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CRUF Canada would like to thank the IASB Staff for the opportunity to provide input on the IFRS lease accounting exposure draft. CRUF Canada has met several times to discuss accounting for leases most recently on September 10, 2013. CRUF Canada is aware of the comment letter prepared by the CRUF internationally but CRUF Canada participants did not actively participate in the development of that comment letter.

CRUF Canada general comment points:

1. CRUF Canada agrees with the IASB approach to lease accounting as a reasonable compromise.
2. CRUF Canada participants specifically support bringing lease liabilities onto the balance sheet in the case of most lease contracts, including leases currently classified as operating leases.
3. The group does not support a disclosure-only solution to the issues identified with the current leasing standard.
4. CRUF Canada would have preferred a single accounting method for all leases but respects the decision of the IASB to have Type A and Type B leases as a necessary to align the wide range of views on the best accounting.
5. CRUF Canada may be agnostic on measurement of leases on the balance sheet and in the income statement but the group's views on disclosure are cohesive. CRUF Canada views the following disclosure as an absolute minimum:
 - a. A "Total Lease Expense" table that specifies all leases and rentals, interest expense from leases, variable portion of lease expenses, lease expenses relating to leases <1 year (effectively the CRUF and Eumedion requests)
 - b. Contingent rent information in tabular form to include at a minimum: amounts paid by class (either by type or geography), the amounts the year before under the same classification and the key variables that impact the contingent rents,
 - c. Details of the assumptions underlying the expected lease term with extension or cancelation clauses. Including management's expectations for renewals within the next 18 months,
 - d. Expected rental and lease payments for the next year at least, the underlying assumptions and reasons for any changes in the assumptions from the previous year.
6. CRUF Canada believes that the IASB has successfully discharged its responsibility to consider and incorporate the many differing points of view in developing the proposed lease standard.



CRUF discussion summary from the September 10, 2013 meeting:

On- balance sheet recognition of all leases

There was a general consensus amongst CRUF participants that leases should be on the balance sheet and the exposure draft was an improvement on the existing leasing standard.

Measurement of leases – lease term options

CRUF discussed the requirements for measurement on lease term options – i.e. what constitutes a “significant incentive to exercise”. It was clarified that market conditions alone do not change a conclusion of “significant incentive to exercise” after initial recognition, but there must be a “real” change. However no significant concerns were raised regarding the threshold for measurement of lease payments in respect of the lease term.

Measurement of leases – variable payments

CRUF discussed the proposed exclusion of variable payments from the measurement of the lease liability (right of use asset) unless the payments are linked to an index or are “in-substance” fixed payments. There was some concern that this did not reflect the economic substance of the lease, whilst conceding that any estimate of variable payments in the longer term introduced a considerable element of uncertainty. CRUF participants noted this trade-off and generally agreed that not including the variable payments in the lease liability was acceptable as long as there is adequate disclosure regarding the variable payments.

It was noted that currently the ED requires the amount of current year expense of variable lease payments to be disclosed, and a qualitative discussion of the “basis, and terms and conditions on which variable lease payments are determined”. CRUF had some discussion on whether this was sufficient for their needs. CRUF participants would ideally like management to indicate their best estimate of future variable lease payments – at least over a reasonably short time horizon (e.g. 12-24 months) and to compare actual expense incurred to previously estimated numbers. An alternative disclosure might be to indicate whether the current year variable expense is a good estimate of future payments.

Income statement presentation

While CRUF would like one model, they recognize that it may not be practical. Comparability between entities is important, and disclosure to enable comparability is essential – e.g. the interest portion on lease liability for “property” leases is important as allow comparability to the interest expense of entities with other-than-property leases. CRUF participants did not raise any significant concerns over the presentation of an amortization + interest expense for other-than-property leases and a single lease expense number for property leases. Although in a previous meeting, participants have pointed out that straight line amortization of the right of use asset is not conceptually superior to any other method because most equipment has a one-year warrant.



Lessor accounting

CRUF briefly discussed lessor accounting and the concept behind whether a real estate lessor was recognizing an asset or whether they were recognizing leases. There is not expected to be a change in the accounting for real estate lessors – in effect the leases are captured as part of the fair value measurement of the investment property (i.e. recognizing the property asset). However this is different from the model for other-than-property lessor accounting, where the asset accounting is split into an asset that represents the lease (the lease receivable – that has credit risk) and the residual asset (that has asset risk).

About the Corporate Reporting Users' Forum (CRUF) The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

A CRUF Canada meeting specifically seeks to explore and understand the differences in opinions of participants. CRUF Canada does not seek to reach a consensus but instead focuses on why reasonable participants can reasonably have different positions. This letter is a summary of the range of opinions discussed at the meeting held on September 10, 2013.

Although this letter was circulated to the participants and further input included, this letter may not reflect correctly all the positions held by the meeting participants. This letter does not represent the position of any individual or sub-group of participants in particular the undersigned. Nonetheless, the undersigned acting as an individual believes this letter represents a fair approximation of the range of positions held.

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