December 15, 2010

International Accounting Standards Board
30 Cannon Street 1st Floor
London EC4M 6XH
United Kingdom

Submitted electronically via the IFRS Foundation website (www.ifrs.org).

Dear Sirs:

Crombie Real Estate Investment Trust ("Crombie REIT" or "Crombie" or "we") welcomes the opportunity to comment on the exposure draft Leases as published by the International Accounting Standards Board ("IASB"). Crombie REIT is an open-ended trust which owns and manages income-producing retail, office and mixed-use properties in Canada. Our comments on the exposure draft are primarily from Crombie’s perspective as lessor; however, we do include comments from the perspective of the impact on Crombie’s tenants as lessees.

While we agree lease accounting treatment and disclosures could be improved to enhance the transparency to users of the financial statements, we do not concur with all the suggested revisions to the existing standard as presented in Exposure Draft ED/2010/9 ("ED"). We also recognize the objective of the ED to formulate similar accounting treatment from the position of a lessor, which until this ED had remained largely unaddressed.

The proposals in the ED, developed by the IASB and the US Financial Accounting Standards Board ("FASB"), jointly referred to as the Boards’, as they stand would create a significant burden to implement and to administer on an ongoing basis, not only to Crombie and other affected entities in the real estate sector, but in many industries where equipment and other leasing are prevalent. Also, the Boards note in BC200:

“The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users of financial statements in making economic decisions. To attain this objective, the boards endeavor to ensure that new standards will meet a significant need and that the overall benefits of the resulting information justify the costs of obtaining it.”

Crombie, as a lessor of investment properties, has in excess of 1,000 leases and continues to grow. The added burden of initial and subsequent measurement of the lease receivable and lease liability would create a human resource and financial burden that we feel would outweigh any benefit to the users of our financial statements.
Crombie is also concerned about the impact that the proposed standard would have on the comparability of financial statements between entities in the same industry. For example, existing standards allow for the option of reporting the carrying value of investment properties using either the fair value model or the cost model. Users of financial statements for two similar entities using the different models can achieve comparability by adjusting for the differences which currently include depreciation under the cost model versus unrealized valuation changes under the fair value model. The fair value of investment properties is disclosed in the financial statement notes of the entity using the cost model. Under the proposed lease standard, we believe that the extent of differences will make comparability much more difficult, taking away from the objective of financial statements as stated above. Revenue under the proposed model, using the performance obligation approach, would include interest revenue (earned on an effective interest method) and Lease revenue (earned on a straight-line basis); while the entity using the fair value model would have Lease revenue only earned on a straight-line basis.

Our comments on the specific questions raised in the ED are as follows:

**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?

Crombie agrees conceptually with the recognition of a liability to make lease payments and a corresponding right-of-use asset, but believe the model as currently presented requires further consideration. The model as tabled is open to significant management judgement, complexity and potential bias. The substantial time and costs required to determine these balances are, we believe, far in excess of any benefit derived; and will likely not present financial statement users with additional information they desire regarding leases. These specific concerns are further addressed below.

(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?

We believe the asset and liability should be adjusted equally at the end of each reporting period and would be reflective of the period end present value of the amounts due under the lease contract. Lease revenue and expenses would be measured based on the existing standards; which, for investment properties, is straight-line over the term of the lease, reflecting the use of the asset.

**Question 2: Lessors**

(a) Do you agree 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 alternative approach would you propose and why?

We disagree as we believe the proposed standard for lessor accounting creates much more confusion than the current model used today. From Crombie’s perspective, we believe that most, if not all, of our leases would meet the criteria proposed for the performance obligation approach. Our primary concerns with the performance obligation approach
are discussed further in our responses to specific topics below. We have not specifically addressed concerns with the derecognition approach in our responses to the ED questions.

(b) Do you agree with the boards’ proposals 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?

No, Crombie does not agree with the proposals for the recognition of income and expenses for lessor accounting. The existing standards for investment properties result in total leasing income being recognized on a straight-line basis over the defined term of the lease with little or no judgement involved, resulting in revenue being recognized over the period for which the service, or use of the asset, is provided.

