioned) and were unable to make reliable predictions for longer periods; and

(b) Entities might have a past practice of modifying terms and conditions of leases and it was unclear if expected modifications should be considered when assessing the future term;

38 Some respondents noted that the guidance might be particularly burdensome for rolling leases, or when the lease term was unspecified and the entity had the right to terminate at any time with a notice period. One entity reported problems in assessing the lease term of a perpetual lease with cancellation period longer than 12 months. Another one asked for clarification on how to assess prolongation rights (i.e. the lessee has right to cancel the contract 3 months before each end of the year), and if it did not, the contract would be prolonged automatically for another year.

39 The respondents also noted that in some cases an entity had an economic incentive to sign a new contract after the end of the term. It was not clear if this should be considered when assessing the lease term.

40 One respondent questioned the lessor’s ability to assess reliably the lessee’s significant economic incentive, particularly in relation to entity-based factors.

41 Two respondents supporting the proposals noted that the assessment was not more complicated than under IAS 17 and would lead to similar results.

42 Respondents also expressed concern about the requirement to reassess the lease term at each reporting date for each and every lease.

Classification of a lease

43 While the majority of the respondents did not expect difficulties in classifying a lease as either Type-A or Type-B, respondents from some countries were split.

44 Some respondents, however, believe that the terms used in the proposals (e.g. ‘insignificant’, ‘major part’, ‘substantially all’) should be clarified. One respondent believed that the IASB should enhance the proposed guidance by adding quantitative thresholds.

45 In addition, many respondents reported application difficulties in using the presumption or the indicators due to the following:

(a) An assessment based on the useful life only might be misleading for long-term property leases as they required a significant amount of renovations due to consumption;

(b) Using the fair value of long-term property leases when prices were depressed might lead to wrong conclusions;

(c) Fair values of the underlying assets might not be readily available;

(d) It was complex to assess the type when there were multiple lease components; and

(e) On transition it might be difficult to assess the type of lease for assets that had been repeatedly leased;

One respondent believed that the term ‘property’ needed to be clarified, for example in relation to telecommunication towers.

46 The majority of respondents identified cases where the presumption could be rebutted:

(a) Long-term property leases;

(b) Lease of property with minimum payments that are close to the fair value of the underlying asset;

(c) Lease of property being a part of leased cash-generating unit;

(d) Short-term leases of ships (up to 18 months); and

(e) Short-term leases of assets other than property.

One respondent noted that the presumption could be rebutted also because of specific lease features due to local legal requirements.

47 For the reasons above, some respondents criticised the proposed dual model and/or suggested alternatives, including:

(a) allowing entities to elect using only Type-A accounting; and

(b) including the customised nature of the asset as one indicator that could rebut the presumption (e.g. for runways, hangars, industrial buildings).

48 One respondent commented that when the type presumption was rebutted due to high values of minimum lease payments, then the accounting model did not depict the economics of the transaction.

Variable payments that are in-substance fixed

49 Some respondents identified payments that in their view could qualify as 'in-substance' fixed variable payments:

(a) Some volume-based payments;

(b) Payments based on turnover with a minimum guaranteed;

(c) Graduated rents that are infrequently renegotiated;

(d) Transaction/models or transaction/prices; and

(e) Payments based on availability of the underlying asset.

50 One respondent noted that it was not clear whether performance-linked variable payments were in-substance fixed.

51 Two respondents were concerned that the guidance on 'in-substance fixed payments' was not sufficiently clear and more examples were required.

52 One respondent asked for clarification on how to treat arrangements with variable lease payments with a capped minimum guaranteed level.

Retail industry

53 The largest group of the respondents was from the retail industry. The feedback received from this group was mostly consistent with those provided by other industries. Nonetheless, a detailed analysis is presented in the following paragraphs.

54 Compared to the whole population of respondents, the retail sector appeared to expect fewer application difficulties in the identification of a lease (two entities). Only one respondent identified contracts that would qualify as leases under IAS 17 and IFRIC 4 requirements; but would not qualify as leases under the proposed requirements.

55 Only some respondents expected to have difficulties in distinguishing the type of lease contracts (three respondents); these respondents believed that the IASB should clarify the meaning of the language in the Exposure Draft (e.g. 'major part' and 'insignificant'),

56 Nine entities expected to encounter implementation difficulties in performing the assessment and the re-assessment of the conditions that give rise, or would give rise, to significant economic incentive to extend the lease term. In particular, these respondents believed that they would have difficulties due to: (1) the assessment of future conditions, (2) the number and complexity of agreements, and (3) expected renegotiations and changes to the rental agreements.

