December 15, 2010

Leslie Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: File Reference: No. 1850-100; Exposure Draft: Leases (Topic 840)

Dear Madam and Sir:

Best Buy Co., Inc. is a multinational retailer of consumer electronics, home office products, entertainment software, appliances and related services. We operate retail stores and call centers and conduct online retail operations under a variety of brand names such as Best Buy, The Carphone Warehouse, Five Star, Future Shop, Geek Squad, Magnolia Audio Video, Napster, Pacific Sales, and The Phone House. We lease over 68 million square feet of retail, office and industrial space around the world. We have approximately 6,000 leases (primarily related to retail properties) in 14 countries and written in 10 different languages. This letter summarizes our key observations and concerns related to the above-referenced Exposure Draft.

Many of our non-US subsidiaries are subject to statutory financial reporting requirements, and we support the Boards’ convergence initiatives to more closely align US and International standards. We also strongly support potential changes to lease accounting and disclosures that improve the relevance and reliability of information we provide to our investors. In general, we support the principle of accounting for lease contracts as right-of-use assets with corresponding liabilities. However, we have significant concerns about certain of the detailed proposals, and we have summarized these below.

**Term Options**

We utilize lease term options to secure access to properties without committing us beyond an appropriate initial lease term. The Exposure Draft would require us to evaluate the likelihood of exercising options on relevant leases. Our concerns with this proposal are as follows:

- **We do not believe an option period constitutes a liability.** Retailers utilize term options to allow them access to store locations without over-committing and potentially burdening their businesses with obligations for locations that may not be required beyond the initial lease term. We believe that recognition of a liability for any portion of a term option misrepresents the economics of such a contract and distorts reported financial position and results.

- **Predicting the likelihood of term option exercise is impractical.** In a retail business, there are many factors that affect decisions on term options and most are difficult to forecast. Accordingly, decisions are typically made shortly before the deadline for exercise. In this context, we believe that it would be impractical to make reliable estimates of option exercise until the decision to exercise is formalized.
**Income Statement – Timing of Recognition and Presentation**

We support the amortization of right-of-use assets in line with existing guidance for finite-lived intangible assets, and consistent with our comments above, believe the useful life should be determined by reference to initial lease terms excluding term options. However, we do not agree with the recognition of notional interest arising from a lease being recognized using the effective interest method. We appreciate that the Boards’ intent is to synthesize owned property financed with debt. However, we believe the substance of an operating lease is different than debt (unlike a capital lease) and that the application of an effective interest model distorts financial performance. For example, in a simple scenario where two otherwise identical companies have ten-year leases on their headquarters, but company A is in year one of the lease whereas company B is in year nine; the proposals would lead to company B reporting higher net income than company A merely due to timing. We believe this timing effect is inappropriate because:

- It is largely counter-intuitive, and may not be readily appreciated by many users of financial statements; forecasting future profitability would be difficult for all users.
- Comparability between registrants with operating leases would be undermined, and it would not be practical for users to make adjustments to different registrants’ results to eliminate this inconsistency.
- The pattern of cost recognition in the income statement would be inconsistent with the overall economic benefits received.
- The pattern of cost recognition would also be significantly different from the timing of cash outflows.

For similar reasons, we also urge the Boards to reconsider the classification of the notional interest element of lease payments within interest expenses. We believe it is more appropriate to classify all leasing costs within operating income.

**Service Arrangements**

We generally agree with the principles underlying the proposed treatment of contracts which may include both provision of a service and leasing of an asset. However, given the complexity involved in evaluating such arrangements, we urge the Boards to provide expanded guidance on this area, in particular with regard to assessing the control of assets.

**Short-Term Leases**

We generally agree with the proposed treatment of operating leases with maximum terms of 12 months or less. However, we also feel it is appropriate for preparers to apply a convention that excludes leases under a specified materiality threshold. Just as most companies use capitalization thresholds to determine whether assets should be capitalized or expensed as incurred, we feel it is appropriate for a similar approach to leases. We believe it is for each preparer to determine appropriate conventions in this regard.

**Disclosures**

One of the key objectives of existing disclosure requirements for operating leases is to allow users to assess the value of lease liabilities not recognized on the balance sheet when evaluating liquidity and capital structure. Since these liabilities will be recognized on the balance sheet under the proposals, we believe the overall level of disclosures should be similar to or less than is currently required.

We appreciate the objective of providing users sufficient information about assumptions used in the financial statements to enable them to evaluate the impact alternative assumptions may have. However, for companies with large numbers of leases and wide diversity in key terms, we do not believe it is practical to summarize this information in a way that will be useful to users. For example, contingent rentals alone typically involve several variables that dictate their economic impact, such as:

- The proportion of rent that is contingent vs. fixed.
- The threshold at which contingent rentals are triggered.
- The criteria used to drive contingent rent.
• The rate at which contingent rent increases with underlying drivers.
• The impact of minimum and maximum caps.

We believe that for a company with more than a handful of leases, summarizing this information in a way that provides users with concise, relevant and reliable information is wholly impractical. We therefore urge the Boards not to require disclosures beyond a general description of types and numbers of leases.

**Effective Date**

The implementation of the changes to lease accounting as proposed in the Exposure Draft would be an extremely time-consuming and expensive project for Best Buy. The process would include the following significant and challenging steps:

• Discovery – identification of all global leases, including potential embedded leases.
• Identification and implementation of a system to handle both operational and accounting requirements; we do not believe a solution capable of managing the volume and complexity of a large multi-national retailer is currently available, and expect that it will be some time after the finalization of lease accounting changes before viable solutions come to market.
• Extract relevant information from all leases and upload to system (particularly challenging given volume, diversity in lease terms and languages).
• Extensive testing and validation.

Given the challenging and time-consuming nature of these steps, we estimate that it would take us two to three years after the publication of final standards and the emergence of suitable systems to meet the new requirements. Another driver of the time required to implement is the number of years of comparative information to be presented. Given that the proposed transitional guidance would require retrospective application to the earliest comparative period presented, this adds an additional two years. Therefore, we believe that the total time to implement – based on current proposals – will be in the range of four to five years from the date of publication.

We urge the Board’s to consider the importance of retrospective application to all comparative periods. If the comparative requirement was limited to one year, our timeline to implement could be reduced by one year.

We greatly appreciate the opportunity to comment on the Exposure Draft. Please let me know if you wish to discuss any of our responses further.

Sincerely,

Susan Grafton  
Vice President, Controller and Chief Accounting Officer  
Best Buy Co., Inc.