



The South African Institute of Chartered Accountants

23 June 2006

Mr Allan Cook
IFRIC Coordinator
International Accounting Standards Board
First Floor, 30 Cannon Street,
London, EC4M 6XH,
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Email: acook@iasb.org

Dear Allan

AGENDA REQUEST – IAS 17 LEASES – RECOGNITION OF CONTINGENT RENTALS

The tentative agenda decision noted in the May 2006 IFRIC update relating to the recognition of contingent rentals was discussed at a meeting of the Accounting Practices Committee (APC) of the South African Institute of Chartered Accountants (SAICA) on 22 May 2006. This matter is of particular interest to the APC, as it had submitted the request for the item to be addressed by IFRIC.

The APC is in complete agreement with the conclusion reached that the contingent rentals should not be recognised on a straight-line basis. Our concern relates to the reasons given for not adding the issue to the IFRIC agenda, namely that despite the fact that the standard is unclear on the issue, a consistent application is being adopted. As we indicated in our submission to IFRIC, we feel that the standard makes it clear that contingent rentals (being part of the lease payments) should be recognised on a straight-line basis but that that treatment is so clearly inappropriate that it has not been applied by users.

The reasons proposed for excluding the item from the IFRIC agenda appear to imply that provided everyone interprets a standard in the same way, that is an acceptable practice. If the IFRIC considers that the standard is unclear, we think that it would then be appropriate for the committee to issue an interpretation to provide the necessary clarity. If the IFRIC feels that the standard is clear but requires an inappropriate treatment to be followed, then we are of the view that it would be more appropriate to amend the

standard than to imply that it is acceptable provided that consistent application is being adopted. Our major concern is that this example may be used in future as an argument for a treatment that is consistently applied to override the specific requirements of a standard.

Please do not hesitate to contact me should you require clarification of any areas of our request.

We look forward to your response.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Doug Brooking (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)