Impact on total assets, total liabilities and net profit

57 The vast majority of respondents expected a significant impact of the proposed guidance on the carrying amounts of assets and liabilities. Only some expect a significant impact of the proposals on the reported net profit, mainly due to the front-loading effect of the interest expenses and due to the change in cost recognition pattern for Type-A leases.

58 One respondent noted that the impact on net result would heavily depend on the results of the impairment test on right of use assets.

59 Only some respondents did not expect a significant impact of the proposals.

60 The respondents from the retail industry expected a significant impact on the reported carrying amounts of assets and liabilities, due to recognition of their rental contracts. These respondents were particularly concerned about the effects of the proposals in the Exposure Draft on their reported net profits figures (three respondents out of twelve), due to (1) the front-loading effect of financial expenses, (2) expected impairment losses, and (3) changes to presentation requirements of the lease costs.

Assessment of implementation costs

61 The respondents were asked to provide a qualitative assessment of the areas and type of cost and the effort required to implement and apply the guidance proposed by the IASB. In addition, the respondents were invited to offer suggestions to reduce implementation costs.

62 Many respondents believed that the proposals in the Exposure Draft were difficult to apply. The respondents' assessment on the overall operational difficulties in applying the Exposure Draft is presented below:

Table 4 – Respondents' assessment of the overall difficulty

Individual Factor	**High Impact**	**Moderate impact**	**Low impact**
Identification of a lease	11	**22**	7
Separation of lease- and non-lease components and allocation of lease payments to lease- and non-lease components(*)	**17**	**17**	5
Assessment of lease term	**21**	15	4
Identification of lease type	**16**	14	10
Variable payments(*)	**14**	**14**	1

(*) one participant did not respond

63 The table below shows the assessment made by respondents from the retail industry.

Table 5 – Respondents' assessment of the overall difficulty (retail industry)			
Individual Factor	**High Impact**	**Moderate impact**	**Low impact**
Identification of a lease	2	**8**	2
Separation of lease- and non-lease components and allocation of lease payments to lease- and non-lease components(*)	**5**	**5**	1
Assessment of lease term	**10**	2	_
Identification of lease type	5	1	**6**
Variable payments	4	4	4

(*) one participant did not respond

Nature of implementation costs

64 The vast majority of the respondents noted that they expected relatively high one-off implementation costs and the majority of the respondents expected relatively high on-going costs of application.

Table 6 – Cost assessment			
	High Impact	*Moderate impact*	*Low impact*
One-off costs(*)	**36**	3	--
On-going costs(*)	**25**	14	--

(*) one participant did not respond

65 All respondents from the retail industry expected high one-off costs of implementation. Only two of these respondents expected a moderate cost of on-going application while all other respondents expected high costs.

66 Only one respondent provided an estimate of the one-off costs. The information provided by the respondents was mostly qualitative in nature. A detailed table is provided below which lists the one-off costs mentioned by the respondents.

67 Two participants did not respond as they had not yet started any project to assess the costs effects on its organisation. Some respondents, while providing a rank both to one-off and on-going costs, did not comment on the nature of costs they were expecting.

68 The following table summarises the main types of costs that the respondents expected to encounter in order to implement the proposals in the Exposure Draft:

Table 7 –Types of one-off costs and on-going costs identified

One-off costs	*On-going costs*
• IT costs including development of the model and systems, tools and processes, rollout • Educational costs both in the procurement and the financial departments. • Labour workforce expense. • Definitions of roles and responsibilities and design of new workflows. • Costs relating to data collection from numerous countries and investment for data availability (e.g. inventory of contracts). • Manual review of all lease contracts, audit of transition figures. • Volume of data. • Implementation of the disclosure requirements. • Restatement of historical data. • Changes in target figures, bonus programme.	• On-going processes and procedures to data update, validation and reporting • Yearly reassessment of contracts • Detailed calculations and disclosures • IT effort to maintain systems and manage data, models and processes • Audit costs • Gathering and processing data and information for Type B • Labour workforce expense. • Implementation of the disclosure requirements. • Implementation of impairment test procedures on right-of-use Assets. • Changing financial covenant ratios in contacts and modifying communication flows to users and shareholders.

69 Generally, the respondents from all industries provided consistent comments. Many respondents believed that the new requirements would also increase costs of consultations with other parties (e.g. peers, auditors, consultants, and lessors) in order to establish a common understanding and consistent application, for instance in relation to 'significant economic incentives', 'insignificant part of', 'the major part of', 'substantially all of', and collect relevant data.

