

IFRIC Update issued in May 2006 included a tentative agenda decision in respect of recognition of contingent rentals. We understand that IFRIC's attention was drawn to the expense calculated by lessees for rentals, some of which varied over the course of a lease. We are concerned that the tentative decision could be construed also as pertaining to contingent rentals at the stage of lease classification and, if so, would open up a difference between IFRS and US GAAP.

Paragraph 5 of IAS 17 deals with variations in the cost of a leased asset but the standard is silent on the treatment of variations in lease payments when classifying a lease. US GAAP provides guidance on rentals that are contingent at the inception of a lease, requiring that they are included in minimum lease payments. At the moment IFRS preparers would generally consider and apply the US guidance as coming from a standard-setter using a similar conceptual framework.

We suggest that for the sake of clarity IFRIC adds to the first paragraph of its tentative decision a statement that it was not asked to consider contingent rentals in the context of minimum lease payments, nor should current accounting be changed by its decision.

Regards

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