ED/2010/9 – Leases

A Renewal of Leases
We have an issue recognizing as an asset and related liability the right to renew a lease. We feel that a firm commitment only exists once the right to renew a lease has been exercised, and the new lease agreement signed. We are concerned that users of our financial statements will be misled by the resulting overstatement of our liabilities and assets and the effect that this could have on various analysis indicators e.g. the gearing ratio.

B Disclosure
Lease rentals are operating expenses. The new standard will result in a portion of our operating expenses being disclosed as finance charges below operating profit. We are concerned that this will result in inaccurate conclusions drawn by the investing community by the resultant distortion of certain key ratio’s e.g. a falsely inflated operating margin %. This would also have the effect of diluting the effectiveness of the new IFRS proposal on financial presentation. In order to provide the users of our financial statements with more useful information we would prefer lease related depreciation and finance costs to be disclosed as occupancy costs under operating costs on the front face of the income statement with note disclosure providing relevant details.

C Contingent Rents:
We are concerned with the proposal to recognize liabilities for contingent rents based on sales before the relevant sales have occurred. This proposed accounting treatment is not in line with current accounting of the cost elements related to a sale from a retail store, which are booked either as a direct consequence of the sale or on a period basis (e.g. salaries).