

December 15, 2010

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

Dear Board Members and Staff:

Re: Exposure Draft - Leases - Proposed amendments to IAS 17

British Columbia Liquor Distribution Branch ("LDB") is writing this letter to provide its response to International Accounting Standards Board's ("IASB") Exposure Draft – Leases – Proposed amendments to IAS 17 ED.

Background

LDB is one of two branches of government responsible for the beverage alcohol industry. As part of its mandate, LDB operates 197 government liquor stores throughout the province in addition to two distribution centres. As part of BC mixed model retail system, the LDB is committed to providing customers with an enhanced shopping experience, increased product selection and a high level of service. Currently, LDB has approximately 200 store leases that are currently classified as operating leases the majority of which have original lease terms of 10 years and multiple 5 year renewal periods.

LDB supports the goal of a single set of high-quality accounting standards that are accepted and applied globally. We believe the conversion of reporting requirements to International Financial Reporting Standards ("IFRS") will accomplish this goal. We understand the goal of the Exposure Draft ("ED") is to develop a new approach to lease accounting that will ensure that assets and liabilities arising under leases are recognized in the statement of financial position.

Given these facts, this standard will clearly have a major impact on us and those that operate in a retail environment. Our primary concerns are presented below within the context of the questions posed by the IASB.



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 disagree with the proposed lease term definition from both a conceptual and practical application perspective. We believe that the requirement to identify the lease term as the "longest possible lease term that is more likely than not to occur" is inconsistent with the conceptual framework, and we question whether entities can reasonably estimate lease terms for renewals that are in the distant future.

The framework states that:

"A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way."

Renewal options that are negotiated into leases generally have economic substance and provide flexibility to a lessee without unconditionally committing the lessee to the optional period. Lease renewals do not represent a contractual commitment and any decision to enter into one is based on a future event that does not constitute a present obligation.

Significant judgement and estimation will be required for assessing the probability of decisions that may occur 10 or 15 years in the future. Estimating this probability will introduce much subjectivity into the process, thereby decreasing the comparability and usefulness of the resulting information.

As a consequence, we believe that the proposed definition of lease term and the requirement for reassessment of the assumptions will increase the volatility of earnings. The cost of implementing and maintaining the proposed method will far outweigh the benefits, particularly for those entities with large volumes of leases and the effort to audit these assumptions will be considerable.

We believe that the lease term should only include optional lease periods where reasonable certainty exists that these options will be exercised.



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?

As mentioned above, LDB has approximately 200 leases with various terms and renewal periods. The number of leases and the requirement to revalue them in accordance with the requirements of this ED will create significant strain on our current resources and likely require the hiring of additional resources. We are concerned that the cost of performing the proposed reassessment may outweigh the benefits.

We believe that defining lease terms based upon renewal periods where reasonable certainty exists will alleviate some of the administrative burden.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

The ED requires that cash payments for leases be presented as financing activities in the statement of cash flow. We believe that for retail companies, the classification of rental payments as a financing activity is not accurate and will be confusing to the end user.

Leasing is fundamental to LDB's ability to operate in a retail environment and as such, we would argue that the cash payments for these leases should be categorized as an operating activity and not a financing activity. LDB considers rental expenses that are incurred to be a cost of delivering our goods to the customer. We therefore recommend that rental payments be classified as operating cash flows in situations where leasing is an integral part of delivering a company's product to the ultimate customer.



Question 17: Benefits and costs

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?

For the reasons mentioned above and in the absence of changes being made to the ED, the costs of implementing the exposure draft in its current form outweigh the perceived benefits.

We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss these items with you.

Sincerely,

Roger M. Bissoondatt Chief Financial Officer

Attachment