14 December 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Via website: www.ifrs.org

Dear Sir

Comments on Exposure Draft ED/2010/9 Leases

Thank you for the opportunity to comment on ED/2010/9 Leases. The Reef Casino Trust is listed on the Australian Securities Exchange and is the owner and lessor of the Reef Hotel Casino complex.

We would like to highlight to the IASB some of our concerns in response to the specific questions raised.

Question 2: Lessors

(a) Do you agree with that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to 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 approach would you propose and why?

(b) Do you agree with the boards’ proposal for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

We prefer the current approach to lessor accounting where actual rental income is reported in the statement of comprehensive income. Although we are not able to apply IAS 40 Investment Property, regular independent valuations of the property are obtained and disclosed in the financial statements. This provides relevant information to users, is simple to apply and understand.

The outcome of applying the derecognition approach appears to be that the right to receive lease payments could exceed the fair value of the underlying asset. This is because the derecognition approach recognises a right to receive lease payments using only the rental stream from the underlying property whereas when assessing the fair value of a property, a valuer deducts certain expenditure relating to the property from the rental stream (for example, capital expenditure, rates & insurance paid by the lessor). Further clarification would be useful as this seems inconsistent with other guidance on fair value measurement.
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?

We do not agree with the position taken to exclude leases of intangible assets from the scope.

We think that the [proposed] standard should make it clear that single leases of composite assets which include both tangible (building & equipment) and intangible (eg. gaming licences, computer software) assets are included in scope. It would be impractical and provide no benefit to users to artificially apportion one lease and the rental income from that lease into separate components, especially where the lease agreement includes no bifurcation of cash flows.

We note the exclusion of investment properties from the [proposed] standard. We think this causes disparity with the requirements for other property trusts that do not satisfy the definition of investment property due to the significant exposure of the trust to the cash flows generated by the underlying operations of the property via the rental formula. These trusts also have significant rental income streams which are the main driver of distributions paid to unitholders and are otherwise comparable with trusts holding investment properties. As the fair value of the property is already obtained regularly and disclosed, we believe there is no additional benefit to users in applying the [proposed] standard.

We believe that the [proposed] standard should extend the concession provided to investment properties to other entities which have as their main/only activity leasing of property and related assets.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

We agree with the alternative view expressed in paragraphs AV2 – AV8 in the Basis of Conclusions to the [proposed] standard to exclude from the measurement of assets and liabilities those contingent rentals that are merely dependent on future business conditions. It is practically very difficult to forecast contingent rentals based on future trading with any accuracy, especially where contingent rentals comprise a large proportion (95%) of total rental and the lease extends over a long period.

As such, we believe actual income from contingent rentals should be disclosed separately in the statement of financial performance in the year it is accrued.
Question 12: Statement of financial position

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

We see a practical difficulty for a lessor applying either the performance obligation approach or the derecognition approach, where the underlying asset is spread over more than one class of asset for example property, plant & equipment and intangibles, and think this needs clarification in the [proposed] standard.

If you have any questions regarding this submission please do not hesitate to contact me at financemanager@reefcasino.com.au or by phone on +61 (0) 7 4030 8778.

Yours faithfully

[Signature]

Alison Galligan
Company Secretary
Reef Corporate Services Ltd
Responsible Entity for Reef Casino Trust