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# Abercrombie & Fitch

December 15, 2010

International Accounting Standards Board First Floor 30 Cannon Street London EC4M 6XH United Kingdom

Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116 United States

Dear Board Members,

#### Invitation to comment - Exposure Draft Leases

Abercrombie & Fitch Co. is pleased to respond to the International Accounting Standards Board's (IASB) and the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) on Leases.

Abercrombie & Fitch is a specialty retailer operating approximately 1,100 stores under four different brands throughout the United States and in seven countries internationally. All of our stores are subject to operating leases, typically with initial terms of 10 years, some including options to renew for additional multi-year periods thereafter. The majority of our store leases provide for a minimum rent plus additional rental payments if sales exceed specified levels, and some include scheduled rent increases based upon lease defined indices over which we have no control. A number of our store leases provide for rental payments based solely on a percentage of sales. Additionally, our leases contain a variety of clauses that can impact the lease payment and duration. These clauses are based on facts and circumstances that are indeterminable at lease inception, an example of which is early termination clauses that permit the lease to be terminated by us or the landlord if the center does not meet specified occupancy standards. Given these facts, this standard will clearly have a major impact on us and the majority, if not all, other specialty retailers.

We acknowledge that the current accounting for leases could be improved and that the proposals in the ED address certain criticism of the current accounting model by requiring that assets and liabilities arising from lease contracts be brought onto the balance sheet. We understand the Board's decision to pursue an approach whereby the

rights and obligations that arise in a lease are recognized in a single unit of account. However, there are key conceptual and application issues related to the proposals in the ED that must be addressed in order for these proposals to be operational. Below we discuss the most significant concerns we have with the proposals within the context of the questions posed by the Boards.

### Increased Volatility in Earnings (Questions 8, 9 and 10):

We believe that the new standard has the potential to introduce significant volatility to earnings as a result of significant estimates and judgments for which a great deal of uncertainty exists, particularly with regard to lease term, contingent rents and the reassessment provisions of the ED.

- Lease Term We believe that the lease term threshold should only include optional lease periods that are "reasonably certain" to be exercised. We view this threshold as higher than the "more likely than not" language in the ED and consistent with the threshold used under current accounting when determining the lease term as of the inception date. The use of a higher threshold in determining the impact of optional renewal periods on lease term would be more practical and result in much less frequent changes in estimates.
- Contingent Rents We believe that contingent rentals should be excluded from the measurement of lease related assets and liabilities. We have significant concern regarding our ability to appropriately and accurately estimate expected lease payments as defined by the ED. It is impractical to expect that companies will be able to accurately estimate sales and certain other variables impacting contingent rentals for all periods covered by the term of a lease. Therefore, the impact of contingent rentals based on significant assumptions will be difficult to accurately measure and the changes may cause significant fluctuations in earnings and fail to provide financial statement users with decision-useful information. In our view, contingent rents do not represent obligations prior to the occurrence of the applicable triggering event.
- Reassessment Given the significant use of estimates and judgment under the
  proposed lease model, we agree that periodic reassessment is necessary to ensure
  that the statement of financial position accurately reflects the rights and
  obligations under the lease contract. However, we believe the model, as
  proposed, will create significant practical and operational issues and without the
  above changes to the definition of lease term and payments, will be unduly
  onerous and subjective.

## Administrative Burden (Questions 8, 9 and 10):

As noted above, we agree with the requirement to periodically reassess the estimates and assumptions related to leases. This requirement becomes significantly more practical if the changes discussed above related to lease payments and lease term are taken into consideration. However, we have concerns regarding the frequency of the required reassessments. The requirement that leases with facts and circumstances indicating a significant change "since the previous reporting period" implies a quarterly evaluation. This is especially burdensome if contingent rentals are not removed from the lease

payment definition and would potentially require a quarterly re-evaluation of all leases. We would suggest that an annual reassessment of lease term and payments would be more meaningful and practical in its implementation. It would contemplate changes that have had a chance to establish themselves as trends as opposed to temporary changes due to short term economic conditions.

# Benefits and Costs (Question 17):

In the absence of the Boards making significant improvements to the ED, we do not agree that the benefits would outweigh the costs. We have concerns that the burden of applying all aspects of the model, as proposed, will be significant. The concerns stated above related to the measurement of lease payments, determination of lease term and the reassessment of lease term and payment are of particular note. The proposed model and its dependence on significant estimates and judgment will drive additional costs both internally in the form of payroll and significant systems modifications and externally in the form of additional external audit work.

In closing, we believe that the Boards should consider the additional practical accommodations noted in this comment letter in order to develop an accounting model that is operational and for which the benefits of applying the model exceed the related costs.

Best regards,

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