Technical Director  
FASB  
File Reference No. 1850-100  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116  
director@fasb.org  

Dear Madam / Sir,

Exposure draft ("ED") - Leases

We appreciate the opportunity to comment on the Exposure Draft – Leases.

Virgin Media is a leading provider of entertainment and communications services in the UK, offering broadband internet, television, mobile telephony and fixed line telephony services. We are one of the UK’s largest providers of residential broadband internet, pay television and fixed line telephony services. Our financial statements are prepared in accordance with U.S generally accepted accounting principles. We principally act as lessees in leasing arrangements, so it is from that perspective that we are responding to the invitation to comment.

We support the efforts of the FASB to improve lease accounting; however, we have significant concerns regarding certain aspects of the ED. We have provided further discussion of the aspects with which we are most concerned below as well as suggestions related to the currently proposed measurement model with which we are particularly concerned.

We agree with the proposal that a lessee should record a right of use asset and a liability to make lease payments but only for those amounts that meet the definition of a liability as set forth in FASB Concepts Statement No. 6 ("CON 6"), which states that “liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events".
We do not support the proposal in the ED draft to measure the right of use asset and liability to make lease payments in contemplation of all possible lease terms for two principal reasons.

- We believe that application of the proposed measurement approach to leases containing renewal or extension options will result in the recording of certain amounts that do not meet the definition of a liability since those recorded amounts are likely to include amounts (i.e., payments due upon renewal option exercise) that are not present obligations of the entity.

- Application of this measurement approach will require significant effort and cost to implement and operationalise going forward, and after careful consideration we do not believe the benefits to our shareholders and other users of our financial statements outweigh those incremental costs.

To illustrate our point regarding the difficulty involved with operationalising the proposed model, please consider the following discussion. We currently lease hundreds of properties in which we install equipment that forms the backbone of our cable network infrastructure. It is extremely rare that we vacate these properties. In the United Kingdom, the Landlord and Tenant Act of 1954 generally provides lessees the right to remain in leased properties beyond original lease terms if the lessee agrees to pay market rent. Based on our understanding of the proposal for measuring the right of use asset and the liability to make lease payments, because we generally have the statutory right to remain in these properties indefinitely, we would effectively be required to determine each possible lease term for the remainder of the company’s existence and then estimate a probability for each of those possible lease terms. Additionally, we would be required to estimate future market values in each of those lease terms to determine the estimated lease payments. Making these assessments at the inception of one lease would be an onerous exercise requiring a high degree of subjectivity. Making these assessments for hundreds of leases on a regular basis would require a significant consumption of resources and an exponential degree of subjectivity. Whilst developing and implementing robust estimation processes sufficient to account for leases in this manner would not be impossible, it would be difficult to operate such processes in an efficient and effective manner on a day to day basis.

In addition to the practical difficulties we have observed in the current model, we are unclear as to how the recording of assets and liabilities based on this degree of subjectivity would improve the usefulness and comparability of our financial statements.

15/12/2010
We believe the FASB should re-consider the measurement model included in the ED. As we have stated, we are supportive of requiring assets and liabilities resulting from lease arrangements to be recorded on the balance sheet but disagree with the proposed measurement model. As an alternative to the ED’s measurement proposals, we believe that determining a lessee’s asset and liability at the inception of a lease based on contractually mandated, non-cancellable cash flows as well as other cash flows that are highly certain of being paid is a conceptually favourable and more workable measurement model that would result in more informative and understandable financial statements. This would result in the recording of assets and liabilities that are consistent with the Conceptual Framework, significantly reduce the burden associated with the measurement (and re-measurement) requirement(s) as all information needed to measure the assets and liabilities would be included in the lease agreement, and improve the overall operability of the model. Additionally, this would improve the comparability of financial statements as all preparers would have assets and liabilities based on clear and consistently defined parameters rather than assets and liabilities based partly on predictions of events that may or may not occur at some point in the future.

Should the FASB decide to proceed with the measurement model included in the ED, we recommend that a significant level of outreach is performed with preparers to understand the practical issues associated with implementation and ongoing accounting. Additionally, if the current measurement proposals remain intact with the currently proposed form of retrospective application, we believe there should be significant lead time (12 months at a minimum) between issuance of a final standard and the beginning of the first retrospective period required to be accounted for according to the new standard. For example, if a final standard is issued in the fourth quarter of 2011, we recommend that the effective date should be no earlier than 1 January 2015 (for calendar year-end companies) so that companies that are required to present two years of comparative income statements have at least twelve months to prepare for the first of those two periods. For our company, extensive re-designs of policies and procedures will be required at a significant cost. By providing an extended time period for implementation, the FASB could help to ease this burden.

Our responses to certain of the specific questions included in the invitation to comment are included in the appendix to this letter.
Again, we sincerely appreciate the efforts to improve lease accounting as well as the opportunity to present our views on this important matter. Please contact me (+44 1256 75 4517) or Evans Koonce (+44 1256 75 2550) if you would like to discuss any of the issues in this letter.

