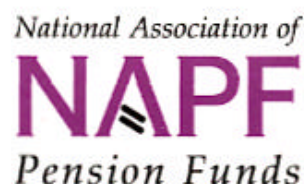


13 September 2002

International Accounting Standards Board  
30 Cannon Street  
LONDON  
EC4M 6XH



Dear Sirs

### **IAS 17 & IAS 40**

The National Association of Pension Funds (NAPF) is the UK's leading body representing the interests of those who provide and support employer sponsored retirement provision. Today, pension fund assets total around £600 billion of which over half is invested in UK companies. Since such a high proportion of pension fund assets are held in the UK domestic market, including an increasingly significant proportion in the property market, the UK's pension funds have a very significant interest in the prosperity of UK companies and their ability to be entrepreneurial. The Nape itself represents some 1000 planned sponsors as well as over 400 leading organisations providing professional services such as actuarial, fund management, investment consultancy, accountancy and legal services to pension schemes.

The Nape is concerned about the Board's proposed changes to IAS 17 which would lead to property leases being split and accounted for separately with a lease of land treated as an operational lease and a lease of buildings as a finance lease or an operating lease, depending on the terms. The Nape is also concerned about changes to IAS 40 which would mean that, where long leasehold interests are treated as an investment property, the lease obligations as represented by the head lease must be accounted for as finance lease and, consequently, grossed up as a liability.

The Nape does not believe that, under IAS 17, leases of land and leases of buildings should be notionally split and accounted for separately under the revised standard.

With regard to IAS 40, the proposal is welcomed that a lessee's long lease in a property can be treated as an investment property. The Nape does not agree, however, that it should be a pre-requisite under the fair value model that a lessee's property interest should be accounted for as a finance lease.

Both these proposals introduce unnecessary complexity into an area which, in the UK, is currently straightforward and which meets the needs of users of Financial Statements. They will lead to increased costs for all companies preparing IAS Accounts and for no discernable benefit to users. They also seem to fly in the face of logical argument since it is simply not possible to have a building without paying for the land on which it is situated. However the whole area of lease accounting is being reviewed at present by the Accounting Standards Board on behalf of the IASB and requiring systems changes to be made now, when the systems may need further change in due course, seems unnecessarily bureaucratic and likely to lead to wasted cost and effort.

The NAPF is aware that the British Property Federation is submitting a detailed response to the IASB proposals and we fully support their arguments and suggested amendments to the revised IASB proposals.

This letter is being copied to the ASB.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Pryce', with a long horizontal stroke extending to the right.

**Tony Pryce**  
**Secretary to the NAPF Property Sub Committee**

Copy to: Andrew Lennard, ASB