



15 December 2010

International Accounting Standards Board
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United Kingdom

Financial Accounting Standards Board
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Dear Board Members

Exposure Draft ED/2010/9 Leases

Thank you for the opportunity to comment on the Boards' Exposure Draft Leases. Below we refer to the IASB **Exposure Draft ED/2010/9 Leases**.

Australian Agricultural Company Limited ("AAco") is the largest beef cattle company in Australia. As custodians of over 6.7 million hectares land, approximating to 1% of Australia's land mass, AAco believes it is well placed to comment on the impact of the proposed changes to land under perpetual or in-substance perpetual land lease arrangements.

In summary, AAco supports the proposal which allows right to use assets to be revalued. AAco considers that the Exposure Draft lacks guidance on certain aspects of lease arrangements relating to perpetual or in-substance perpetual leases of land. We recommend that additional specific guidance addressing the topic of land under such lease arrangements is included in the revised standard in order to avoid unexpected interpretations and consequences. In particular, AAco disagrees with the Boards' view that right to use assets under perpetual or in-substance perpetual land leases are intangible assets. We consider this a change to current practice which will generate unintended consequences in respect of such leases.

Land Leases: Treatment Under IAS 17

AAco land leases are over pastoral land and are from the applicable State and Territory governments. AAco's leases in Queensland are predominantly 50 year leases and our leases in the Northern Territory are predominantly perpetual leases. While the leases in Queensland are nominally 50 years, they are in-substance perpetual leases as they are in practice automatically renewed without additional payment. This structure is therefore significantly different to the long-term lease issues faced in other countries (i.e. the 99 year and 999 year leases) where a large renewal payment is required.

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Under the current IAS 17, these leases are classified as finance leases, and consequently revaluation under IAS 16 as property, plant and equipment is permissible.

Land Leases: Proposed Treatment Under Exposure Draft ED/2010/9 Leases

AAco considers the proposed treatment under the Exposure Draft is unclear, and introduces ambiguity into the accounting treatment and valuation approach of pastoral leases, as follows:

- ❖ The classification of the right to use asset as an intangible or tangible asset is ambiguous. Under the new proposals, right to use land is regarded by the Boards as an intangible asset but is to be grouped (for disclosure purposes) with tangible assets (Property, plant and equipment).
- ❖ Sale and purchase exemptions are ambiguous, and it is not clear whether perpetual and in-substance perpetual leases would meet this exemption. If they meet this exemption, then there is a lack of guidance on the accounting for the underlying asset and particularly in regard to whether the “purchased” asset can be revalued. We believe that such “purchased” assets should be accounted for under IAS 16 and consequently should be permitted to be revalued as tangible PPE.

The ambiguity of the right to use asset as an intangible or tangible asset will have unintended consequences in relation to the calculation of Net Tangible Assets and consequently may affect the ability of an organisation to meet bank covenants and regulatory requirements of a similar nature. Current practice is that finance lease assets are included in PPE and are regarded as tangible assets.

AAco disagrees with the classification of right to use assets under perpetual or in-substance perpetual land leases as intangible assets and considers treatment as tangible assets is more appropriate (just as under the existing IAS 17 – *Leases*, finance lease assets that are not legally owned are regarded as tangible assets).

AAco notes the application of the transitional provisions to perpetual land leases permits retention of existing carrying values, notwithstanding minimal future payments attaching to the lease. AAco supports this application of the transitional provisions and recommends the inclusion of specific transitional provisions in respect of perpetual land leases to reduce ambiguity.

AAco supports the Boards’ efforts to improve financial reporting and converge to one set of global accounting standards. AAco requests the Boards reconsider the implications of the Exposure Draft on perpetual or in-substance perpetual land leases prior to issuing the final revised standard.

AAco welcomes the opportunity to discuss these views further. If the Boards or their respective staffs have any questions, please do not hesitate to contact Julia Sloman (Interim Chief Financial Officer, Australian Agricultural Company Limited) on +617 3368 4400 or at jsloman@aacom.com.au.

Yours faithfully,
For and on behalf of Australian Agricultural Company Limited



Julia Sloman
Interim Chief Financial Officer