CFA UK is a member society of

Rachel Knubley
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

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Response to DP on Leases

Dear Rachel,

Thank you for your excellent presentation of the key questions contained within the Discussion Paper on leases at our Accounting Advocacy Committee meeting on July 6th. Thank you, too, for providing our committee with the opportunity to present comments on the paper after the close of the official deadline for responses.

The committee's intention in these comments is to provide its broad feedback on the paper rather than to answer in detail the questions raised in the paper.

As you know, the CFA Society of the UK (CFA UK) represents the interests of more than 8,500 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members.

The society's advocacy activities are directed by the Accounting Advocacy and Investment Profession Advocacy committees which are wholly composed of CFA UK members working in the investment profession. CFA UK supports the CFA, Associate (ASIP) and IMC designations. Most members hold either the Chartered Financial Analyst (CFA), or Associate designation. CFA Institute is best known for developing and administering the CFA Program curriculum and examinations and issuing the CFA Charter. CFA Institute's mission is to lead the investment profession globally by setting the highest standards of ethics, education and professional excellence.

Most CFA UK members also belong to the CFA Institute and reaffirm annually their adherence to its Code of Ethics and Standards of Professional Conduct. Both CFA UK and

CFA Institute are committed to providing members with a wide range of continuing education opportunities. All members are encouraged to undertake ongoing post-qualification continuing education.

In addition, CFA UK is the awarding body for the IMC, the benchmark entry-level qualification for those working in investment management in the UK. The examination is accredited by the Qualifications and Curriculum Authority (QCA) and is designated a recommended examination by the Financial Services Skills Council (FSSC) for the purposes of the Financial Services Authority's training and competence requirements. The IMC is held by more than 15,000 investment professionals.

Feedback on leases

The committee notes the IASB's intention to deliver convergence with the FASB on lease accounting standards and the 2011 deadline for projects included in the Memorandum of Understanding with the FASB. However, the committee is disappointed that the scope of the leases project does not include consideration of lessor accounting. In the committee's view, a comprehensive approach to all lease accounting is required and preferred to a compromised, albeit improved, approach to lease accounting. The committee notes that the failure to review standards for lessees and lessors at the same time could give rise to asymmetrical reporting and a situation where a lessee who sub-leases an asset is required to apply two different standards to the same assets. Lessor accounting is a significant concern to the committee and the committee does not support the Board's decision to defer consideration of lessor accounting.

Despite the Board's failure to consider lessor accounting, the committee welcomes the proposed accounting model for lessees observing that it will eliminate the distinction between the treatment for operating and financial leases. While the committee believes that the investor and analyst community is capable of adjusting statements to recognise operating leases, it agrees with the Board that a single, 'right of use' approach is preferable.

In relation to the treatment of leases with options, the committee is concerned that the proposed approach provides lessees with too much scope – through their freedom to determine the term to be recognised – to control the resulting asset/liability recognised. The committee understands the Board's concern that separate recognition of options and the recognition of minimum lease terms enables structuring, but does not believe that the proposed approach represents an improvement.

The committees preferred approach to minimum lease payments and contingent rentals is to recognise a liability for which an actual obligation currently exists and disclose the existence of contractually agreed but uncommitted obligations or options. In addition, the committee believes the treatment of contingent rents should be consistent with the principles in IAS 37.

The committee has not had sufficient time to consider the remaining questions raised in the paper, but it further notes that the Board's review of IAS 39 should be settled in the near future. Would it not be sensible to defer consideration of leases until the project can include treatment for both lessees and lessors and when it is possible to refer to the revised standards relating to financial instrument recognition and measurement and those for revenue recognition and derecognition which also link to leases.

Yours,

Jane Fuller, Chair Accounting Advocacy Committe

Will Goodhart, Chief Executive