SAFEWAY

December 15, 2010

Leslie Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London E4M 6XH
United Kingdom

Submitted via electronic mail to director@fasb.org

Re: File Reference: No. 1850-100, Exposure Draft: Leases

Dear Madam and Sir:

We very much appreciate the opportunity to comment on the Proposed Accounting Standards Update, Leases (the "ED"). We support efforts to improve accounting for leases, but we are concerned that the scope and complexity of the proposed changes merit more careful consideration. The concept of one worldwide set of quality accounting standards that are principles-based is a goal worth pursuing. We support a convergence of U.S. and international accounting standards over a shorter period of time rather than the disruption over a protracted period, but not at the expense of short cutting quality, implementable standards.

Safeway Inc. ("Safeway") is a Fortune 100 Company with revenues of approximately $40 billion and the third largest retail grocer in North America. Safeway has followed this project closely, because leasing is significant to our operations. Safeway has approximately 1,700 stores in the U.S. and Canada of which approximately 1,000 are leased. The typical store lease is for a 20-year term with four five-year option periods. Most of our leases meet the current standard for treatment as operating leases. Our annual rents are approximately $500 million and contingent rents are only about $10 million. We also have about 300 locations subject to leases and subleases that are closed stores and subject to accounting under ASC 420-10 (formerly SFAS 146).

Our preference is to own our properties even though we lease 60% of our stores. Ownership allows us more flexibility and control regarding how we manage the property. We have such a high percentage of leased properties, not because it is a more economical financing alternative or to avoid recording a liability, but because the property owner does not want to relinquish ownership of a prime location. So for us leasing is not a financing alternative, but a contractual way to obtain access to a site.

Safeway Inc.
Executive Offices
5918 Stoneridge Mall Road
Pleasanton, CA 94588-3229

Our comments are summarized as follows and are addressed in more detail later in the letter:

a) Definition of a Liability – Option Periods and Contingent Rents

We do not believe that option period rents and contingent rents qualify as liabilities at the inception of the lease.

b) Contingent Rents – Portfolio Approach

If the Boards conclude that contingent rent should be included in the capital lease obligation, we believe that a portfolio approach is more practical than estimating rents for individual properties.

c) Continuous Reassessment – PCAOB Requirements and Management Effort

We acknowledge the modification in position from the DP to the ED regarding continuous reassessment. However, in a PCAOB environment we must prove there have been no significant changes; therefore the modification is not operational. The requirement to remeasure leases only for significant changes does not relieve preparers from the obligation under the PCAOB to prove to auditors that the changes are not significant. This still requires a continuous reassessment of all leases. We suggest the reassessments be driven by significant events.

d) Comparability Versus Precision

There are many moving parts in the proposed accounting model and many assumptions regarding the future based on past practices and current expectations. There could be significant variability in outcomes among accountants presented with similar facts. The calculations can be done, but we are concerned about the misplaced perception of accuracy where there are extended lease terms.

e) Transition – Impairment and Closed Stores

We ask the Boards to provide transition guidance for leases that upon initial adoption may require an immediate impairment under ASC 360-10 (formerly SFAS 144). Also, under ASC 420-10 (formerly SFAS 146) leases, subleases and other liabilities are required to be shown net. Transition guidance on the new disclosure treatment for the balance sheet would be helpful.

Definition of a Liability – Option Periods and Contingent Rents

We believe that accruing for option periods and contingent rents at the lease inception date are not appropriate as neither meet definition of a liability. They are contingencies based on future events.

In concluding that unexercised options meet the definition of a liability, the Boards have replaced the probability of an outcome for the probability of an event occurring. Almost all accountants have faced the situation where they are presented with a highly probable event, such as the sale of an asset in the final days of a reporting period that due to some logistical misfortune cannot close. The transaction supporters insist that completion of the sale is highly probable though incomplete. Many times that highly probable last step is, in fact, completed shortly after period-end. Under current GAAP we are not permitted to record this sale in the current period. Similarly, we should not record a lease liability based on probable future events.

Recording a liability based on a probable future event has far reaching implications. This decision becomes even more important for a principles-based accounting model where precedent can be used to expand a concept to other transactions.

Contingent Rents - Portfolio Approach

Safeway does not believe that contingent rents meet the definition of a liability. However, if the Boards conclude that contingent rents must be accrued as part of lease obligations, we recommend a portfolio approach rather than an individual assessment of each contingent rental agreement.

Safeway's contingent rent does not vary significantly from year to year. Although we have almost no ability to project individual contingent rental payments beyond the near-term future, we believe we can reasonably project total contingent rental payments. Therefore, we propose using a portfolio approach whereby we project total contingent rental payment over the average remaining life of all leases that contain contingent rent agreement, discounted at the appropriate interest rate. We believe this is an acceptable estimate that would require considerably less work than a lease by lease projection.

Continuous Reassessment - PACOB Requirements and Management Effort

We appreciate the consideration the Boards gave to the requirement to reassess all leases each reporting period and the modification made from the DP to the ED. However, we believe the current proposal to review only significant changes, is not operational in a PCAOB environment. In the current PCAOB environment, the preparer must prove to the auditor that there have been no significant changes. This involves identifying the control process that makes this determination and implementing that process. This leads to assessing all the leases. PCAOB requirements should not be considered merely a United States issue. We believe this as a global issue as regulations similar to that of the PCAOB spread.

The process of continuous reassessment would be burdensome. Frequent reassessments are not part of typical lease management. In most organizations, management regularly reviews the operating results of the business conducted in the leased facility. However, management typically does not do a quarterly or annual assessment of how many option periods they may exercise. We strongly suggest the Boards move away from continuous reassessment model to an event driven model.

Comparability versus Precision

Safeway is concerned that the inclusion of contingent future events, periodic reassessments, and probability weightings called for in the ED give the impression of a high level of accuracy and reliability when, in fact, these factors will reduce comparability between companies.

If you consider the complexity and subjectivity in the proposed accounting model, it is unlikely that two preparers with similar facts will arrive at comparable results. Subjectivity and complexity undermine comparability and convey a false sense of precision.

Safeway agrees that adding operating leases to balance sheets is a better representation of an entity's financial position. However, we believe that the measurement should be as simple, objective and event driven as possible in order to increase comparability between companies. We believe that comparability is more important than the illusion of precision.

Transition – Impairment and Closed Stores

We ask that the Boards consider expanding transition guidance for two topics. First, guidance is needed on accounting for leases capitalized upon initial adoption of the exposure draft at properties that were previously impaired under ASC 360-10. There may be need for an immediate impairment of the leased asset.

Second, additional guidance is needed on accounting for lease exit costs. The recent clarification on investment property was helpful. Lessees, though, may have properties no longer used in the principal business that have been closed and subleased. Under Code ASC 420-10 all leases, subleases and other expenses are presented on a net basis on the balance sheet. Clarification of the accounting and disclosure treatment and consideration of income statement effects under the new accounting model would be helpful. Also, guidance on initial adoption would be helpful as well.

Thank you for the opportunity to submit these comments.

Sincerely,

David F. Bond
Senior Vice President, Finance and Control