70 The respondents expected to incur significant implementation and/or on-going costs in relation to separating the components, identification of a lease, assessing and re-assessing the lease term.

71 The respondents were also concerned about the costs of producing the additional disclosures that would depend largely on volume of lease contracts. These respondents were concerned about the costs related to aggregating data in a meaningful and understandable way. In their view, this would not be an easy task and it would require time and effort to collect, analyse and process the information needed. The overall difficulty would significantly be affected by the number of entities in the group.

72 Furthermore, some respondents noted that the recognition of additional assets and liabilities would affect the industrial cost calculation and therefore this would affect the determination of selling prices. Similarly, the recognition of these additional expenses was likely to affect other related procedures (e.g. tax accounting).

Suggestion to reduce implementation costs

73 A majority of the respondents did not provide suggestions on how to reduce implementation costs.

74 Nonetheless, those respondents that responded identified some potential cost savings of application of the Exposure Draft, which are described below:

Table 8 – Potential costs savings

- Remove non-core assets from the scope of the Exposure Draft and generally those assets acquired not to generate direct cash-flows
- Exclude contracts where expected consumption of underlying is not significant
- Improve the drafting of the proposals to highlight that materiality applies to leasing accounting and therefore the Exposure Draft does not apply to small leases
- The short-term exception should encompass also contracts whose cancellation period is under 12 months and renewal options should not be considered.
- Extend the short-term exception (e.g. 2/3 years)
- Eliminate the distinction into Type A and Type B leases and establish one single treatment for all types of leases
- Allow push-down accounting in large groups
- Exclude extension periods from the valuation and consider only the initial non-cancellable period.
- Avoid subsequent re-assessment of lease term.
- Amortise the asset on a straight-line basis in all circumstances.
- Consider as service agreement those hybrid lease contract including a performance obligation to provide service to the lessee.
- Provide a minimum recognition threshold.
- Require for prospective application of the proposals.
- Clarify new wording in the proposals (e.g. 'significant economic incentives', 'insignificant part of', 'the major part of', 'substantially all of')
- Introduce a non-rebuttable presumption for Type-A and Type-B leases.

Time expected to implement the requirements

75 The vast majority of respondents provided an estimate of the time they believed it would take them to implement the new lease accounting. The table below presents the number of respondents by years to implement the proposals.

Table 9 Implementation periods

Average length of implementation period	*Number of respondents*
Less than 1 year	11
More than 1 up to 3 years	15
More than 3 up to 5 years	8
Indefinite long period	1
No response	5

76 Five respondents believed they would need 5 years to implement the proposals.

77 The table below shows that respondents with the largest number of leases generally expected a longer implementation period:

Table 10 Length of implementation period compared to number of lease contracts

Length of implementation period (years)	*Reported number of lease contracts*			
	Less than 1,000	*1,000 to 10,000*	*More than 10,000*	Not reported
Less than 1 year	**6**	3	1	1
1 to 3 years	**7**	2	1	5
3 to 5 years	2	2	**4**	0
Indefinite long period	0	1	0	0

Other issues

78 The respondents expressed one or more of the following fundamental concerns about the proposals:

(a) the IASB had not explained why they believed a lease creates assets and liabilities at commencement;

(b) the right-of-use model did not depict the business model of the entities and did not reflect that most leases are ways to obtain a service rather than obtain access to an asset;

(c) the proposals were complex, involve significant judgment and would likely result in inconsistent application;

(d) there was not a clear need for a change in accounting guidance for leases and the IASB should rather considering improvements in disclosures;

(e) the benefit of the new accounting model was questionable or at best limited, while the cost to apply it was extremely high especially for entities that have thousands of individually small leases; and

(f) the proposals would result in time-consuming discussions because of diverging interpretations from auditors.

79 Some respondents were also concerned about the effects of the proposals in the Exposure Draft on existing financial covenants and their financial ratios.

Other measurement issues

80 Some respondents reported difficulties in assessing the discount rate. They believed that the guidance was not clear and it was complex to apply for the following reasons:

(a) Assessment of lessor's required return on asset might not be seen as equivalent of financing rate Type-A leases,

(b) Property yields publicly available might be market and not asset specific;

(c) It was not clear how nature and conditions of perpetual usufruct rights[1] should be reflect in the assessed incremental borrowing rate;

(d) Yields might significantly differ from borrowing rates;

(e) Incremental borrowing rates for the entities with insignificant debt levels and high volume of leases might not be reliably estimated, as banks would not lend such amounts to those entities.

Two respondents further noted that the guidance did not explicitly allow using group incremental borrowing rates in separate accounts and separate financial statements, which may be impracticable and will ignore reality of lease transactions in corporate groups.