Yours faithfully,

[Signature]

Robert Gale
Vice President – Controller

Appendix – Answers to certain specific questions
**Question 1: Lessees**

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We agree that a lessee should recognise a right-of-use asset and a liability to make lease payments but only for those amounts that meet the definition of a liability as set forth in CON 6. The proposed measurement model in the ED will result in the recording of assets and liabilities that will not meet this definition. Our responses to questions 8 and 9 include further rationale for our objections to the proposed measurement model.

We agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments to properly reflect leasing transactions as a financing alternative to purchasing the same asset.

**Question 8: Lease term**

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We do not agree that a lessee should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease for two principal reasons.

We do not believe that options to extend a lease at a future date represent a present obligation of the entity. The proposed process for determining the lease term will result in the recording of certain amounts that do not meet the definition of a liability since those recorded amounts are likely to include amounts (i.e., payments due upon renewal option exercise) that are not present obligations of the entity.
Because the definition will require consideration of highly subjective events and circumstances (e.g. renewal option exercises) that are not certain to occur, we do not believe that the costs associated with deriving these highly subjective amounts are likely to provide marginal benefits to our shareholders and other users of our financial statements. We believe that the introduction of this degree of inconsistency in measuring assets and liabilities will decrease the comparability of financial statements in comparison to current lease accounting rules.

As an alternative to the ED’s measurement proposals, we believe that determining a lessee’s asset and liability at the inception of a lease based on contractually mandated, non-cancellable cash flows (over contractually mandate, non-cancellable lease terms) as well as other cash flows (and lease terms) that are highly certain of being paid is a conceptually favourable and more workable measurement model that would result in more informative and understandable financial statements. This would result in the recording of assets and liabilities that are consistent with the Conceptual Framework, significantly reduce the burden associated with the measurement (and re-measurement) requirement(s) as all information needed to measure the assets and liabilities would be included in the lease agreement, and improve the overall operability of the model. Additionally, this would improve the comparability of financial statements compared to the ED as all preparers would have assets and liabilities based largely on clear and consistently defined parameters rather than assets and liabilities based partly on predictions of events that may or may not occur at some point in the future.

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<th>Question 9: Lease payments</th>
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<td>Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?</td>
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We agree that certain, but not all, contingent rentals that are specified in the lease should be included in the measurement of assets and liabilities; however, we believe that the expected outcome approach will be too onerous to implement to our portfolio of leases in an efficient manner.

We believe that contingent rentals (but only during the lease term we have described above) that are highly certain of being paid should be included in the measurement of assets and liabilities using a best estimate approach.
Setting a high threshold for recognition (e.g., highly certain) of contingent rentals would avoid recognition of amounts that are not present legal obligations or in-substance present obligations whilst helping to avoid potential structuring opportunities whereby all payment obligations are written as contingent rentals. Additionally, this approach would significantly reduce the burden on preparers and provide a more accurate presentation of the true assets and liabilities of an entity in the financial statement compared to the current lease accounting rules. Whilst an expected outcome approach may be more precise in certain situations, we believe that this aspect of the ED will present particular operational challenges for our company and many others and is unlikely to produce an appreciable improvement in financial reporting.

**Question 10: Reassessment**
Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

We agree that some form of reassessment will be required due to the nature of lease agreements whereby contractual modifications are not rare and due to the fact that assets and liabilities will be recorded on the balance sheet. However, we believe that the suggestions that we have put forward regarding the determination of lease term and inclusion of only certain contingent rentals would greatly reduce the burden that the reassessment in the ED would otherwise cause whilst also improving financial reporting. If the lease term was limited to the stated contractual term and other terms that were highly certain to occur, the subjectivity of the assets and liabilities would be greatly reduced and the reassessment process would therefore be more straightforward.

We request that the FASB provides clarification as to the income statement classification of changes resulting from the re-measurement of assets and liabilities that relate to the current or prior periods.

**Question 16**
(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
(b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We agree that a simplified retrospective approach is appropriate, but we believe that the effective date should be set such that preparers have sufficient opportunity (at least 12 months) to prepare for the new requirements in advance of the first comparative reporting period that will be presented upon adoption. We support retrospective application to all periods presented on the basis of comparability and believe that applying assumptions in place at the opening balance sheet date is a helpful alternative to full retrospective adoption. We strongly believe that due to the magnitude of the changes in the ED, we will require significant lead time to implement these rules and develop processes that are sufficiently robust. By providing at least 12 months in advance of the first retrospective period to which these rules would be applied, the FASB could greatly reduce the transitional burden whilst also allowing companies to produce more meaningful and accurate financial statements upon adoption.

Question 17
Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

In its current form, we do not agree that the benefits of the ED outweigh the costs. We have previously stated our belief that leases representing true liabilities of an entity should be recorded on the balance sheet and we believe that new lease accounting rules should maintain this requirement as this aspect will provide benefits in the form of improved financial reporting. However, there are many aspects of the ED (e.g., option terms, contingent payments) that will require a significant degree of subjectivity, will be the most costly to implement and operationalise, and will provide little, if any, incremental benefit. Additionally, those are the same aspects that we do not believe to be consistent with the Conceptual Framework and will actually decrease the comparability of financial statements. We believe the suggestions we have put forth herein (or something very similar) would represent conceptual improvements to the current lease accounting rules and the ED whilst also eliminating the need for many of the requirements of the ED that will be most costly and time consuming to implement.