

Wednesday, December 15th, 2010

Re: Revised Lease Exposure Draft (ED/2010/9)

Dear Sir/Madam,

I would like to thank you for the opportunity to submit my comments on this particular exposure draft.

Question 2: Lessors

- (a) *Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to the significant risks or benefits 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?*
- (b) *Do you agree with the boards' proposals for the recognition of assets and liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative would you propose and why?*

Irrespective of the situations considered above, when a lessor enters into a lease, be it an operating or finance lease, the lessee will be required to capitalize a certain amount of the lease on its books as a leased asset. The lessor will also continue to account for the asset on its books unless it completely transfers the risks and rewards to the lessee. Granted the values assigned will be different between the lessor and the lessee as, in substance, due to the contract duration, however the overall impact of the proposed requirements would lead to a situation in which 2 companies both show the same asset (although at different values) on their respective balance sheets. This could lead to additional confusion by the users of the financial statement.

Under the current standards, this would not happen, as the accounting requirements for a lessee mirrors that of a lessor. Furthermore, current accounting requirements dictate an entity present a commitment note. All details of future leasing costs are captured within this note and therefore, investors and other users of the financial statement are not "in the dark." I would recommend that, considering the apparent importance of leasing transparency in the international economic environment, that the current leasing classifications remain unchanged and that deficiencies be addressed through note disclosures,

Question 5: Scope Exclusions

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

It is my opinion that a lessee should not be required to recognize an asset and a related liability where the item under lease is peripheral to the operations of the Entity. For example, my employer manufactures various different categories of cheese. As part of its on-going operations, it leases transport vehicles to distribute finished good products to various distribution centres and customers.

In this context, I believe leased transport vehicles should not be capitalized as this type of activity is also offered by third party transportation companies for a fee. If a company were to use third part transportation companies (for example) they would not be required to capitalize and asset or recognize a liability. This requirement may then create an inconsistency which could then lead to an incentive for certain enterprises to move away entirely from leasing in favour of third party contracts which results effectively in the same form of activity but in differing accounting treatments.

This could also then lead to an inconsistency in analyzing the balance sheet of similar companies with differing operational leasing strategies. Granted these activities are considered peripheral and therefore the overall financial impact will likely be minimal, yet the on-going accounting implications of this proposal would lead to considerable complexities of measurement and recognition and not likely yield significant impact for peripheral activities. It is my opinion therefore, that peripheral activities should be scoped out of this analysis

Please note that these opinions are not necessarily entirely consistent with those of my employer.

Sincerely,

Anthony Perrotti, CA
Montreal, Canada