INDITEX

Arteixo (Spain), July 17, 2009

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Request for views on Proposed Discussion Paper: "Preliminary Views on Leases"

Dear Sir or Madam,

I am writing on behalf of Industria de Diseño Textil, S.A., the parent company of the Inditex Group whose principal activity consists of the distribution of fashion items, mainly clothing, footwear, accessories and household textile products. Inditex carries out its activity through various commercial formats such as Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe, which are managed separately but which share certain corporate functions. Inditex is domiciled in Spain, listed on all four Spanish stock exchanges and, together with its subsidiary companies, comprises the Inditex Group. Each concept's commercial activity is carried out through chains of stores managed directly by companies in which Inditex holds all or the majority of the share capital, with the exception of certain countries where, for different reasons, the retail selling activity is performed through franchises. Most of the 4,264 commercial premises in 73 countries as of January 31st 2009 through which the Group carries out its retail distribution activities are leased from third parties.

Further information about the Inditex Group and its activities is available on our website: www.inditex.com.

Inditex is very pleased to provide comments to the International Accounting Standards Board on its request for views on the Discussion Paper "Preliminary Views on Leases" ("DP"). This letter is structured in two parts: General Remarks and Comments to Specific Issues. The first part presents remarks on the overall DP approach where we express our concerns about the entire concept behind the DP. The second part focuses on certain aspects which we believe should be addressed, assuming that the overall DP approach would stay as proposed.

We would like to inform you that this issue has been discussed in meetings with other companies, and this exchange of opinions has been very helpful to improve the knowledge of each company about the potential effect that the application of the Discussion Paper might have. Nevertheless, although many of the following comments were shared during these meetings, we do have specific comments which are shown throughout this letter. Hence, this letter is exclusively under the responsibility of Inditex Group.

If you would like to discuss any of the issues we describe in this letter, please do not hesitate to contact Ignacio Fernández, Chief Financial Officer, at +34981185364 or by e-mail ignacioff@inditex.com.

Thank you for your attention and we look forward to your views on the points raised in this letter.

Yours sincerely,

Ignacio Fernández Fernández

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General Remarks

1. We are strongly concerned about the approach which has been proposed in the DP and we disagree with the proposed model for the reasons which are explained below. However, we positively accept a review of the current lease accounting rules through enhanced recognition rules and additional disclosures in order to simplify lease accounting and provide final users with clearer and more useful information.

Lack of reliability and comparability in information for users

2. We strongly believe that the proposed model will not improve the quality of financial information and will not provide users with more useful or clearer information. Conversely, serious risks of introducing elements of confusion that would lead to a lack of reliability exist. Particular issues of different industries could potentially emphasize the risk of misleading information. That is the case of the retail industry, where a typical listed retailer can spread business over thousands of real state lease contracts, in several countries with a wide range of lease clauses applying to contingent rents, lease renewals, breaks, etc. and featured usually by the long term of the agreements. We remark the risk of obtaining misleading information from the subjective assessment of the huge and diverse information arising from thousands of lease contracts. Particularly, some categories of primary users of the financial statements, such as the investment community, that would expect to have clearer information about the assets and liabilities recognized in the balance sheet and information which is less subject to judgmental estimates and less volatile. Risks of confusion and volatility arise for instance as a result of:

   - *Significance of estimates*. For business models in which operating leases are a crucial part of the core business, the new model would produce completely different financial statements. In fact, the balance sheet might be affected by a significant increase in assets and liabilities, that would be initially recognized and measured based on a very judgmental criteria.

   - *Reliability of long term estimates*. Under the proposed model, accounting for long-term leases that relates to assets under long or very long lease term would require estimates based on projections for periods for which reliable estimates just cannot be made.

     Under the proposed model, a retailer like Inditex would be required to estimate the period over which it will maintain a store which has just opened (and past experience could not be used as a source of information) and assess, in the event that contingent rental exists and is based on sales, how much sales it will attain through the store, and when.

   - *Volatility of assets and liabilities*. Given the significance of estimates and uncertainties in some scenarios, relevant changes could occur in the financial statements between periods. These changes might not be, in many cases, the result of changes in the entities' assets and liabilities, but the result of changes in the entity's operational or marketing strategies, management's views and business or economic cycle.

3. As already noted, the new reporting scenario will be strongly influenced by management estimates and projections. Given their significance, it should be expected that assets and liabilities recognized with respect to leases will significantly differ between entities thus comparability being seriously jeopardized.

