



Australian Government
**Australian Accounting
Standards Board**

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Mr Robert Garnett
Chairman – IFRIC
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Bob,

IFRIC Tentative Agenda Decision
IAS 17 Leases – Recognition of Contingent Rentals

The staff would like to comment on the tentative agenda decision concerning the recognition of contingent rentals under an operating lease, which was published in the May 2006 edition of *IFRIC Update*.

The proposed agenda decision states IFRIC's view that IAS 17 *Leases* is unclear on the issue of whether contingent rentals should be included in the total lease payments/receipts to be recognised on a straight-line or other representative basis over the lease term. However, it is our view that the wording is unambiguous, requiring the estimated contingent rentals over the lease term to be included in the calculation of lease expense/revenue from the commencement of the lease. As paragraph 33 of IAS 17 refers to "lease payments" rather than to "minimum lease payments", there can be no doubt that it encompasses contingent rentals.

The definition of "contingent rent" even states that contingent rents are lease payments. Furthermore, the disclosure requirements in paragraph 35(c) of IAS 17 clearly indicate that lease payments include both minimum lease payments and contingent rents.

The Australian version of IAS 17 (AASB 117 *Leases*) includes a list of differences between AASB 117 and the pre-IFRS Australian accounting standard on leases (AASB 1008 *Leases*). One of the differences relates to the treatment of contingent rentals under an operating lease, as follows:

"A.6 Contingent rentals under an operating lease

AASB 117.33 requires a lessee to recognise operating lease payments as an expense on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit. AASB 1008.8.1 requires a lessee to recognise that part of lease payments comprising contingent rentals as an expense in the reporting period in which the contingent rentals are incurred. Therefore, the basis on which contingent rentals under an operating lease are

recognised as an expense by the lessee under AASB 117 will differ from the basis on which they are recognised as an expense under AASB 1008.”

AASB staff had confirmed this treatment of the contingent rentals under IAS 17 with IASB staff when the list of differences was being developed in early 2004. The list also covers the recognition of contingent rentals as operating lease revenue by a lessor.

Given the difficulty of reliably estimating contingent rentals arising in the future, we do favour the approach of excluding contingent rentals from the recognition of operating lease payments over the lease term. However, the current wording of the Standard does not allow that approach and it is not universally adopted in Australia.

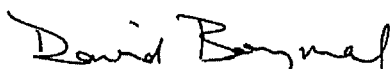
In jurisdictions such as Australia where IFRSs or the local equivalent are given legal standing, a reference to common practice is insufficient to support an interpretation of the Standard that is contrary to its express wording. Given the clear present wording of the Standard, there is no scope for an entity to rely upon an inference of accounting consistent with that of finance leases were its accounting for operating leases to be called into question in a court of law or by a regulator.

Therefore, we strongly disagree with the proposed statement of IFRIC’s tentative agenda decision. In our view, the IFRIC is attempting to modify the wording of the Standard through a non-authoritative agenda decision.

If the exclusion of contingent rentals from the amount to be recognised over the lease term is supported by the IFRIC, the IFRIC should refer the issue to the IASB so that amendment of IAS 17 can occur via the appropriate due process. In this case, we submit that the wording of paragraphs 33 (re lessees) and 50 (re lessors) should be amended to refer to “minimum lease payments”. The AASB would need to consider a unilateral correction of the wording in its equivalent to IAS 17 if the wording of IAS 17 is not changed by the IASB.

Please contact me if further information or clarification is required.

Yours sincerely,



David Boymal
Chairman, AASB and UIG