International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 December 2010

Dear Sir/Madam

Exposure Draft – Leases – ED/2010/9

We welcome the opportunity to comment on the Exposure Draft ED/2010/9 ‘Leases’ ("Exposure Draft") published by the International Accounting Standards Board ("IASB").

This letter expresses the views of Carphone Warehouse Group plc ("CPW") which is a lessor of freehold investment properties. Additionally, its joint venture investment Best Buy Europe ("BBE") acts as a lessee in over 2,000 retail stores in nine European countries. The paper therefore considers the implications of the Exposure Draft for the property leases of both groups.

Overview

We understand that the IASB has two principal concerns with IAS 17 ‘Leases’:

• no assets or liabilities arise on some leases under IAS 17;
• options available under IAS 17 give rise to inconsistency of application.

We do not consider that it is appropriate to recognise assets and liabilities in respect of property leases. For a retailer or other tenants, the decision to lease a property rather than to buy is not ordinarily a financing decision, but rather reflects a commercial requirement to maintain flexibility. This analysis is reflected in their treatment as operating leases rather than finance leases under IAS 17. Leases in other industries may be strongly influenced by financing decisions, and it is these leases which we perceive to have influenced the direction of the Exposure Draft.

Further, we do not believe that there are consistency issues in relation to accounting for property leases, despite the options available under IAS 17, because more or less all property leases are treated consistently as operating leases.

If there are concerns about consistency or about visibility of lease commitments, we would recommend that they are dealt with by providing fuller guidance and direction in IAS 17 and additional disclosure requirements, rather than changing the accounting model, as proposed in the Exposure Draft.

In addition to concerns that property leases are being caught up in concepts that are intended to apply to other types of lease, we are also concerned that the Exposure Draft creates inconsistencies with existing accounting standards and practices. For example, a property lease contract may commit an entity to rental payments and to associated services (e.g. security, maintenance). Under the Exposure Draft only the rental would be treated as an asset
and liability, despite the lessee being equally committed to the service through the lease contract. Similarly a capital commitment or other operating commitments (such as a long-term sponsorship agreement) would not represent a liability, while a lease commitment would. We believe that these will be inexplicable distinctions to most users, making financial information less rational, and the concepts of the accounting framework unable to be consistently applied. Further potential inconsistencies are noted below.

We are also concerned that the significant changes proposed to presentation in the income statement and cash flow statement would cause confusion for investors, and understand that some companies are already contemplating “backing-out” the changes in the primary statements to provide an “underlying” view with which investors would be familiar.

We do not consider the recognition of property leases as assets and liabilities to be appropriate, but if the IASB reaches a different conclusion, we note below our concerns about the Exposure Draft’s proposals for practical application.

**Lease Term**

We disagree with the proposal that lease assets and liabilities should be determined by reference to the longest possible term that is more likely than not to apply, taking into account the effect of any options to extend the lease.

Options to extend leases will exist through either specific clauses included in lease contracts or statutory rights in certain countries. In both cases this will give the lessee the ability to elect to continue to use the leased asset; however, it will not ordinarily commit the lessee to doing so. We do not believe that the right to extend a lease meets the definition of a liability under the IASB’s accounting framework: a present obligation based on past events. The acceptance or otherwise of lease extension options will be based on decisions made by the lessee in the future, based on information and assessments available at this time. As such, we consider that if lease assets and liabilities are recognised at all, their value should be determined by reference only to the committed term.

In addition, we consider that any assessment of the likelihood of exercising options to extend would be highly judgemental and would inevitably lead to inconsistency of application, as well as requiring significant effort. Further consideration is given below to the practical complexities and difficulties of making such future-looking assessments in relation to individual leases.

**Contingent Rental**

We do not agree that future contingent rentals should be included in the measurement of lease liabilities or assets.

Contingent rentals will reflect assumptions about future events and, again, we do not think that recognising a liability in respect of future events is consistent with the definition of a liability, being a present obligation based on past events.

Further, any valuation based on uncertain future events would be highly judgemental and would give rise to further inconsistency between businesses. This would be particularly challenging from a practical perspective, as assessments would unavoidably be based on unreliable long-term assumptions which could not have been subject to the usual rigours of budget and planning processes.
Application and materiality

As noted above we believe that some aspects of the Exposure Draft would be onerous and could practically result in a significant increase in effort. As such we believe that relevant parties involved in the application, oversight and enforcement of such standards would need to acknowledge and accept a reasonable and pragmatic application of such requirements (e.g. grouping of leases and application of common assumptions by category).

Lessor accounting

Given the IASB’s concerns on inconsistency, we are surprised that the Exposure Draft provides two accounting options for lessors, based on the risks and benefits associated with the asset. We would recommend only one lessor model, which is conceptually consistent with lessee requirements.

Transition

We support the concept of allowing a simplified application of the standard, recognising the potential complexities involved, but consider that entities should have an option to apply a full retrospective method should they prefer. We believe that this is important, as the simplified option would be liable to distort financial performance over time.

If you have any questions in relation to this letter please do not hesitate to contact Nigel Langstaff (+44 (0) 20 8753 8217) and Stuart Alfredson (+44 (0) 20 8753 8324).

Yours sincerely

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