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

Milan December 15, 2010

Dear Sir/Madam,

Re: Leases

Impregilo S.p.A. (Impregilo) is pleased to respond to the proposal set out in the Exposure Draft “Leases” (ED).

Impregilo is Italy’s leading General Contractor, one of the world’s top-ranking construction groups and an international specialist in major infrastructures and civil buildings of architectural prestige such as roads, motorways, railways and subways, dams and hydroelectric plants, underground works, bridges, viaducts, ports and airports, desalination plants, waste-to-energy facilities, industrial-emission treatment plants. Listed on the Italian Stock Exchange, Impregilo is active, directly and through its subsidiaries, joint ventures and affiliates in the infrastructure, concessions and in environmental engineering and plant sectors.

The general concerns for Impregilo is based on the substantial disagreement with the board’s and users’ view that the model actually foreseen by IAS 17 does not allow a reliable estimation of amounts, timing and uncertainty of future cash flows depending on lease agreements.

Based on Impregilo’s view and operating strategy, lease agreements are essential and often mission-critical for maintaining the appropriate flexibility of its investing and industrial activity.

On the other hand, we fear that the outcome of the view actually foreseen by the ED will - shortly - be the recognition of significant amounts of fixed assets and related liabilities the existence of which is subject to changes in company strategy and reaction towards market trend variations.

Furthermore, the effort required by current ED for correctly separating service components from other contract components of each lease agreement will be significant
and will require excessive use of judgmental assessment in determining the related amounts to be charged to the Statement of Comprehensive Income.

We agree that some improvements are needed for the actual framework foreseen by IAS 17, but we strongly believe that such improvements shall be made in relation with a wider and more complete set of disclosure about the future possible evaluation of the commitments underlying each class of lease agreements entered into by the company, instead of spending efforts on restating assets and liabilities that may be subject to fluctuations which are difficult to plan and control.

The Appendix to this letter includes our detailed reply to the questions proposed by the ED.

Sincerely yours

IMPREGILO S.p.A.

Stefano Faina  
Head of Accounting, Tax and IT Dept
APPENDIX

The accounting model

The exposure draft proposes a new accounting model for leases in which:

(a) A lessee would recognize an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraphs 10 and BC5-BC12). The lessee would amortise the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

In our opinion the current model described by IAS 17 allows a good representation of lease agreements, while the new model is not appropriate for the following reasons:

(1) the exposure draft establishes the objective to report relevant and representationally faithful information to users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases.

In our opinion such objective could be well pursued by disclosures. Even if we agree that it is better to represent liabilities within the statement of financial position we believe that certain liabilities determined in accordance with the exposure draft’s model include a kind of “forward looking values” since it requires to forecast the business opportunities for the future years.

Given the objective established at paragraph 4 of the exposure draft, it is difficult to understand the reasons why the new model requires the recognition of liabilities arising from the lease of a tangible asset while there is not such a requirements for other assets (such as intangible assets) or other commitments (for example a binding service contract not involving tangible assets). It seems that the objective is neither coherent to the exposure draft nor to the whole set of accounting standards.

(2) throughout the exposure draft and the basis for conclusion it is emphasised the fact that the right-of-use asset is consistent with the existing conceptual framework. It appears strange that a model which have been applied for so many years (i.e. the model foreseen by IAS 17) is now defined as “fundamentally flawed” (see basis for conclusion § BC7(c)): in order to clarify the rationale behind the new model this conclusion should be better explained.
In our opinion the right-of-use asset and the liability to make lease payments do not respect completely the definition of asset and liability provided by the framework. For example the strategic decision to remain in a premise rented by an entity depends upon many elements which are not completely under control by the entity itself (i.e. future development of the local and worldwide economy, trend in the real estate market, development of new product, business combinations, change in management etc). There are too many elements which may determine the future decision that it will be economically convenient to interrupt a lease, even before its termination.

(3) the proposed model would create the paradoxical outcome of requiring an adjustment of a corporate strategy for accounting principles, while it would be desirable to have accounting standards that allow the accurate representation of the business strategies.

Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial costs. Such lessees would recognize lease payments in profit or loss over the lease term (paragraph 64).

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We appreciate the boards’ effort to simplify the accounting for leases in certain situation but we underline the fact that the short leases requirements does not provide such a significant simplification. In our opinion the heaviest burden determined by the new model will be the implementation of administrative and control procedures with the related software development and the necessity to estimate subjective and variable elements for the measurement (such as the length of the lease) for a significant volume of transaction. The simplification will apply only to the calculation and recording of the transaction which, once the models have been developed, do not represent the major complexity of the new standard while they do not help with the estimate side of the model.

Definition of a lease

The exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1-B4 and BC29-BC32). The exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59-BC62) and on distinguishing a lease from a service contract (paragraphs B1-B4 and BC29-BC32).
Question 4

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

We agree that the definition of a lease provided by the exposure draft is appropriate.

(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

The distinction provided at paragraphs B9 and B10 is sufficiently clear. Nevertheless the actual model provided by IAS 17 provide a better representation of leases.

(c) Do you think that the guidance in paragraphs B1-B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

We believe that the guidance to distinguish leases from services is not sufficient. The approach proposed will bring the probable outcome to request a clear and precise separation of leases from services with an increase in administrative charges from lessors. The distinction between leasing and services is not understandable in the view of the objective of the exposure draft as commented on question 1.

Scope

Question 5: Scope exclusion

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 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?

