

Sir David Tweedie
IFRS Foundation
30 Cannon Street
London
EC4M 6XH

20 December 2010

Dear Sir David,

ED/2010/09 Leases

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA, founded in 1919, is the world's leading and largest professional body of Management Accountants, with 172,000 members and students operating at the heart of business in 165 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

CIMA has long advocated eliminating the different accounting treatment for operating and finance leases. The Report Leadership publication 'Tomorrow's Reporting Today' released in 2006 by CIMA and others identifies the inclusion of operating lease commitments within the debt structure of an entity as one of the ways in which corporate reports can be improved. We firmly support recognising material obligations associated with all forms of lease in the statement of financial position.

We generally agree with the IASB's proposals contained with the exposure draft other than in three areas:

Short-term leases

We believe that it is essential that lessor accounting and lessee accounting are symmetrical in their treatment of lease arrangements. Although we welcome the Board's recognition of a category of lease of less than one year as 'short-term' we believe that lessor and lessee accounting for such leases should be consistent.

The Board's proposals for lessee accounting for short-term leases is still based on 'capitalisation and amortisation' and for such leases we believe that this approach would be misleading and not reflective of the commercial substance of the lease which is genuinely to rent an asset to fill a short-term need of the business as opposed to a form of financing.

Lessors, on the other hand, may elect not to recognise assets and liabilities arising from a short-term lease in the statement of financial position. We would prefer that this is not just an option but the mandated accounting treatment as this most closely reflects the commercial realities of the transaction.

However, for such short-term leases to be excluded from the recognition in the statement of financial position, there should be no pattern of linked rollovers of the lease arrangements or opportunities for the lessee to roll-over on preferential terms.

Options to renew

We also disagree with the Board's tentative decision that the lease term should be the 'most likely' lease period. We would prefer the lease period to be the minimum lease term which would include any extension period where the lessee is commercially or economically compelled to extend the lease i.e. optional extension periods are included if it is commercially inconceivable that the lessee would not exercise his right to use the asset in the optional period. In our view this treatment best reflects the commercial basis of the transaction.

We are also concerned that the inclusion of an optional extension period within the lease term where there is no commercial or economic obligation to extend is inconsistent with the definition of a liability. A key element of a liability has to be 'a present obligation' and as such a lease liability would not meet this definition. We believe that this creates a position where lease liabilities are inconsistent with other liabilities and it draws into question the conceptual basis of the recognition of all liabilities. We understand the concern of the Board to address structuring issues however we feel this would be better dealt with by disclosure than by inclusion of a conceptually unsupportable liability on the statement of financial position.

In this respect we support the alternative view expressed in paragraphs AV2-4.

Contingent rentals

We believe that the measurement of the lessee's obligation to pay rentals should be based on the most likely rental payment rather than a probability weighted estimate. The most likely rental payment would be estimated after considering the range of possible outcomes and should be consistent with the company's current strategic plans.

We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

Nick Topazio

Nick Topazio
Business & Financial Reporting Specialist,
Financial Reporting Development Group
CIMA
London

Charles Batchelor

Charles Batchelor
Chairman of Financial Reporting Development
Group
CIMA
London