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20 June 2011

Sir David Tweedie
Chairman
The International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH

Dear Sir David

LEASES PROJECT DEVELOPMENTS

Further to some recent tentative decisions made by the IASB in respect of the Leases project, we should appreciate your consideration of our comments below, relating to:

- Re-exposure of final proposals
- Foreign exchange

Our comments focus on accounting for lessees only.

Air New Zealand ("Air NZ") is party to a significant number of lease arrangements for mainly aircraft and property. As such, we have a vested interest in ensuring we voice our opinion on the development of the new standard on leases. To date, we have participated in a lessee workshop in Melbourne, Australia, and previously met with you in Wellington, New Zealand in late 2010. As noted in our submission on the Leases Exposure Draft (comment letter #741), Air NZ supports the general principles within the original Exposure Draft for financial reporting of leases by lessees, of recognising assets and liabilities arising under leases in the Statement of Financial Position, although we did have significant concerns around the treatment of foreign exchange.

We have also supported most of the proposed developments subsequent to the original exposure draft, with a few recent exceptions. We were encouraged by the delay in the expected date of publication of the final IFRS as this suggested that the Board was not rushing decisions in the interests of meeting a self-imposed deadline, but rather was committed to producing a quality standard which incorporated robust solutions to preparers' main concerns.

The issues raised in this letter are as follows:

Re-exposure of leases proposals

Since the comment deadline of December 2010, there have been a significant number of re-deliberations of the original proposals contained within the Leases exposure draft.

We note that whilst the original exposure draft effectively scoped out existing finance lease arrangements where a bargain purchase option existed at the inception of the lease, the Boards tentatively decided at their 14 March 2011 meeting that guidance should not be provided within the Leases standard for distinguishing a lease from a purchase or sale of an underlying asset. At the same meeting, the Boards also tentatively decided that lease payments should include the exercise price of a bargain purchase option in the lessee's liability to make lease payments.

These tentative decisions brought existing finance leases containing a bargain purchase option back within the scope of the Leases standard. Our preliminary analysis of the impact of this change suggests that some significant differences will arise in accounting for such finance leases when compared to existing accounting treatment. Such significant differences warrant further discussion.

Given that preparers have only had opportunity to comment on concerns arising in respect of the original exposure draft, and that re-deliberations have resulted in tentative decisions that raise new concerns and matters requiring clarification, Air NZ respectfully requests that the leases standard be re-exposed prior to final publication.

Given the significance of transactions and balances arising under lease arrangements, it is imperative that the Boards are completely satisfied with the robustness of their proposals.

Foreign exchange

We disagree with the Boards' tentative decision at the joint Board meeting held on 31 May – 2 June that foreign exchange differences relating to the liability to make lease payments should be recognised in profit or loss, consistent with foreign exchange guidance in existing IFRSs and US GAAP.

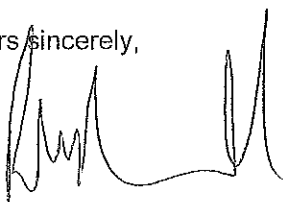
As you are aware, reporting entities, within the airline and shipping industries in particular, will experience significant foreign exchange volatility as a result of this requirement. In respect of operating leases (as currently defined under IAS 17) this volatility arises through an accounting requirement rather than the creation of any additional economic exposure.

Whilst current operating lease obligations are taken into account in assessing hedge cover requirements, it would be impractical and excessively expensive to put cover in place on the term obligations when they are brought onto the statement of financial position.

Our policy is to continue to make rational risk management decisions based on real economic exposures as opposed to achieving a particular accounting outcome. The fact that foreign exchange volatility will be recognised in the current period's earnings in respect of lease obligations which will not be incurred for many years to come and where the Group does not bear any of the residual risk relating to the leased asset, does not provide decision-useful information to users of the financial statements. Our preference would be to instead adjust the right of use asset for foreign exchange differences arising on retranslation of the foreign currency denominated liability to make lease payments, as they relate to future reporting periods. This more appropriately represents the underlying economics and would avoid users having to re-work the IFRS financial statements.

If you have any queries or require further clarification of any matter contained in this letter, please contact either Glen Bond (glen.bond@airnz.co.nz) or myself (rob.mcdonald@airnz.co.nz).

Yours sincerely,



Robert McDonald
Chief Financial Officer

cc. Hans Hoogervorst
Ian Mackintosh
Warren McGregor