   The model proposed in the DP would cause dramatic alterations to key financial measures that are commonly used to evaluate entities' performance and business models in general. As already mentioned, the retailers would be particularly affected in an important financial issue which is cash generation. The proposed change would take a significant operating cost from EBITDA- a widely used measure in the sector- to finance and depreciation costs, reducing the usefulness of this measure and the relevance of profit and loss account to measure operating performance. Additionally, the proposal does not address cash flow statement presentation, on the operating/investing/financing activities, as presentation as investing/financing activities would be misleading, particularly in a retail context. Some of the main expected impacts would be the following:

- The proposed changes will present a balance sheet and income statement that does not reflect the *commercial understanding of the business*. A simple shareholder or final user would never imagine that a retailer should book an asset for the use of a store that is clearly and in substance owned by a third party landlord (particularly in shopping mall or high street arrangements). Further the majority of users understand a P&L with “lease expense” as opposed to a “non commercial” presentation of depreciation of a theoretical asset and interest cost.

- The *existing executory contract approach* to accounting for operating leases in the retail context is well established, well understood, is consistently applied by preparers of financial information and presents financial reports that conceptually users can easily link to the commercial operations of a retail business. While there may be some views that structuring opportunities have been established in certain industries, this is not the case in retail store leasing and consequently the proposed changes will significantly diminish the existing quality of financial reporting of retailers.

- The *limited number of users who may adjust the existing “executory” approach* are generally sophisticated enough to be able to use the financial information currently presented to meet their individual needs (which in practice are invariably inconsistent from user to user). We would also observe that when the executory contract approach to leases is adjusted by such users, only the liability for potential future minimum lease payments is recognised and this is performed as part of the investment community.

- We reject the view that users adjust balance sheets to create a “lease right to use” asset as proposed in the discussion paper. We believe that users of the proposed financial information will continue to extract and adjust presented information to suit their own needs when assessing the business.

4. Although we understand that estimates and projections of a similar nature are made for other purposes with respect to other non financial assets (i.e. IAS 36), generally, these do not support initial recognition and measurement, which is initially based on known or much more objective or evidential information. Furthermore, even in such instances, estimates are usually restricted for periods exceeding the period over which projections may be considered reliable.

5. There are no doubts about the increase in administrative work related to the follow up of the lease contracts for accounting, legal and tax purposes. For certain types of businesses, the processes that would inevitably result necessary to account for, perhaps, thousands of lease agreements which would be material as a whole, would require more than significant efforts.

6. We believe that the principle of Balance between benefit and cost contained in the *Framework for the Preparation and Presentation of Financial Statements* is not met in the proposed DP: while the benefits of the proposed approach are strongly arguable, the costs would significantly increase.

Inconsistency with the Framework for the Preparation and Presentation of Financial Statements and other International Accounting Standards

7. According to the scope of the discussion paper, we believe further clarification on "non-cancellable" (lease contract) concept is needed, as it may be a discrepancy between this concept and the "right of use" one. According to the current position, "non-cancellable" means that there are no doubts of the fulfillment of the lease term. Therefore, a lease contract that can be cancelled at any time by the lessee may not comply with the "non-cancellable" definition.

8. We are strongly concerned about whether the obligation to pay rentals, as currently defined in the DP, meets the definition of a liability as defined in the Conceptual Framework. At least for the options, renewals and contingent rentals features, there is not a present obligation at inception and therefore this obligation should not be recognized. Moreover, accepting such a definition of liability would again raise additional questions on other obligations and would therefore trigger the recognition of liabilities for future events or expenses, which is currently prohibited by IAS 37.

9. We have concerns whether the definition of the right of use as an asset is too wide and opens additional uncertainty over other areas. In fact, following the approach proposed in the DP, any right that conveys the right to use an asset, controlled by the reporting entity and embodying economic benefits could potentially be recognized in the balance sheet. Example of these types of rights would be long-term supply contracts or service contracts.

10. An identification of the asset ("right of use") has to be made in the process, complying with the IFRS definition. In operating leases, risk and rewards of the leased asset are retained by the lessor and therefore would not comply either with the asset recognition requirements.

11. Given the concerns raised in the preceding bullet points, we would expect that a change in lease accounting of this size would be addressed after finalizing ongoing projects, especially the one related to the Framework but also those related to Revenue Recognition, Income Taxes, Derecognition, and Financial Instruments, among others. This would make changes to the standards clearer and would improve consistency amongst them, avoiding at the same time further changes to the rules deriving from improvement in the general rules.