The proposed standard, applied when the cost model is chosen under IAS 40, results in a lack of comparability of reported results, both in the total income that would be reported and the characterization of that income on the statement of comprehensive income, when compared to a similar entity that chooses to use the fair value model under IAS 40. Based on sample calculations we prepared, when the lease income and the interest income is combined under the proposed standard, total income from a lease is front-end loaded with total income significantly diminished toward the end of the lease period. An entity which elects to use the fair value model available under IAS 40 Investment Property would be exempt from the proposed standard, and thus would continue to report only lease income as per the existing standard. Assuming both entities have an identical lease portfolio, they both should have an identical lease receivable, yet the actual reported operating results and the characterization of those results will differ substantially on the statement of comprehensive income. Crombie believes that our business is earning lease income from leased assets, not earning interest income from financing a receivable. We fail to see the justification to support the proposal that an entity that chooses the cost model has interest income and lease income, yet the entity that chooses the fair value model has only lease income. We also fail to see how the reported results from leasing the same asset with similar terms and conditions, could result in significantly different reported operating results from entity to entity.

Question 3: Short-term leases

(a) At the date of inception of a lease, a lessee that has a short-term lease (less than twelve months) 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 direct costs. Such lessees would recognize lease payments in profit or loss over the lease term. Do you agree that a lessee should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We support simplification of the application of the proposed standard to short-term lease accounting. We believe leases in short duration should continue to be recorded in a manner consistent with the existing operating lease guidance.

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize
Any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other IFRSs and would recognize lease payments in profit or loss over the lease term. Do you agree that 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 agree with the proposed simplification for short-term leases; however we believe that this should be applied to all short-term leases rather than on a lease-by-lease basis.

Question 4: Definition of a lease

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

Yes, we agree the description is accurate for defining a lease as it applies to Crombie.

(b) Do you agree with the criteria 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?

Yes, we believe the criteria listed are accurate as it applies to Crombie.

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

Yes, we believe the guidance is sufficient as it applies to Crombie.

Question 5: Scope exclusions

The ED 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. 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?

Yes, we agree with the proposed scope exclusions.

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. If the service component in a contract that contains service components and lease components is not distinct:

(a) the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
(b) the IASB proposes that:

(i) a lessee should apply the lease accounting requirements to the combined contract.

(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in *Revenue from Contracts with Customers*.

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?

Firstly, we believe that the FASB and IASB if presenting this ED jointly need to agree on a position for service and lease agreements. Secondly, we believe the substance of the contract should dictate which accounting rules are applied. If the agreement is substantially a service contract, then revenue recognition policies should be applied. If the lease of the underlying asset is the purpose of the contract then lease accounting policies should be applied.

**Question 7: Purchase option**

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. 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?

Purchase options are potential events that will occur in the future and such events cannot be reasonably predicted at the inception of a lease. We agree that purchase options should only be accounted for when they are exercised due to the uncertainty of the timing of the transaction, if at all, and the fact that they are at the discretion of the lessee.

**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 terminate 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?

We agree that there needs to be some measure of the renewal options available when measuring the lease term. We do not agree that the lease term should be based on the longest possible term that is “more likely than not to occur”. Estimating an expected lease term at the outset requires the lessee to apply subjective judgment and estimation which is often not reliably measureable until close to the end of the contractual term. In addition, the lessor would be required to apply the same estimates, in addition to the anticipated intent of the lessee in the future. It is common practice in our experience for real estate leases to have terms of 20 years with renewal options, thus making any reasonable estimation of using these renewal periods extremely difficult. Factors that may be present 20 years from
now such as general market conditions, changes in surrounding development, the existence of competitors, estimates of market rents, and many other factors will impact the renewal decision. The estimation involved to determine probabilities of using any lease options to extend or terminate a lease in our view would not provide comparability and consistency across multiple companies and could also allow management bias in the treatment.

We feel that lease renewal terms need to be included in the calculation of the lease asset and liability in order to avoid lease structural strategies designed primarily to avoid their inclusion. A measure such as “reasonable assurance” should ensure that leases are not structured with short initial terms and multiple renewals in order to avoid inclusion. This should remove much of the subjective judgement involved in the proposed standard and thus provide for better comparability amongst reporting entities, while recognizing the contractual obligation in the lease contract.

**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?

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 recognize the objective of having the measurement of the assets and liabilities include all obligations under the lease contract. The concern we have is with the inclusion of some of the contingent amounts proposed to be included. To the extent that contingent amounts include such items as amounts based on the lessee’s sales, they should be excluded from the measurement as the lessor would be basing the amount on forecasting the lessee’s performance into the future without sufficient knowledge of the lessee or their business to make a reliable measure.

