

Notting Hill Housing Trust

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International Accounting Standards Board
First Floor
30 Cannon Street
London
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Financial Accounting Standards Board
401 Merrit 7, PO Box 5116
Norwalk, CT 06856

Dear Board Members

Exposure draft ED/2010/9 - Leases

Thank you for your invitation to comment on the above exposure draft.

Notting Hill Housing is a large, well established housing association. We provide affordable housing for Londoners. We operate on a commercial basis, enabling us to build more homes to meet housing need. There are over 2,000 housing associations operating in England. Associations operate in very different housing markets according to whether they are focused on deprived areas, perhaps in the north of England or, alternatively, like Notting Hill focused on the provision of low cost housing in relatively expensive parts of the Capital. They also vary in size, with Notting Hill being one of the largest.

We have an annual turnover of over £200m, an asset base of over £2bn and aim to make surpluses in each year. We house around 25,000 households and employ 800 staff. We are also a substantial property developer in London building around 1,000 homes in each year.

We have a debt portfolio of over £1bn and included within this is £180m raised via a Notting Hill Bond, listed on the London Stock Exchange.

I do not propose to comment on all aspects of the exposure draft, but to particularly focus on aspects that seem to be inappropriate for our own business.

RESIDENTIAL TENANCIES

Of the above 25,000 properties managed by Notting Hill, the majority are tenanted by residential tenants. Under the terms of these tenancies, the resident has the right to occupy the property until their death. In many cases, a family member of the resident is also entitled to occupy the same property until their death. On the other hand, the current tenant can at any time give notice to us and leave. It is thus possible for a tenancy to last, in theory, for a period as long as 100 years. On the other hand, we cannot rely on the income from any of these tenancies beyond the following month. On average, a tenancy lasts around 20 years.

FINANCIAL STATEMENTS

In our view, the current accounting treatment of our tenancies in the financial statements position for Notting Hill fairly reflects the economic substance of the underlying transactions.

Our accounts are most often read by our Regulator (currently the Tenant Services Authority), our public sector funder (the Homes and Communities Agency), together with private sector investors (banks and bond holders).

In our view, the current presentation is clear in that the cost of our housing (valuation in some cases for other housing associations) is clearly shown on the balance sheet. In addition, the income and expenditure arising from the rental stream is also clearly shown on the income and expenditure account. The introduction of "artificial" assets and liabilities to reflect a particular scenario ("the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease") is unlikely to improve the transparency of the accounting.

Additional complexity

Although our core objection to this particular part of the proposals relates to the fact that the accounts will become more opaque to users, in addition, there would be a significant amount of additional work required by us to calculate figures that will only serve to make it more difficult to read our accounts.

- In particular we will need to establish the present value of the rental income and associated liabilities for all of our properties; and
- We will need to set up operational systems to analyse the relevant data required to establish all of this information.

SUMMARY

In summary, we therefore ask that the boards re-consider the position of residential landlords and, in particular, either amend the proposals more generally, or set up specific exemption for individual residential tenancies.

Thank you.

Yours sincerely



Paul Phillips
Group Finance Director