12. Accounting for lease contracts from the perspective of the lessee cannot be addressed without addressing at the same time accounting from the perspective of the lessor. We would like to remark that many entities are at the same time lessees and lessors, and therefore there should be consistency in the way lease contracts are accounted for from both perspectives. The current discussion in the DP is too general and it should be more focused on the implications of using the proposed model for lessor accounting.

13. We believe that a simpler approach, together with qualitative disclosures in the notes about contingent rents, options and similar uncertain items (by means of sensitivity analyses, ranges of interest rate applicable to group of contracts with similar characteristics, qualitative information about the most significant contracts and their future developments), would provide final users with more useful and transparent information. This would also be consistent with other disclosures that are a combination of quantitative and qualitative disclosures, such as those required by IAS 36 and IFRS 7.

Comments on specific issues

14. We really appreciate and encourage the Board's effort for improvement of financial reporting and convergence towards one global set of accounting standards. However, we consider that the improvements should seek quality and reliable financial information taking into account the practical aspects of producing financial data. Thus, we believe that the Board should consider all the implications noted above prior to issuing an exposure draft.

15. Having expressed our general view on the basic guidelines of the proposed model, we would also like to point out certain specific comments with respect to some questions raised in the DP. These comments are included in the following section of our letter.

Comments to Specific Issues

Chapter 2: Scope of lease accounting standard

Question 1
The boards tentatively decided to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards. Do you agree with this proposed approach? If you disagree with the proposed approach, please describe how you would define the scope of the proposed new standard.

Please take into consideration the "General Remarks" point. As previously noted, although we support the scope of the new lease accounting standard, we disagree with the current proposed approach, as we believe it will reduce reliability and comparability in financial information while increasing volatility, due to the significance of long-term estimations. In addition, we understand that the proposed approach is not consistent with the Framework and other Accounting Standards. Please also note that we understand that some particular transactions, such us investment property and intangible assets leases differ in the scope of current IAS 17 compared to FASB Statement 13.

Question 2
Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

We believe accounting of leasing contracts should be based on the transaction, not on the term or the type of assets. Companies, on the basis of materiality, can exclude certain insignificant contracts from the scope of this guidance.

Chapter 3: Approach to lessee accounting

Question 3
Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.

We agree that a right of use can be, in certain circumstances, an asset. However, we disagree that the right to use a lease item fulfills normally the recognition requirements as it can not be measured reliably. We also disagree that the obligation to pay rent fulfills the definition of a liability at the commencement date. For instance, beyond the fixed minimum lease term, the remaining periods of the contracts are similar to executory contracts. For most renewal periods a liability does not exist since there is no present obligation resulting from past transactions or other past events, as described in the Framework.

Question 4
The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognise:
(a) an asset representing its right to use the leased item for the lease term (the right-of-use asset)
(b) a liability for its obligation to pay rentals.
Appendix C describes some possible accounting approaches that were rejected by the boards.
Do you support the proposed approach?
If you support an alternative approach, please describe the approach and explain why you support it.

As stated above, we do not support the proposed approach as we believe it removes important information on the nature and management of leased assets and it is inconsistent with current Framework. Also, reflecting all lease contracts in the statement of financial position will not make any distinction between contracts where the lessee is in substance financing the purchase of an asset and contracts where the lessee is actually paying for the service rendered by an asset.

Question 5
The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively decided to adopt an approach whereby the lessee recognises:
(a) a single right-of-use asset that includes rights acquired under options
(b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees.
Do you support this proposed approach? If not, why?

As stated before, we do not believe that amounts payable, even under term extensions, contingent rental agreements and price index adjustments are current obligations, or liabilities, until a further event causes them to be an obligation. Until such event occurs amounts are nothing more than potential future payments that should be evaluated under IAS 37. However, as explained before, qualitative disclosures in the notes about contingencies, options and similar uncertain items, would provide final users with more useful and transparent information.

Chapter 4: Initial measurement

Question 6
Do you agree with the boards' tentative decision to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate?
If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.

As explained before, we disagree with the current approach. Should the Board finally decide that the lessee obligation to pay rentals at present value should be recognised, we believe that in circumstances where the asset could alternatively be bought the lessee's obligation should be measured using the lessee's incremental borrowing rate. Since that is the rate with which a buy or lease decision is made and that is the rate that a lessee would actually pay if the company purchased the asset. In all other instances, the rate implicit in the lease should be used, if it is available.