The scope exclusion is not coherent with the objective of the exposure draft (paragraph 4)

Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5-B8 and BC47-BC54). If the service component in a contract that contains service components and lease components is not distinct the IASB proposes that a lessee should apply the lease accounting requirements to the combined contract.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We do not agree with the approach proposed because with leases that contain service and fixed asset components a Company’s goal is to obtain a complete service relating
to the fixed asset management not to the control of the use of the asset. Therefore the approach proposed by the boards will determine a misrepresentation of fixed assets.

In addition, as mentioned on question 4(c), the lessee may consider to request to the lessor a clear separation of the lease contract from the lease service with an increase of administrative costs.

**Question 7: Purchase options**

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraph 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

Ha senso la distinzione tra bargain option?
È solo una riclassifica e c'è una differenza di valori

From a lessee point of view we do not agree with the exposure draft proposal since it requires a complex and subjective different treatment between options. In fact the exposure draft requires to treat option to renew differently from the option to purchase and bargain options and the rationale behind this distinction is not clearly defined by the exposure draft or the basis for conclusion. In our opinion the IAS 17 model allows a consistent treatment of different options allowing a fair representation of lease contracts with a view to the real objective pursued by the lessee with such contracts. In our opinion, under the exposure draft model, it would be correct not to consider the option to purchase as well it should not be considered the option to renew the contract.

**Measurement**

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:

(a) Assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16-B20 and BC114-BC120).

(b) Includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121-BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be measured reliably.

(c) Is updated when changes in facts and circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 39, 56 and BC132-BC135).
Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or determine the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

From a lessee point of view, we do not agree. The decision to exercise the options to extend the lease depends upon several factors which are not completely under lessee’s control and estimating such options in advance to their expiration may lead to significant misstatement of the value of the contract. In our opinion, under the exposure draft model, the lease term should be based upon the irrevocable commitment to pay leases.

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 arising 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?

From a lessee point of view, we partially agree. Under the exposure draft model, if the contingent rentals depends upon market variables which are reliably estimated (such as price increase index) it is correct to include them as a variable component of the measurement. We do not agree to include other elements such as contingent rentals based upon usage or performance of the underlying asset.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Due to our comment on Question 9, in our opinion changes in facts and circumstances should not determine a significant change in the liability. In our opinion the liability should be strictly based upon firm commitments.

Sale and leaseback

The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sale and leases. If the contract represents the sale of the underlying asset, the leaseback would also meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66-67, B31 and BC160-BC167).

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?
We agree to the proposal.

Presentation

The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25-27, 42-45, 60-63 and BC142-BC159).

Question 12: Statement of financial position

Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143-BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

We agree that a lessee should present liabilities to make lease payments separately from other financial liabilities.

We do not agree that the right-of-use asset should be presented as if they were tangible assets within property, plant and equipment because of the following reasons:

(i) it may lead to wrong conclusion concerning the value of leased fixed assets under the exposure draft model, while it would be coherent with the model foreseen by IAS 17.

(ii) it will lead to a misrepresentation of the financial position of the company since it will show current liabilities - the lease payments due within one year - and non current fixed assets. Companies ratios will be artificially altered by this request with an effect on covenants and target to bid participation.

Question 13: Statement of comprehensive income

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC 151, BC152, BC157 and BC158)? Why or why not? If not do you think that a lessee should disclose that information in the notes instead? Why or why not?

We agree to the proposal.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree to the proposal.

Disclosure

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) Identifies and explains the amounts recognized in the financial statements arising from leases; and 
(b) Describe how leases may affect the amount, timing and uncertainty of the entity’s future cash flows 

(Paragraphs 70-86 and BC168-BC183)? Why or why not? If not, how would you amend the objectives and why?

We agree to the proposal.

Transition

Question 16

(a) The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88-89 and BC186-BC199). Are these proposal appropriate? Why or why not? If not, what transitional requirements do you propose and why?

(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

In our opinion the new model proposed by the exposure draft is complex, will require significant investments and several changes in information system, administrative and control procedures. Therefore we welcome any simplification to the accounting rules foreseen for the transition. Nevertheless in our opinion there should not be any preclusion to a full retrospective approach as in order to facilitate the implementation of the standard the boards should allow as much flexibility as possible having established a minimum common transition rule.

We highlight also that the transition rules foreseen by the “Leases” exposure draft are not consistent with the rules described by the “Revenue from Contracts with Customer” exposure draft. In our opinion the boards should consider an uniform transition rule for every new accounting standard.

Benefits and costs

Question 17

Paragraphs BC200-BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We believe that it is very difficult for us to estimate the cost of implementing the proposal and we do not understand how the boards have been able to conclude about the overall cost of the proposal. It should be noted that the implementation of whole set of proposal included within IASB work program will be very complex and an estimate of the overall cost should consider the interrelation between new standard. In our opinion the cost of the implementation of the new set of standards is going to be higher than the cost of the first adoption of IAS/IFRS (and we are talking about million of Euro). In addition we believe that the cost side of the trade off is going to be born, almost entirely, by the prepares while the benefit will be received
only by users (and consultants including auditors which will assist the implementation of the new standards).

Other comments

Question 18

Do you have any other comments on the proposals?

We are concerned about the significant changes that the boards are developing with the different project included in the work plan. In our opinion the complete set of changes is going to have a major impact on our financial statements significantly higher than the impact we had at the first time adoption of IAS/IFRS. Therefore we strongly endorse a work program which foresees a unique transition date for the new standards.

As a matter of fact it is extremely difficult to evaluate the overall impact of the new standards without a thorough comprehension of the global set of IFRS.