

**Apartment 6 West Wing  
Caldecote Hall  
Caldecote Hall Drive  
Caldecote  
Nuneaton  
Warwickshire CV10 0UL**

14 December 2010

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Dear Sirs

### **Exposure Draft ED/2010/9 Leases**

On 31 August I sent the letter below (The Emperor's New Clothes – Time to stand up and stand out) to the heads of the major global professional bodies and firms of the accounting world. I received acknowledgements from several and letters of support and understanding from others. However, none of them even attempted to answer the four simple questions posed in my letter. Therefore, I am now addressing this letter to yourselves and once again ask the four questions contained therein. I would appreciate your considered response to these questions but, cynically, I fully expect these will be far too difficult for you to answer without compromising your position and the exposure draft.

Nonetheless, these very fundamental questions are at the very heart of why the exposure draft should be neither amended nor negotiated. It should simply be scrapped before you waste an inordinate amount of time and money of the wealth generating companies to pursue your own follies. I will leave you with a repeat of the final paragraph of my original letter:

*"I will watch the debate with interest, but fear there are too many vested interests to cast off The Emperor's New Clothes. Who else other than us, the mere value generating Corporates, are willing to stand up and stand out?"*

### **THE EMPEROR'S NEW CLOTHES – TIME TO STAND UP AND STAND OUT**

No, this is not a circular. It is a serious observation on the direction of my profession. Given the high office you hold in the UK, representing [one of the major global professional bodies of the accounting world], I would like you to personally reflect on the joint exposure draft issued by the IASB and FASB proposing to bring all operating leases onto the balance sheet.

The opinions expressed in this letter are my own and you should not construe that they are biased due to the fact that my employer, Next plc, is a FT100 constituent and major retailer with substantial operating lease obligations. These lease obligations are of course already contained in our Annual Report and reporting is at the heart of my concerns. As a seasoned professional, I have seen accounting standards come and go and this proposal is right up there with the flawed, overly complex and ill fated inflation accounting fiasco of the 1970's.

First question, what is the aim of this proposal? There are many other future obligations that are not “on the balance sheet”; contracted goods for resale, service contracts, employee commitments and of course expenses directly linked to these very leases such as service charges and local authority business rates. So why stop at leases?

Second question, how subjective will you allow companies to be in determining (a) lease life when variable break clauses exist and (b) discount factors when internal and external circumstances can change annually and vary by company. How do you think you and other professional bodies will address these audit issues?

Third question, why should hypothetical Company A with say a 12 year lease compare unfavourably with Company B with say a 2 year lease? Company A will of course have the key benefit of security of tenure but a greater lease liability which will not necessarily result in a greater cash outflow. Company B will apparently have a stronger balance sheet as a consequence of this proposal but no security of tenure. This begs the questions; can the auditors and directors sign off Company B as a going concern with limited security of tenure and should its depreciation be accelerated on fixed assets specific to such a property over the remaining life of the lease?

Fourth and final question, who is supposed to benefit from this proposal and who will it actually benefit? It will not benefit the reporting company as substantial time and expense will be required to implement and manage this on an ongoing basis. It will not benefit shareholders as ultimately they will pay for that time and expense through lower profits. It will not even “lower the cost of capital” – the last refuge of accounting standard scoundrels. Which brings us to the second part of the question, which I pose to you – who will actually benefit?

Everything that this proposal purports to offer could be achieved quicker, easier, less costly, more accurate and most importantly – clearer, by simply expanding on the factual information already included in Annual Reports. The additional information would be less costly to produce, avoid distortion of profits, not affect HMRC and leave shareholders and other agencies free to make their own judgements on fact rather than fiction. Is this too radical a suggestion?

To conclude, and to show how straightforward this could be, I have taken the Note from the Next plc 2010 Annual Report and produced my alternative suggestion. The future numbers themselves are hypothetical as I do not wish to provide new information which may be considered price sensitive.

I will watch the debate with interest, but fear there are too many vested interests to cast off The Emperor’s New Clothes. Who else other than us, the mere value generating Corporates, are willing to stand up and stand out?

Yours sincerely

A handwritten signature in black ink that reads "David Keens". The signature is written in a cursive, slightly slanted style.

**DAVID KEENS FCCA, MCT**  
**Group Finance Director, Next plc**

## Hypothetical Pro Forma Note 36 to the Accounts based on January 2010

ALL FUTURE NUMBERS ARE FOR EXAMPLE ONLY AND DO NOT REFLECT REAL LIABILITIES.

### 36. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases where the Group is the lessee:

	Minimum Lease Payments	Contingent Rentals Payable	Total
2009 (Actual)	183.9	6.2	190.1
2010 (Actual)	194.6	7.9	202.5
2011	205.0	2.0	207.0
2012	200.0	1.8	201.8
2013	185.0	1.6	186.6
2014	170.0	1.4	171.4
2015	155.0	1.2	156.2
2011 - 2015	915.0	8.0	923.0
2016 - 2020*	600.0	3.0	603.0
2021 - 2030*	300.0	2.0	302.0
2031 and beyond*	100.0	1.0	101.0

***[\*Some or all of these three periods could also be expanded by year if relevant]***

At 30 January 2010, future rentals receivable under non-cancellable sub-leases where the Group is the lessor were £19.4m (2009: £24.9m)\*

***[\*Alternatively this rental income information could be provided as a third column in the table, resulting in a 'Net' Total on the far right].***

The group has entered into operating leases in respect of vehicles, equipment, warehouses, office equipment and retail stores. These non-cancellable leases have remaining terms of between 3 months and 22 years. Contingent rentals are payable on certain retail store leases based on store revenues. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

***[Opinion:***

***This table would be factual and simple, rather than incorrect and subjective. It does not corrupt the principal P&L or Balance Sheet reports, nor create taxation distortions. It provides that minority of users of accounts who wish to capitalise operating leases all the information required to do so on their own terms, leaving other observers and shareholders to view their company as it really is.]***