John Lewis Partnership
6 December 2010

International Accounting Standards Board
Lease Accounting Working Group
30 Cannon Street
London EC4M 6XH

Dear Sir/Madam

**Exposure draft on leases ED/2010/9**

We welcome the opportunity to comment on the International Accounting Standards Board (IASB) exposure draft on Leases (ED/2010/9). This letter represents the views of John Lewis Partnership plc.

The John Lewis Partnership operates 32 John Lewis shops across the UK (28 department stores and four John Lewis at home), johnlewis.com and 240 Waitrose supermarkets. The business has an annual turnover of over £8bn and it is the UK’s largest example of worker co-ownership where all 70,000 staff are Partners in the business. We have significant leasing arrangements which relate to our retail and distribution operations and also lease arrangements that are applicable to corporate operations.

Although we are supportive of the joint efforts of the IASB and the US Financial Accounting Standards Board (FASB) in seeking to reduce diversity in accounting treatments and complexity of lease accounting, we believe that the IASB’s proposals do not offer an effective improvement on existing lease accounting rules. In addition we believe that the proposals:

- will introduce significant subjectivity, uncertainty and complexity which will reduce the comparability, reliability and usefulness of reported information and be open to abuse and manipulation,
- do not reflect commercial reality of management decision-making particularly in relation to property leases, and
- will be a substantial increase in administrative burden and cost to implement, maintain and audit.

We therefore strongly disagree with the IASB’s proposals and believe that a number of concerns of existing lease accounting could be addressed by enhancing current disclosure requirements. In addition to the concerns highlighted above, we have a number of other concerns with the tentative decisions on the accounting models outlined in the ED. The more significant of these include:

**Lease term - options to extend or terminate**

The proposed model requires lessees to consider renewal options and contractual break points when calculating the lease term as it requires the longest possible term that is more likely than not to occur. We do not believe that the possible future payment of lease rentals in the period following a renewal option or a contractual break point meets the definition of a liability under the Conceptual Framework
or existing standards as it is not a present obligation and does not arise out of a past event. The option to renew will be at the entity’s discretion at that point in time and would only occur if the conditions were favourable at that time.

We do not agree that the standard should require lessees to take into account and consider lease terms beyond options to extend or terminate when determining the lease term. The only exception to this should be where the option is at a ‘peppercorn’ rent subsequently. We believe that the lease term should be the minimum contractual term.

**Lease term - statutory renewal options**

We believe that the ED is unclear on guidance on statutory renewal options which are relatively common in England and Wales. Under these circumstances, unless explicitly excluded, a tenant has a statutory right allowing them to renew a property lease at the end of its contractual term. Guidance is required as this could be considered either as a right to negotiate a new lease or to extend the existing lease term which would have different treatments under the proposed model.

However, consistent with our view on options to extend or terminate, we do not believe that statutory renewal options should be taken into account and considered when determining the lease term.

**Lease payments - contingent rentals**

We do not agree that contingent rentals should be included in the estimate of lease payments when measuring the assets and liabilities from a lease. The proposed model in the ED would not reflect economic reality as the change in lease rental payment from a contingent rental arrangement would not match the factors and results which give rise to the change.

In addition inclusion of contingent rents will result in significant measurement uncertainty as it will reflect highly judgemental forward looking assumptions which will reduce the quality and usefulness of financial statements and lead to less comparability between businesses. Similar to other retailers, we have a large number of leased retail stores where rental is contingent on turnover and the lease terms for most of these are over 50 years. The proposed model would therefore require us to make long term forecasts to estimate potential store level revenues and inflation rates for the purpose of estimating contingent rentals. These estimates will be highly judgemental and therefore will be prone to error and inconsistency, be virtually impossible to audit, and as different entities will have different views will lead to less comparability between businesses.

We believe that the change in lease rental payments under contingent rental arrangements should be recognised in the period in which it arises as this would match the change with the factors or results that give rise to it.

**Lessor accounting**

There are two accounting models proposed for lessor accounting, the performance obligation model and the derecognition model, which potentially leads to inconsistency in lessor and lessee accounting. For example a measurement mismatch could arise between a head lease, which would be accounted for under the lessee model, and a sub-lease, which would be accounted for under the lessor model. In addition there could be circumstances where a lessor recognises an asset in its financial statements under the performance obligation approach, but the lessee is also recognising the same asset in it financial statements.

We therefore do not agree with the proposed model within the ED for lessor accounting.
Transition

We disagree with the transition proposals in the ED which effectively requires the transition date to be the date of inception for all outstanding lease payments. Although the IASB perceives this to be a ‘simplified’ retrospective approach we believe this will result in misleading and inappropriate artificial reduction in profits of a lessee in the early years of adoption which will not assist users of the financial statements. This is because the income statement charge is higher in the early years of a lease compared to the later years.

We believe the Board should consider other simplified retrospective approaches such as that proposed by Mr Stephen Cooper in his alternative view and also permit full retrospective application.

Administrative burden and cost

The proposals in the ED will result in a significant increase in administrative burden and costs given the number of leases within our business and the highly judgemental assumptions within the proposed accounting models which will need to be revisited at each reporting period. This will be similar for all retail businesses with significant numbers of stores and other leases in operation.

We strongly believe that the increased cost and complexity will outweigh any potential improvements to financial reporting given the issues on comparability, reliability and usefulness of reported information noted above.

Conclusion

Although we have set out above our specific significant concerns with regards to the tentative decisions on the accounting model outlined in the ED, we fundamentally believe that the proposals do not offer an effective improvement on existing lease accounting rules. We believe that concerns with existing lease accounting could be addressed by enhanced disclosures of operating leases, including additional qualitative and quantitative disclosures on features in leases such as options and contingent rentals.

If you have any questions regarding this submission please do not hesitate to contact either Tina Reade (Group Financial Controller - tina_reade@johnlewis.co.uk) or Shalabh Bajjal (Group Financial Reporting Manager - shalabh_bajjal@johnlewis.co.uk).

Yours faithfully

Marisa Cassoni
Finance Director