Dear Sir/Madam

International Accounting Standards Board Exposure Draft on Leases

Thank you for the opportunity to submit comments in relation to the above-mentioned consultation. By way of background, and to put our comments in context, Governance for Owners (GO) is an independent partnership dedicated to adding long-term value to clients’ equity holdings through relational investing and active share ownership. Two of the investment holdings in our European fund, Accor SA and Douglas Holding AG, have significant lease liabilities that are not currently on their balance sheets. The equity investments in these companies, held in the GO European Focus Fund or under advisory relationships, represent 2.8% of the share capital of Accor and 3.7% of the share capital of Douglas.

In order to ensure we were fully briefed on the nature of these proposals the Chairman of our Investment Committee (Steve Brown) and one of our Advisory Board members (Eric Tracey), a Partner at Deloitte for 25 years, attended a meeting at the IASB on 28 October 2010 to enhance our understanding of the proposals and provide an investor view of the Exposure Draft.

We have concluded that the broad thrust of the proposal to bring all assets and liabilities relating to fixed leases on to companies’ financial statements would significantly improve transparency for investors and thus strongly support the core of these proposals.

We disagree, however, with the proposal to include expected lease payments on contingent rental agreements as a lease liability, where the payments are contingent on asset usage or performance. We believe that where such payments are a truly variable cost they do not represent a liability and inclusion on the balance sheet would misrepresent the underlying economics of such transactions. The lower business risk arising from a variable lease has been the basis of our support for investee companies using this structure, as compared to a traditional fixed lease. If the accounting treatment of variable leases is essentially the same as riskier fixed lease arrangements we believe this could act as a deterrent to adopting variable leases and hence increase business risk.

In our view any minimum lease commitment, however construed, should be regarded as a liability but those contracts where all lease payments are contingent on usage or performance should not be treated as a liability.

Similarly, we believe that optional lease periods should only be regarded as a liability if there is a clear economic incentive to renew e.g. when investment in fixtures and fittings make extension more probable than not. As with variable leases we feel that investors would derive greater understanding of the true economics if only those optional lease contracts with an incentive to renew were included as liabilities.

We hope you find these comments helpful. Please contact us if you would like to discuss any of the points made above.

Steve Brown
14 December 2010