January 12, 2011

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

Subject: Comments for Leases Exposure Draft – August 2010

Dear members of the International Accounting Standards Board,

Suncor Energy Inc. is Canada’s largest integrated energy company. Suncor’s operations include oil sands development and upgrading, conventional and offshore oil and gas production, petroleum refining and product marketing. We are listed on both the Toronto and New York stock exchanges.

We have reviewed the joint IASB/FASB exposure draft Leases and have prepared some comments for your consideration on specific matters.

Disclosure-Only Alternative

Suncor recommends that the Board provide an evaluation of an alternative solution, one that involves only improving the quality and depth of disclosures describing leases and other commitments. Suncor believes that an evaluation of this alternative is relevant for several reasons.

First, the results of the Board’s cost-benefit analysis of its own proposals should be contrasted with the results of a cost-benefit analysis of a “disclosure-only” alternative. Although this other alternative does not resolve all of the issues identified by the Board (such as the issue of inconsistent presentation of similar lease arrangements caused by structuring deals), it does provide the additional information users of financial statements are requesting. The aggregate benefits of this other alternative may not compare favourably to those associated with Board’s proposals, but we believe that the costs to implement the “disclosure-only” alternative will be significantly lower than those for the Board’s proposals. This cost-benefit comparison should not have been overlooked or omitted from the Basis for Conclusions.

Second, as an entity that currently reports under Canadian GAAP, we believe that the elimination of bright-line tests in IAS 17 reduces significantly the opportunity to structure deals to avoid finance lease treatment that lead to the inconsistent presentation of arrangements between other entities. The board’s attempt to eliminate all inconsistencies by requiring all leases to be presented as assets and liabilities appears comparatively heavy-handed and does not actually eliminate all differences because of difficulty applying the guidance of IFRIC 4 to more complex arrangements.

Finally, we are not satisfied that the board’s definition of a right-of-use asset is sufficiently rigorous. The board has not provided a convincing distinction between a right-of-use asset created by the existing guidance in IFRIC 4 and the right-of-use asset potentially created by entering into other service arrangements or commitments, such as a take-or-pay commitment on a common carrier pipeline.
Benefits and Costs

Suncor does not agree with the Board’s assessment that the benefits of its proposals will outweigh the costs.

Suncor believes the Board has grossly underestimated the costs of conversion by ignoring the pervasive effect of the changes on all facets of entity’s processes and the significant one-time cost to revisit, in greater detail, all existing leases. Suncor also believes that significant cost will be incurred to build reporting systems for groups of leases about which investors are less interested in having more detailed information.

- **Pervasiveness of proposed changes:** The Board’s proposals affect more than just the typical finance department in a reporting entity. Change management activities would require company-wide initiatives affecting all departments, from strategy development through to procurement and information technology functions, and then on to day-to-day operational procedures. Recent experiences implementing Sarbanes Oxley and IFRS suggest that the cost of such major initiatives are always significantly higher than anticipated due to the pervasive nature of the changes and the number of people and processes affected.

- **Revisiting all existing leases:** The cost of initial conversion will also be high because existing lease management systems, if they exist, will not contain the necessary information required to satisfy the broader set of issues affecting the calculation of expected lease payments under the Board’s proposals. Many reporting entities will be starting from scratch, forced to revisit each existing lease arrangement separately.

- **High cost / low value information:** Suncor is particularly concerned that it will incur the greatest cost seeking implementation solutions to present information about groups of leased assets that will provide limited value for users of its financial statements. The cost to implement the Board’s proposals for the small number of unique or significant leases that Suncor is party to would not be onerous. However, Suncor has a substantial number of light vehicle and retail marketing site leasing arrangements where it would require considerable effort to implement accounting systems for recording and maintaining lease accounting records. Suncor does not believe that spending 80% of a budget to provide information on the least important 20% of arrangements is cost-beneficial.

Suncor also does not agree with the relative value the Board has placed on the various cost-reducing concessions noted throughout the Exposure Draft and Basis for Conclusions. Suncor believes these concessions do not offer the relief to administrative burden that is implied and hence do not sway the cost-benefit analysis in favour of the proposed changes.

- **Discounting short-term leases:** It is unlikely that many reporting entities would have determined that the impact of discounting leases less than one year was material. On the contrary, Suncor would expect many reporting entities to implement practices, justified by materiality analysis, which would not discount payments for leases with durations longer than one year.

- **Reassessment of insignificant changes:** The requirement to only reassess leases when there is a significant change in the expected lease payments does not relieve reporting entities of the burden of designing, implementing and maintaining a system that can identify such leases at any reporting date. Given the complex nature of all the variables – contingent rentals, renewal options and residual value guarantees – that now determine expected lease payments, the cost of actually making a change to a
lease record is probably fairly minor in comparison to the cost required to identify that lease record. Suncor does not believe that the Board’s intent is to encourage entities to have insufficient controls over this identification process, so the anticipated time savings offered by this reassessment clause may be minimal.

Also, the concept of not modifying lease records for insignificant changes to lease payments may not be as practicable as envisioned. Imagine a retail operation whose lease payments are affected by the entity’s overall sales. Is it significant if sales forecasts increase by 2%? A decision not to adjust lease records for the expected change in lease payments creates a more confusing earnings presentation, impacting earnings in depreciation, accretion and now some other element of expenses that represent the incremental lease payments that were not adjusted into the value of the asset and liability. Since this disparity results in neither improved financial nor management reporting, the entity is likely to incur the cost to make the changes to its records. Suncor does not believe this progression of events is cost-beneficial, nor does it provide better information than simply having the lease payments expensed as incurred.

**Presentation on the Statement of Cash Flows**

Finally, Suncor does not believe that the cash flows arising from leases should be presented (in their entirety) as financing activities (paragraph 27 of the Exposure Draft). The Board has not deemed it necessary to label lease obligations as debt (opting for “obligations to make lease payments”) so it does not follow logically that the non-accretion portion of lease payments should be included as financing activities. The nature of the lease payments is most likely best presented as an operating activity. Where there are differences between actual and estimated contingent rentals, Suncor expects that the difference would be reported as an operating activity, as opposed to a financing activity (where the balance of the cash outflow for the lease payment is proposed to be presented). Again, this presentation standard does not appear to improve financial reporting.

We appreciate the opportunity to respond to you on this important matter.

Yours truly,

_Suncor Energy Inc._

[Signature]

Jon McKenzie
Vice President and Controller