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

Sent electronically to www.iasb.org

IASB Exposure Draft ED/2010/9 Leases

Dear Sir/Madam,

This letter represents the views of Landcorp Farming ("Landcorp") on the above exposure draft.

Landcorp Farming Ltd

Landcorp Farming Limited (Landcorp) is New Zealand’s largest pastoral farmer and is one of the few New Zealand pastoral farming organisations that prepares published financial statements using the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Landcorp is a State-Owned Enterprise, wholly-owned by the New Zealand government. The views in this letter are Landcorp’s own and do not represent views of any other party.

Exposure Draft

Landcorp has concerns and comments regarding the exposure draft, specifically:

- Non-depreciating assets
- Discounting of lease payments
- Government grants
- Disclosure requirements
- General comments.

These are presented in the order of importance to Landcorp rather than question order. Where comments relate to a specific question(s), those questions are identified.

Non-depreciating (unlimited life) Assets (Question 5)

The lease cost for a depreciating asset can be considered akin to purchasing some of the finite economic benefits embodied in the asset. For non-depreciating (unlimited life) assets there is no consumption of the economic benefits of the asset during the lease period. Hence, the lease payments represent payment for the use of the economic benefits rather than consumption. On this basis, leases of non-depreciating assets should be considered a type of executory contract and only recognised in the financial statements when the lease is in effect.
In addition, ownership of an asset entails the ownership of the risks and rewards provided by the asset. When leasing an asset a subset of those risks and rewards are transferred from the lessor to the lessee. It is this subset that the exposure draft is attempting to value through capitalising future lease payments.

For non-depreciating assets, such as land, the primary risks of ownership are residual value risk and the maintenance of productive capability<sup>1</sup>. Leases of non-depreciating assets do not transfer these risks to the lessee.

For these reasons, Landcorp proposes that non-depreciating assets should be excluded from the scope of the exposure draft.

For materiality purposes, this exclusion should extend to all leases where the principal asset being leased is non-depreciating and any depreciable assets included in the lease are essential to the commercial operation of the non-depreciating asset.

**Discounting of lease payments (Question 1, 3, 10)**

Through recognising the value of the lease asset at the discounted value of future lease payments, the future value of the asset is similarly discounted. In the absence of other price movements, the revaluation model proposed in the exposure draft will merely present the change in value of the asset due to the ‘effective interest’ on the liability.

There are three solutions to this issue:
- require both the asset and liability to be measured on an ‘effective interest’ basis. This will create interest income from the asset offsetting the interest expense on the lease payment liability. Subsequent revaluations of the asset would need to be from the ‘inflated’ values.
- do not discount the liability and asset.
- do not recognise the asset or liability prior to lease payment.

Landcorp agrees that if a liability is to be reported in the balance sheet, then it should be at current value. On this basis, Landcorp considers the first solution preferable to the second. However, Landcorp prefers the third option over either both of these (refer General Comments below).

**Government Grants**

Many governments provide a government grant to businesses through low-cost leases. In these instances, Landcorp considers that the lease asset should be initially measured at fair value, rather than the present value of lease payments. Landcorp considers that the difference between the liability and asset values (the ‘discount’) should be amortised over the period of the lease.

<sup>1</sup> While these two attributes are often linked they are distinct and at times may conflict. An example of this is that Landcorp frequently encounters is farmland with alternate-use value, usually residential development. Activities to increase the productivity of the farmland (productive capability) will often reduce the alternate value (residual value).
In the event that the right-of-use model is not adopted in favour of a ‘pay-as-you-go’ model, Landcorp considers it appropriate for the entity to report the lease expense at the full fair value, and an offsetting government grant income.

**Disclosure Requirements**

Under current IAS, there are minimal disclosure requirements for operating leases. Landcorp considers that many of the problems encountered with current lease accounting/reporting could be resolved through improved disclosure requirements, rather than changing the entire basis of lease accounting.

**General Comments**

**Conditional Leases**

In the Non-Depreciating Assets section (above), Landcorp argued that non-depreciating assets should be excluded from the standard on the basis that since the lessee is ‘using’ rather than ‘consuming’ the economic benefits inherent in the asset, the lease should be considered an executory contract.

Landcorp considers that this approach should also apply to, at least some, depreciating assets. In other words, the lease contract may not give rise to a recognisable asset.

Where the risks and rewards of ownership have not passed to the lessee, the lessee should not recognise an asset. This is likely in cases where the lease may be conditional and/or dependent on condition at a future time. An example of this could be a lease of a ship, where there is no lease liability if the ship became unavailable for lease (e.g. damage, sinking, etc.).

In these cases the lessee has only a contingent asset (and liability), as the lessee has not assumed the full risks and rewards inherent in owning that asset.

**Contract for Services**

Landcorp believes the IASB should give consideration to the definition of a lease as opposed to a contract for services. Landcorp has noted that for major land development projects, it is common to use a contractor to provide the development machinery. In most cases this has been a case of hiring the machine plus the operator/driver. Landcorp questions the ability to separate the ‘lease’ component from the ‘service’ component of the contract payment.

Yours sincerely

[Signature]

Richard Perry  
Chief Financial Officer  
Landcorp Farming Ltd

[Signature]

Andrew Chambers  
Corporate Finance Manager  
Landcorp Farming Ltd