Question 7
Do you agree with the boards' tentative decision to initially measure the lessee's right-of-use asset at cost? If you disagree, please explain why and describe how you would initially measure the lessee's right-of-use asset.

Please see our "General Remarks" point for a more detailed discussion. We disagree with the current approach and, although we generally accept cost-accounting measure for leases, we do not share the recognition of the lessee's right-of-use as an asset. We generally accept cost-accounting measure for leases, though.

Chapter 5: Subsequent measurement

Question 8
The boards tentatively decided to adopt an amortised cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset.
Do you agree with this proposed approach?
If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favour and why.

We generally agree with an amortized cost-based approach. We do not agree with the context as the amortized cost would be used in as we do not agree with the proposed concept, as it has been previously explained.

Question 9
Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.

We do not believe there should be an option to measure a lease obligation at fair value as this would reduce reliability and further comparability among entities which we consider important in lease accounting. Furthermore, we believe that measuring lease obligations at fair value would introduce an unacceptable degree of subjectivity and unreliability into lease accounting.

Question 10
Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons. If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

As stated above, we disagree with the current approach. Should the Board finally decide that the lessee obligation to pay rentals at present value should be recognised, we do not support the tentative decision of the IASB to re-measure the obligation to pay rentals to reflect changes in the lessee's incremental borrowing rate. We believe that the obligation should not be re-measured for the following reasons:

- Although some argue that the approach is consistent with IAS 37, on the other way the proposed approach would not be consistent with the measurement of financial liabilities under IAS 39. This is supported by the nature of the obligation to pay rentals, which is somehow mixed between an obligation and a financial liability, but closer to the latter.

- The re-measurement of the obligation to pay rentals would not be consistent with the tentative subsequent measurement of the obligation at amortized cost. Similar liabilities measured at amortized cost under existing standards are not re-measured.

- The principle of measurement at inception would not be respected if the liability is re-measured at each reporting date, since the lease rate reflects the conditions of the lease at inception.

- We believe that this approach would add further complexity for preparers, greater room for volatility and changes due to reassessments of judgmental estimates.

- The costs of re-measuring the obligation to pay rentals would also outweigh the benefits, taking into account that certain operating leases do not present significant changes in the incremental borrowing rate during their lease term.

- We believe that the Board should seek convergence with the FASB's view (which tentatively does not agree with the proposed approach) within the framework of convergence between the two accounting bodies.

Question 11
In developing their preliminary views the boards decided to specify the required accounting for the obligation to pay rentals. An alternative approach would have been for the boards to require lessees to account for the obligation to pay rentals in accordance with existing guidance for financial liabilities.
Do you agree with the proposed approach taken by the boards? If you disagree, please explain why.

We do not support the recognition, as stated before. We believe there should be a difference between lease accounting and IAS 39. Also, fair value measurement is not appropriate for operating leases, and the amortised cost is simpler and well understood in the market, as previously stated.

Question 12
Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortisation or depreciation in the income statement. Would you support this approach? If so, for which leases? Please explain your reasons.

We believe that only financial leases should be treated as assets based on the nature of the underlying assets and depreciation expense recognised accordingly.

Leasing of stores is usual practice in some retail markets whereas in other jurisdictions, ownership is more common. While it may be argued that the "finance lease" approach will make comparability easier across jurisdictions, the contrary will be the case. Owned assets are measured at historical cost not using an estimate of the present value of lease payments. Consequently from lease inception there will be an irreconcilable difference on the balance sheet between entities that lease versus those which own. This difference will be represented by the higher depreciation expense borne for leased assets (with the useful life being the lease term) compared to owned assets. Owners will bear comparatively negligible depreciation, because, on one side, land is not depreciated and on the other side buildings have generally a useful life of 40-50 years. All the differences that may appear in the P&L due to the same classification of the decrease in value of the right of use would significantly impact EBITDA, which is one of the most important measures in the retail sector. For all the above, we believe operating lease expense should not be included as depreciation in the income statement.