We believe that users of financial statements are familiar enough with leases to understand that there are potential additional charges that may increase the reported obligation and adequate disclosure could address these commitments. There would be consistency between entities in the measurement of the calculated obligation.

**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?

We agree that leases should be reassessed when there is a significant change. We believe that the proposed standard should include additional guidance on changes in facts or circumstances that would constitute a significant change.
Question 11: Sale and leaseback

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?

Crombie concurs with the criteria for classification of sale and leaseback transaction.

Question 12: Statement of financial position

(a) 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? 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?

(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, totaling to a net lease asset or lease liability? 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? 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?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

(b) While Crombie agrees with the notion of presenting a net lease asset or liability, we are concerned with the concept in that it does not appear to meet the existing IFRS requirements for the right to offset on the statement of financial position. IFRS has been built on a basis of principles and application of those principles. IAS 1 Presentation of Financial Statements, paragraph 16 states “…An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs”. We feel that encouraging or allowing non-adherence to a standard in one instance is tantamount to allowing specific industries or countries to apply their own interpretation of IFRS. If the liability meets the definition of a liability, then it should be presented as such.

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? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?
As previously noted, Crombie is concerned with the different characterization of the components of income between an entity that chooses the fair value model and the cost model for investment properties. We do agree that lease income and lease expense should be presented separately from other income and expense in profit or loss.

**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? 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?

Once again, Crombie is concerned with the lack of comparability resulting from the proposed standard between an entity that chooses the cost model versus one that chooses the fair value model.

**Question 15: Disclosure**

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) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows? Why or why not? If not, how would you amend the objectives and why?

We agree that note disclosures should be enhanced to disclose the amounts recognized in the financial statements relating to leases as well as any impact leasing activities would have on future cash flows.

**Question 16: Transition**

(a) The exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach. Are these proposals 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?

Crombie believes that the retroactive application of these principles for all leases of a company would be an onerous task. Should the proposed standard be implemented, we believe that entities should have the option between full retrospective application and the simplified retrospective approach to all leases at the transition date.

**Question 17: Benefits and costs**

Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?
As the proposed standard currently exists, we do not agree with the boards’ assessment that benefits would outweigh the costs. We believe that the boards need to spend time on outreach and field testing before completion of any final standard on this complex subject.

**Question 18: Other comments**

**Do you have any other comments on the proposals?**

The proposed standard states that an entity that is a lessor and measures investment properties at fair value under IAS 40 shall apply IAS 40 and not this proposed standard. As noted in our response, this will result in different reported operating results and reduce the comparability amongst entities in the same or similar businesses. These differences could be substantial enough that users will no longer be able to make the necessary adjustments to properly assess similar operations.

On acquisition of an investment property with in-place leases, the purchase price would reflect the value of existing in-place leases. It would appear that if an entity chooses the cost model under IAS 40, the purchase price of the investment property would be allocated to the components of the property and then, under the proposed standard, an additional lease receivable asset would be recorded. While an entity with an identical property purchase, using the fair value model under IAS 40 would not record this additional lease receivable asset. We believe that this results in a double-recording of an asset and that the total asset value far exceeds the anticipated inflow of future economic benefits. We also feel this reduces the comparability of financial statements of similar entities.

On first time adoption of IFRS, entities who choose the cost model under IAS 40, have the option to adjust investment properties to fair value at the transition date, and to have this amount be their deemed cost for IFRS purposes. Two similar entities, one choosing the fair value model, and the other choosing the cost model, would then have similar opening values for their investment properties. The proposed standard would then require the entity using the cost model to set up the gross amount of the lease receivable asset and offsetting liability, while the entity choosing the fair value model would be excluded from the proposed standard. On transition to the proposed standard, we believe that this would result in a double-recording of the related asset.

We are concerned with the suggested timelines for the issuance of a final lease standard. Lease accounting is a very complex issue with far-reaching impact on many industries and entities. While there are deficiencies with the current standard, a new standard should be seen to be a significant improvement over that which currently exists. We feel there needs to be an opportunity for field study and test application, as well as additional outreach of the proposed standard prior to finalization.

We appreciate the opportunity to share our views on the Lease ED and look forward to the development of a final standard on this topic. We would be pleased to discuss our comments with the IASB or its staff. Please contact either Ken Turple at 1-902-755-8100 extension 3103 or Glenn Hynes at 1-902-928-1738.
Respectfully submitted,

CROMBIE REIT

Glenn Hynes
Chief Financial Officer & Secretary