

SNC-LAVALIN GROUP INC. 455 René-Lévesque Blvd. West Montreal, Quebec Canada H2Z 1Z3

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December 15, 2010

Via "Open to comment" page on www.iasb.org

Sir David Tweedie Chairman International Accounting Standards Board 30 Cannon Street London United Kingdom EC4M 6XH

Re:

Comment Letter from SNC-Lavalin Group Inc. regarding the IASB and FASB

Exposure Draft "Leases"

Dear Sir Tweedie,

SNC-Lavalin Group Inc. ("SNC-Lavalin"), with its global workforce totalling approximately 23,000 people, provides its clients with engineering and construction, and operations and maintenance expertise. The Company has a network of offices located across Canada and in over 35 other countries around the world, and is currently working on projects in some 100 countries, making it the leading engineering and construction company in Canada, and among the leaders in the world, as well as a leader in operations and maintenance in Canada. SNC-Lavalin also makes selective investments in infrastructure concessions.

Engineering and construction expertise is provided by SNC-Lavalin and its employees under the form of Service or Package activities:

- Services: include contracts in which SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning.
- Packages: include contracts in which SNC-Lavalin takes on the responsibility not only for providing one or more of the Service activities listed above, but also undertakes the responsibility for providing materials and equipment along with possible construction activities.



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Services and Packages activities are offered to clients in multiple industries including, amongst others, Infrastructure and Environment, Chemicals and Petroleum, Power, and Mining and Metallurgy. Operations and Maintenance activities are provided to clients in multiple lines of business, which include facility management, industrial assets, transportation systems, water treatment and distribution, and defence and remote camp logistics. SNC-Lavalin's expertise in Operations and Maintenance activities permits it to combine such activities with Services or Packages, thus offering all-inclusive expertise to meet clients' needs, which also complements its Infrastructure Concession Investments.

The Accounting Standards Board of Canada has approved the adoption of International Financial Reporting Standards ("IFRS") effective for year ends beginning on or after January 1, 2011 for Canadian publicly accountable enterprises. The adoption of IFRS will directly affect the financial reporting of SNC-Lavalin.

The joint initiative by the IASB and FASB to develop a decision-useful lease model is a significant task and we welcome the opportunity to provide our comments by responding to this Exposure Draft.

The following comprises the response to the joint IASB¹ and FASB² Exposure Draft on *Leases*, dated August, 2010 ("ED").

General remarks on the ED

While we acknowledge that the current accounting for leases could be improved, we are of the view that the cost associated with the added complexity of the model (as demonstrated by the number of questions to comment brought by the ED) and the time involved to manage it, outweigh the perceived benefits. Furthermore, we are of the view that the use of a single model as proposed by the ED (compared to what currently applies to lessees) eliminates the need for any professional judgment surrounding the facts at hand, which we are of the view fails to achieve the main goal of all financial statements; to deliver relevant and reliable information to the users.

¹ International Accounting Standards Board ("IASB")

² Financial Accounting Standards Board ("FASB")



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Substantial changes to the current lease model will require a significant investment by every company with no obvious benefit. As such, we are concerned with the practical considerations of the ED and costs versus benefits of applying the ED proposals.

Conceptually, the proposal to recognize a right to use asset and liability to make lease payments makes sense; a contractual liability to make lease payments does exist, and conversely a contractual right to receive something exists. However, we are of the view that the Boards should articulate a clear conceptual basis for the different approaches proposed between leases and other non-lease contracts, such as employment agreements or long-term contracts and commitments. A contractual liability to make payments can exist on other types of contracts, without any guidance to recognize a right to use an asset and to incur a liability.

We would also like to raise the following issues on the proposed ED:

Regarding the derecognition approach proposed for lessors, we are of the view that, practically, this approach removes from the balance sheet an asset that legally belongs to the lessor. We are of the view that this would be misleading to users, especially users who may have a lien on such an asset. Regarding the performance obligation approach proposed for lessors, a lessor would have amortization from its existing long-lived assets, interest revenue and lease income. Different income streams could suggest different lines of business. While it is possible, in certain situations, that a lessor is in substance a financing entity that should be recognizing interest income, most lessors are not in substance financing entities. Using the proposed model, more revenue will be recognized at the beginning of the lease as opposed to the end of the lease.

The proposed approaches for short-term leases conflict with actual standards and other approaches of the ED. For lessees, allowing undiscounted amounts to be recognized for short-term leases as a general guideline is different from the current guidelines on other standards, such as provisions, where the use of discounted amounts is not required if it is not significant. For lessors, having the choice on a lease-by-lease neither to recognize any liability or asset nor to derecognize any portion of an asset is inconsistent and will confuse the readers of the financial statements. In our view, recognizing or not an asset or a liability on its balance sheet should not be an accounting policy choice. It should be in accordance with the underlying definition. The fact that such a choice would be proposed supports, in our view, that the costs of the proposed approach outweighs the benefits.



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We also disagree with the proposed approach because the lease should be determined as the longest possible term that is more likely than not to occur, and that contingent rentals and expected payments under term option penalties and residual value guarantees should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique. Where business models and economic data change rapidly, this will require significant estimates that will require more work and which will not result in useful or adequate information to the users of financial statements.

Please do not hesitate to contact us if you have any questions to our comments.

Yours very truly,

Pasquale (Pat) Di Lillo, CA

Senior Vice-President and Controller

c.c.: Marc-André Lacroix, M.Sc., CA

Assistant Controller