Chapter 6: Leases with options

Question 13
The boards tentatively decided that the lessee should recognise an obligation to pay rentals for a specified lease term, i.e. in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

We strongly oppose to the approach proposed. As previously stated, we are do not believe that the obligation to pay rentals, as currently defined in the DP, meets the definition of a liability as defined in the Conceptual Framework, as there is not a present obligation at inception and therefore this obligation should not be recognized. Moreover, accepting such a definition of liability would again raise additional questions on other obligations and would therefore trigger the recognition of liabilities for future events or expenses, which is currently prohibited by IAS 37. We believe that the obligation to pay rentals should be determined through recognition rather than through measurement

However, the obligation represented by renewal options could be disclosed in the notes with its main features and eventually recognized when exercised.

Question 14
The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognised as an adjustment to the carrying amount of the right-of-use asset.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Would requiring reassessment of the lease term provide users of financial statements with more relevant information?

Please explain why.

As previously explained, we strongly oppose to the approach proposed. This fact would lead to an even a higher volatility in some scenarios, where relevant changes could occur in the financial statements between periods. These changes might not be, in many cases, the result of real changes in the entities' assets and liabilities, but the result of changes in the entity's operational or marketing strategies, management's views and business or economic cycle.

However, should the Board finally decide to include renewal options within the estimated term, we believe that the reassessment of the lease term should lead to an adjustment to the carrying amount of the right of use only when there is a substantial change to the original conditions of the lease contract. Reassessment would for instance occur when a key business fact or circumstance previously considered change or a substantial change in the lease contract is agreed.

This would avoid continuous re-measurement of the assets and liabilities related with the lease. In any case, we suggest the Board to propose a non-exhaustive list of facts and circumstances that may lead or not to an adjustment to the carrying amount of the right of use.

Question 15
The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease.
Do you agree with the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.

We do not support the proposed approach. We disagree with putting any potential obligation on the balance sheet that does not fulfill the definition of a liability and should only be recognized once it becomes recognizable in accordance with IAS 37 and according to the Framework. For a more detailed discussion, see our remarks above on the right to use approach above and our answers to previous questions and the "General Remarks" section.

Chapter 7: Contingent rentals and residual value guarantees

Question 16
The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Do you support the proposed approach?

If you disagree with the proposed approach, what alternative approach would you recommend and why?

We do not support the proposed approach to include contingent rentals in the obligation to pay rentals as presented in the discussion paper for the following reasons:

- The contingent rents themselves do not meet the definition of a liability at inception because they do not meet the "past event" requirement to be recorded as a liability as stated in the Framework. Thus it would not be correct recording a liability for an obligation which is not present due to the absence of a past event.

- In some instances the contingent payment could be compared to incentives for the lessor or profit-sharing schemes which might not be related to the leased asset itself.

- An estimate of the contingent payments, especially in those leases which have a long term nature, may lead to arbitrary or complex and difficult to support calculations and therefore the reliability of the estimates could be argued. For example, in the case of a lease of an asset for a 30 years period, the estimate of the contingent rent obligation would be based on the estimate of the sales volumes for the next 30 years, which does not appear a reasonable estimate, taking also into account that for other standards (IAS 36) projections are normally calculated in a 5 year period.

- The approach proposed is very costly in terms of estimates and follow up and the impact on businesses with a significant amount of lease contracts might be more than material. Conversely, the benefits this approach introduces are questionable because the financial information would be much more subject to judgmental estimates and projections, volatile and more complex to understand for the final users.

- In addition, the proposed approach might not match the expenses for the amortization of the right of use with the revenue which would trigger the contingent rent. This is because the amortization is normally recorded on a straight-line basis (unless a different method based on the unit of production is elected) whereas the revenue triggering the contingent rent could arise in any moment of the life of the contract. If it is true that at the end of the life of the contract the matching would be achieved, this would not be achieved in standalone periods. A possible alternative to the mismatch described in this bullet point would be amortizing the assets based on a unit of production method. This, however, might also accidentally imply a whole change in how depreciation is determined for other assets related to the right of use, introducing new similar and unexpected issues of reliability.

We believe that contingent rentals (those based on lessee's performance or based on usage) should be expensed when incurred, although we would support giving appropriate disclosures about contingent rentals which may arise in the future, similar to the disclosures presented for commitments.

Question 17
The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes.

Which of these approaches to measuring the lessee's obligation to pay rentals do you support? Please explain your reasons.

The answer to this question is closely related to the outcome of Question 16, where we express our strong disagreement with the recognition of the lessee's obligation to pay rentals including the amounts payable under contingent rental arrangements.

