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International Accounting Standards Board

1st Floor

30 Cannon Street

LONDON

EC4M 6XH

4th September 2013

Dear Board Members,

Re: 2013 Leases Exposure Draft

Next plc is a UK based retailer which provides quality clothing, footwear, accessories and home products in the UK and overseas. Total group revenues were £3.6 billion in the last financial year. Next operates a chain of more than 500 retail stores which are predominantly rented.

In 2010 we wrote to express our strong objections to the Leases Exposure Draft issued at that time. Following a recent meeting between IASB and FASB members and our Group Finance Director, Audit Committee Chairman and various users of our accounts, we write again to put on record our continued objections to the latest proposals.

Firstly, we would observe that the Boards began the leases project with the aim of creating a single model for capitalising all leases into a single balance sheet figure. The problem with this is that leases are not all the same. It is this simple fact which has given the Boards so much difficulty in concluding the project satisfactorily and in a reasonable timeframe.

The latest Exposure Draft reverts to a "dual model" approach, but the proposals continue to be compromised by the pre-determined belief that bringing all leases on to the balance sheet will necessarily result in greater transparency, comparability and usefulness of accounts. In our view, this is simply not the case and is the wrong objective. A better objective would be to make accounts more transparent, comparable and useful in the most straightforward way possible. If the Boards had set out with that as their primary goal, we expect the outcome would have been quite different, far simpler, and it would not have taken so long to get there.

The latest Draft is not fully supported by several members of the IASB and FASB Boards. Many of their objections appear to reflect this fundamental problem with the objective at the heart of the project:

1. Mr Linsmeier believes that the proposals would not be an improvement on the existing IAS17 because they would result in financial reporting for lessees which is so complex that it would hinder the users of accounts. We agree.



- 2. We also agree with Mr Schroeder in respect of his view that the Draft fails to adequately meet its primary objectives and would not improve financial reporting.
- 3. Mr Siegel believes that the costs would outweigh the benefits, and that users are likely to adjust the accounts.
- 4. Messrs Kalavacherla and Zhang disagree with the dual accounting model proposed for lessees because they believe it contradicts an important objective of the project, which is to create a single lease accounting model.

As noted above, we contend that it is the project objective which is the real problem. Our observations and recommendations are therefore as follows:

- 1. Attempting to treat all leases as if they are the same is the wrong approach. The Boards have now acknowledged this, but it surely applies as much to the balance sheet as it does to the income statement and cash flow statement.
- 2. Devising a method for calculating a single balance sheet figure which faithfully represents the economics of all leases is simply not possible.
- 3. Leases are a form of commitment, but there are many other types of commitment which may be no less of a benefit, burden or risk, such as:
 - a. Long-term supply contracts for goods and services
 - b. Business property rates & service charges (often directly linked to property leases)
 - c. Long-term maintenance contracts (e.g. IT)
 - d. Contracted future income (e.g. order book)

The leasing project overlooks all of these other things and focuses entirely on physical assets, which could provide a very myopic and misleading view of the overall financial position. We contend that users of accounts would benefit far more from a better understanding of all these kinds of commitments, not just the rental of physical assets.

4. The current accounting model for leases is not fundamentally broken. It is not perfect, but it is well understood and has stood the test of time. For operating leases, it does not rely heavily on judgments such as discount rates, likelihood of extensions etc. The "risks and rewards" concept of asset recognition is straightforward and leased assets are not "hidden" from anyone as they are disclosed in the notes. If the Board believes that investors are being misled because financed assets are being disguised as operating leases to keep them off-balance sheet, then why not look at the criteria for how different types of leases are classified? Treating all leases as if they are finances of asset purchases (when clearly they are not) is rather like locking everyone up to ensure that no criminals are at large!

In summary, we propose that the Board changes its project objective, and instead consults with users on what information they would find useful in respect of all commitments, not just leases of physical assets. We expect that users would generally find useful any information which helps them to assess and predict future cash flows more reliably. The current proposals simply do not do that and actually make it more difficult.

We do not think it is possible to encapsulate all lease rentals into any kind of meaningful "single figure" on the balance sheet. The sweat and tears which have already been spent on this project without an obvious better solution emerging have surely proved that.

We hope that the Board will reflect on these observations and re-assess the objective and direction of the project.

Yours faithfully

Steven Chantrill FCA

Group Financial Controller

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