



The Corporate Reporting Users' Forum

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

Financial Accounting Standards
401 Merritt 7
Norwalk, Connecticut 06856
United States of America

22nd December 2010

Dear IASB/FASB Board Members,

Re: Exposure Draft – Leases. An Australia Perspective on Long Dated Property Leases

The Australian Corporate Reporting Users' Forum (ACRUF) works closely with the broader Corporate Reporting Users' Forum (CRUF) and has contributed to, and fully endorses, the submission by CRUF on the Leasing ED. In addition, ACRUF believes the Leasing ED creates significant distortions to reported earnings and analysis from long dated property leases (20 to 50 years) which are common place in the Australian market and should be outlined in greater detail.

ACRUF believes there is a strong case to treat long dated property leases separately. This problem is highlighted in the case of several Australian retailers with substantial portfolios of leased property (in excess of 2,000 separate leases) located in large shopping centres/malls where the option to purchase is not available. Front loading of the "implied interest charge" for these long term leases (often 20 years with numerous 10 year renewal options) creates a major distortion between the economic cash cost and the proposed reported cost under the ED. For companies with long term property leases the proposed standard will result in:

- A significant negative adjustment to "Reported Earnings" when there is no change to operating earnings and cash flows,
- Further significant differences between cash lease payments and the proposed reported expense requiring more analytical adjustments to reported earnings in order to reconcile with underlying operating earnings,
- Reduced comparability between companies due to their ability to have different discount rates and lease terms. It will place increased emphasis on company disclosure which may or may not be forthcoming further reducing users ability to derive and compare reported earnings,
- As the payment structure is based on market rental and not economic depreciation and interest costs, the theoretical "implied interest" of a long term lease could be well over the value of the asset from an operational cost perspective,



- Companies making sub-economic decisions in order to drive particular outcomes (ie shorter term leases for higher EPS outcomes; where as long term leases are strategically/structurally preferred).

ACRUF believe the “implied interest charge” as proposed by the ED will also distort the accounting treatment, and hence profit reporting between companies that own property over the long term, versus companies which lease property over the long term. The proposed front end loading of the “implied interest charge” suggests that most of the economic value of the lease is gained early in the lease. In the case of property this does not reflect economic reality, and also appears to be at odds with the revaluation/fair value treatment of property when owned. This distortion is further magnified the longer the lease term which as highlighted above can extend for up to 50 years. We would recommend the total liability of the property leases continued to be highlighted in the notes to the account rather than being brought on balance sheet.

The ED for leasing, as CRUF has highlighted in previous submissions, again is diminishing the clarity of the financial reporting as presented in the Income Statement. As users we would again reiterate the critical role of Income Statement as a means of communicating the operational performance, which continues to be blurred with balance sheet adjustments. Again some aspects of the changes proposed will further contribute to the loss of Income Statement clarity in differentiating the financial effects of operating decisions and the impact of accounting.

We sign this letter in our individual capacity as participants of the Australian Corporate Reporting Users' Forum (ACRUF) and not as representatives of our respective organizations. The views expressed are those of individual ACRUF participants and do not necessarily reflect the views of the respective organizations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

Tanya Branwhite - Executive Director - Macquarie Securities Group
Chris Pidcock - Managing Director - Goldman Sachs & Partners Australia Pty Ltd
Greg Marks - Senior Portfolio Manager - Wallara Asset Management Pty Ltd
Samuel Warwood - Analyst - Merrill Lynch Equities (Australia) Limited
Julian Monteiro - Analyst - Tribeca Investment Partners
Anthony Corr - Continuum Capital
Lou Capparelli - Analyst Australian Equities - BlackRock Investment Management (Australia)
Douglas Little - Managing Director - Constellation Capital Management Limited