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Kesa electricals

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 December 2010

Dear Sir/Madam

Exposure Draft: Leases

We are responding to the invitation of the IASB ('the board') to comment on the exposure draft 'Leases' (the 'exposure draft' or 'proposed standard').

Whilst we accept that the current accounting standards in respect of leases do not always meet the needs of all users of financial statements, we feel that the current arrangements are well understood and disclosures do provide significant information for users of the accounts to make informed decisions. We believe any concern around existing rules can be addressed through enhanced disclosures.

Against this background, we nevertheless have some comments on the proposals and certain areas which we believe should be reconsidered:

- We disagree with the board's proposal that the lease term should be measured as 'the longest period more likely than not to occur'. We believe that this will be highly judgemental and lead to variations in application which will not help comparability of financial statements. We suggest optional extension terms should be recognised only when it is virtually certain that the option will be exercised. For example, in the retail industry as channels to market develop, e.g. with the growing importance of the web, it may sometimes be difficult to project with certainty beyond the current store lease contract expiry date. Therefore, current lease term is likely to be a more objective basis of certainty to help comparability and reduce complexity. This also best reflects the contractual liability;

- The interpretation of future contingent payments included within a lease will be highly judgemental especially where such events are outside of the control of a lessee but also where contingent rents are based on subjective internal management forecasts. In addition, recognition of future lease liabilities may lead to inappropriate profit recognition. For example, where store rents are linked to turnover, increased turnover is often reliant on future investment and the cost increases would be more appropriately recognised when this separate investment is made. We recommend that a contingent rent should not be included where rentals vary based on performance of the leased asset and suggest such terms are covered through added disclosure.

- In order to calculate the lease liability, the exposure draft suggests using the 'rate the lessor charges in the lease'. In many cases, this will not be determinable and hence preparers will have to adopt the alternative approach being the 'lessee's incremental borrowing rate'. A discount rate based on a company's own cost of debt will understate liabilities for any company with a weak balance sheet and consequently a high borrowing cost. We feel this is counter-intuitive to the needs of users of financial statements and will not help comparability.

In terms of transition, we believe the simplified retrospective approach would be appropriate for most companies and would recommend this basis as acceptable should the proposed changes be implemented. The implementation of this standard will be onerous and costly. An option to apply a fully retrospective valuation is sensible but we feel should not be mandatory.

To the extent that these proposals proceed in some format, due to their complexity, we would recommend a relatively long period before the accounting standard is mandatory.

I hope that you find our comments helpful in assessing the proposed standard on leases.

Yours sincerely

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Finance Director
Kesa Electricals plc

Cc: Andrew Robb
Chairman Audit Committee
Kesa Electricals plc