Question 18
The FASB tentatively decided that if lease rentals are contingent on changes in an index or rate, such as the consumer price index or the prime interest rate, the lessee should measure the obligation to pay rentals using the index or rate existing at the inception of the lease.
Do you support the proposed approach? Please explain your reasons.

The answer to this question is closely related to the outcome of Question 16, where we express our strong disagreement with the recognition of the lessee's obligation to pay rentals including the amounts payable under contingent rental arrangements.

Question 19
The boards tentatively decided to require re-measurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments.
Do you support the proposed approach? If not, please explain why.

The answer to this question is closely related to the outcome of Question 16, where we express our strong disagreement with the recognition of the lessee's obligation to pay rentals including the amounts payable under contingent rental arrangements.

Question 20
The boards discussed two possible approaches to recognising all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:

(a) recognise any change in the liability in profit or loss
(b) recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Which of these two approaches do you support? Please explain your reasons. If you support neither approach, please describe any alternative approach you would prefer and why.

The answer to this question is closely related to the outcome of Question 16, where we express our strong disagreement with the recognition of the lessee's obligation to pay rentals including the amounts payable under contingent rental arrangements.

Should the Board maintain its current approach to consider contingent rents part of the cost of the right of use, we would support approach (b) for the following reasons:

- This approach is consistent with the approach for the adjustments due to the reassessment of the lease term.

- This approach is consistent with other existing standards dealing with liabilities which may change their carrying amount overtime and are deemed closely related to assets (such as IFRIC 1). Therefore, any change to the liability would mean a change in the terms of the right of use which should be reflected on the asset side of the statement of financial position.

However, we have the concern that due to the annual reassessment of the contingent rent liability, the right of use asset may vary every year. This would cause additional complexity in terms of depreciation and follow up of the carrying amount overtime. We believe that these complexities would be avoided if the contingent rent payment would be expensed as incurred.

We also believe approach a) would even dramatically increase the volatility issue stated in the "General Remarks", leading to a significant distortion of financial information in one of the main financial statements, as it is the profit and loss account. As explained before, this accounting treatment would also be asymmetric to other.

Residual value guarantees

Question 21
The boards tentatively decided that the recognition and measurement requirements for contingent rentals and residual value guarantees should be the same. In particular, the boards tentatively decided not to require residual value guarantees to be separated from the lease contract and accounted for as derivatives.
Do you agree with the proposed approach? If not, what alternative approach would you recommend and why?

We believe residual value has to be considered in the classification of leases on whether financial or operating. In this case, the residual value guarantee would form part of the financial lease obligations. However, we believe that residual value does not meet the same financial nature as contingent rentals.

Chapter 8: Presentation

Question 22
Should the lessee's obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons. What additional information would separate presentation provide?

As previously explained, we do not support the proposed approach. Should the Board maintain its current approach, yes, since they represent a different class of financial liability.

Question 23
This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position.
How should the right-of-use asset be presented in the statement of financial position? Please explain your reasons. What additional disclosures (if any) do you think are necessary under each of the approaches?

As previously explained, we do not support the proposed approach. Should the Board maintain its current approach, the asset should be presented according to the nature of the underlying asset and should be disclosed separately from owned assets in the notes as we believe that it is important for a financial statement user to discern the amount of owned assets from the amount of leased assets.

Chapter 9: Other lessee issues

Question 24
Are there any lessee issues not described in this discussion paper that should be addressed in this project? Please describe those issues.

In our view the Discussion Paper should consider the inclusion in the final standard of the issue discussed in SIC 15 in the light of the new approach to lease contracts proposed by the Discussion Paper.

Additionally, despite the meeting held by IASB on June 18 on sale and leaseback transactions, we believe that sale and leaseback accounting should be addressed more extensively in the lease project.

Chapter 10: Lessor accounting

In relation with Chapter 10, we believe that the Discussion Paper should focus on lessor accounting at the same time it focuses on lessee accounting. We believe that a standard on lease accounting, especially based on the right of use of asset as it is currently proposed, should also address the consequences of using this approach from the lessor’s perspective, as it is currently addressed under IAS 17. This is because many entities act as lessees and lessors at the same time and also because accounting for leases from the lessor’s perspective impacts other significant areas such as investment properties accounting, revenue recognition and potentially liability recognition and measurement. In addition, the new approach proposed for lessee accounting could impact significantly lessor accounting, and therefore we strongly support that both lessee and lessor accounting for leases should be jointly addressed in the Discussion Paper.