81 Four respondents reported that lessee measurement model for Type-B leases was problematic as it created operational problems in handling the amortisation from sub-ledgers to general ledger; it introduced a different amortisation pattern for assets; it was treated differently from Type-A leases in lessees' accounts.

82 Some respondents believed that the IASB should provide additional guidance on intercompany transactions and on their elimination in preparing consolidated financial statements. They noted that intercompany leases between entities with different functional currencies will create foreign exchange differences in consolidation.

83 One respondent commented that including the payments based on an index or a rate would be too time consuming and would not result in real benefits.

Presentation issues

84 Some participants did not respond to the question about presentation mainly because they believed that they would need to set up an implementation project to be able to identify presentation issues. However, the other respondents were split about the existence of difficulties in implementing the presentation requirement in the proposed Exposure Draft.

85 While many respondents did not expect difficulties in applying the proposals in the Exposure Draft, there were some countries where the majority of companies expected application difficulties in applying the proposals on presentation requirements.

86 Nineteen respondents were concerned or required additional guidance on presentation. One respondent recommended clarifying that lease liabilities should be presented as financial liabilities. Some noted that it was contradictory that Type-B leases are presented as financial liabilities if no interest expense is separately presented in the income statement. One respondent from the retail industry notes that it is difficult to have a different presentation in the income statement for Type-A and Type-B leases.

[1] Usufruct right: the legal right of using and enjoying the fruits or profits of something belonging to another.

Disclosure issues

87 The vast majority of respondents were concerned about the request for additional disclosures.

88 These respondents were particularly concerned of the requirements of providing reconciliations of the rights of use and of the lease liabilities.

89 Two respondents questioned why the IASB was requesting such extensive disclosures requirements while requiring recognising onto the statement of financial position all rights of use and the corresponding lease liabilities.

90 Many respondents believed that it would be difficult to collect, analyse and aggregate information to provide meaningful disclosures for large and complex groups.

91 Three respondents were instead concerned on the volumes of transactions that should be analysed and processed in order to prepare the disclosures required in the Exposure Draft.

92 Finally, five respondents believed that the fulfilment of the disclosures requirement depends heavily on the availability of adequate IT solution that would allow entities – after the initial manual activities to analyse each contract – to process and produce both the general information on the contact in inventory and the reconciliations of the rights of use and of the lease liabilities.

Appendix – List of the respondents to the field-test

Participant	Industry	Country
Kesko Group	Retail	Finland
The Bank of Lithuania Supervision Service	Bank	Lithuania
Associated British Foods (ABF) plc.	Retail	UK
A.P. Moller – Maersk Group	Industry goods and services	Denmark
Energa SA Group	Power and utilities	Poland
Accor	Hotel chain	France
Saint-Gobain	Retail	France
Beiersdorf AG	Personal and household	Germany
The Linde Group	Oil & gas	Germany
Fielmann AB	Retail	Germany
Wincor Nixdorf AG	Technology	Germany
Daimler AG	Automobile and parts	Germany
Hornbach Holding AG & Hornbach Baumarkt AG	Retail	Germany
Siemens AG	Technology	Germany
Inditex	Retail	Spain
Amplifon SpA	Retail	Italy
Finmeccanica SpA	Technology	Italy
Bulgari SpA	Retail	Italy
Telecom snc	Telecommunications	Italy
Lekkerkand AG & Co.KG	Retail	Germany
Deustche Post DHL	Post	Germany
TÜV SÜD AG	Industry goods and services	Germany
Anonymous German Company no. 11	Retail	Germany
Volkswagen AG	Automobile and parts	Germany
Anonymous Italian Company no. 05	Automobile and parts	Italy
Poste Italiane SpA	Post	Italy
SIAS Group	Construction and materials	Italy
Anonymous Italian Company no. 08	Power and utilities	Italy
Repsol S.A.	Oil & gas	Spain
Bombardier Transportation GmbH	Industry goods and services	Germany
ProSiebenSat. 1 Media AG	Media	Germany
Anonymous German Company no. 16	Retail	Germany
Nestle S.A.	Personal and household	Switzerland
Anonymous German Company no. 17	Telecommunications	Germany
ThyssenKrupp AG	Construction and materials	Germany
Greggs plc.	Retail	UK
BP plc.	Oil & gas	UK
Telekomunikacja Polska Group	Telecommunications	Poland
Swedbank autoparko valdymas, UAB	Lessor	Lithuania
Landesbank Baden-Württemberg	Bank	Germany