



International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

December 13th, 2010

Dear Sirs,

Exposure Draft ED/2010/9

Invigors is a consulting firm providing solutions for asset finance companies, industry suppliers, manufacturers and captive finance organisations.

I set out below our response to the Exposure Draft "Leases".

In summary we consider that the current exposure draft does not set out a sound foundation for a Financial Reporting Standard in respect of leases. We consider that considerable further work is required by the Board before the final IFRS is issued and that the Board should not compromise this further work by restricting the timescales it allows itself for the next stage of development.

In response to the specific questions raised we would comment as follows:

1. We agree in principle that lessees should recognise an asset and a liability in respect of leasing transactions. However, we consider that the basis proposed in the exposure draft leads to excessive costs for lessees and should be reconsidered. Whilst we agree that it is appropriate for lessees to recognise amortisation and interest expense, we consider that this should be on a basis that is consistent with the economics of the transaction that has been entered into, and should not reflect a notionally equivalent transaction as currently proposed in the ED.
2. We do not consider that the performance obligation approach as set out in the ED is technically valid. In particular, the underlying rationale for this is inconsistent with the rationale for recognition of a liability by the lessee.
3. Whilst we recognise that short term leases are no different to longer term leases in principle, we consider that lessees should be allowed to exclude assets and liabilities in respect of short term leases from their balance sheets as the costs of collecting and processing information in respect of short term leases significantly outweigh any benefits to users from the inclusion of such items which would invariably be immaterial.



4. We do not consider that the definitions set out in the ED are appropriate. Further work is required on the boundary between leases and service contracts. Historically this boundary has been unimportant as there has been minimal practical difference in the accounting treatment between these categories. However, under the proposals now set out, this distinction becomes critical. The current definition of in substance sales and purchases will exclude a very substantial number of leases from being treated as leases for accounting purposes, which we consider to be counter-intuitive.
5. We consider the exclusion from scope in respect of intangible assets to be inappropriate.
6. We consider the IASB's proposals in respect of the service element of leases to be more appropriate, subject to our comments above about the validity of the performance obligation methodology.
7. The principles used to determine the accounting treatment of purchase options should be consistent with the principles used in respect of lease extension options. Consistent with our views set out below in respect of the definition of the lease term, we accept the accounting treatment proposed by the IASB in respect of purchase options.
8. The proposed definition of the lease term is inappropriate. The lease term should be the contractually committed period. The lessee does not have a liability for any rentals beyond those contractually committed until such time as they become committed for example through an agreement to extend the lease. The proposed definition introduces inappropriate volatility into both the lessor's and the lessee's financial statements through the use of psychosomatic accounting.
9. We consider that the Board's conclusions in respect of contingent rentals and residual value guarantees are confused. This appears to be a consequence of a failure to distinguish between contingent payments which are within the lessee's control and those which are not. We consider that contingent payments which are within the lessee's control do not give rise to an asset or a liability until an event has occurred which crystallises the payment.
10. The lessee and the lessor should both reassess the balance sheet effects of the lease at each reporting date and reflect any significant changes in their financial statements.
11. The Board should ensure that the criteria for classification of sale and leaseback transactions are consistent with the proposed standard on revenue.
12. We consider that a lessee should not disclose leasing liabilities separately on the face of the balance sheet, although separate disclosure in the notes would be appropriate. The right of use asset should be treated as a tangible fixed asset. As set out above, we do not



accept that the performance obligation approach should be used. The disclosures under the partial derecognition approach are supported, although the separate disclosure of the financial assets from leasing should be in the notes rather than on the face of the balance sheet.

13. We see no reason why the income or expense from leasing should be shown separately on the face of the income statement. For lessors there should be separate disclosure of leasing income if it is a separate category of business. We see no specific need for leasing expense to be separately disclosed, apart from any legal requirement. However we believe that the long standing legal requirements in the UK for this disclosure are a reflection of the absence of any liability in respect of leasing on the balance sheet at the time these requirements were originally introduced.
14. We do not see that specific separate disclosure of cash flow amounts in respect of leasing should be required unless it can be established that this is useful and relevant to users of accounts.
15. There should be separate disclosure of leasing related items to, and only to, the extent it can be established that this is useful and relevant to users of accounts.
16. Both lessors and lessees should be given the option to choose either the simplified transition or the full retrospective transition basis. We would recommend that the Board gives further consideration to transition issues as the simplified transition basis currently proposed can have a significant distorting effect on reported profits.
17. We do not agree with the Board's assertion that the benefits of this proposed standard outweigh the costs associated with its introduction. We believe that the benefits are overstated by the Board, in part because we would expect users of financial statements to continue to make adjustments to published numbers. In addition we believe that the costs are considerably understated for a number of reasons, including the following:
 - The Board has not properly assessed the costs of preparing financial statements under these proposals for either lessees or lessors;
 - The Board has not properly considered the implications of these proposals for tax purposes;
 - The Board has not properly considered the implications of these proposals for the capital requirements of banks and other financial institutions and the consequent effects of these.
18. The absence of any accretion of the lessor's residual value between the commencement of the lease and the end of the lease provides a fundamental distortion of the accounting



information provided by a lessor. This treatment should be changed. The current position set out by the Board results in faster recognition of profit on transactions with greater financial risk to the lessor than equivalent transactions with lower financial risk, which is clearly inappropriate.

Yours faithfully

George Tonks
Partner, Invigors LLP