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To: International Accounting Standards Board
Financial Accounting Standards Board

Keidanren
Committee on Corporate Accounting
Sub-Committee on Corporate Accounting

Comments on the Revised Exposure Draft *Leases*

Keidanren respects the efforts of the IASB and the FASB to enhance the transparency of financial information by improving the current lease accounting standards and having material off-balance-sheet transactions recognized on balance sheets. We also welcome the opportunity to submit comments on the revised Exposure Draft *Leases* (hereinafter the "revised ED").

In Japan, companies have started applying IFRS on a voluntary basis from the fiscal year ended March 31, 2010. In tandem with the government initiatives to increase the number of companies applying IFRS, Keidanren continues to provide support to facilitate such an increase. At the same time, given that some 30 Japanese companies apply US GAAP, we consider it essential to enable the ongoing application of US GAAP along with increasing the number of companies applying IFRS in our nation. To make these possible, the new accounting standard must be the one that is acceptable from both theoretical and practical perspectives and is neutral with regard to lease transactions. Lease accounting standards affect virtually all companies and, as such, are of great importance to the business community. We therefore request that the boards give due consideration to a proper balance between the costs to financial statement preparers and the benefits to users, fully taking into account market participants' views.

I. Our General Comments on the Revised ED Are as Follows.

The revised ED proposals would, overall, impose excessive burdens on financial statement preparers by requiring basically all non-short-term lease contracts to be recognized on balance sheets. We surmise that the main purpose of improvements through the revised ED is to prevent lease contracts from being structured in a way that allows material assets and liabilities to be kept off balance sheets. This purpose, however, will be accomplished by specifically requiring on-balance-sheet accounting for material lease transactions.

In that regard, the 2013 analysis by the Japan Leasing Association of the 1,700 companies listed on the Tokyo Stock Exchange First Section shows some interesting findings. First, the future operating lease payments disclosed in these companies' notes to financial statements totaled about 17 trillion yen, an amount corresponding to only 1

percent of their aggregate total assets. Second, the top 100 companies accounted for more than 80 percent of those aggregate future operating lease payments. These findings suggest that requiring entities to apply the complex accounting standard even to immaterial lease transactions would increase the costs to be borne by society.

Another concern is that, although many lease contracts include stipulations on the provision of services of various kinds, the revised ED remains unclear as to the treatment of those stipulations, making it difficult to separate lease and service components of a contract in practice. As a result, the revised ED requires entities to recognize assets and liabilities for services as well, which we consider totally inappropriate treatment.

In addition, we are strongly concerned that the classification of leases and lessee accounting proposed in the revised ED are not consistent with the substance of transactions, as well as theoretically problematic. Specifically, the proposed method of classifying leases according to whether or not the underlying asset is property does not fully reflect the diverse nature of non-property lease transactions. Lessee accounting, too, has a number of problems, one of them being that subsequent measurement (amortization) of a right-of-use asset arising from a Type B lease gives figures that are theoretically inexplicable.

Furthermore, the revised ED does not clarify what financial statement users truly need, the point that is supposed to be the very reason for the publication of the revised ED. Also, sufficient examination has not been made of the costs and benefits to society and of the impacts on lease transactions that may occur if the new standard applies to actual lease transactions.

For these reasons, we believe that the boards should amend the revised ED proposals once again, listening to the opinions of a wide range of stakeholders.

II. Our Responses to Questions Are as Follows.

Question 1: identifying a lease

This revised Exposure Draft defines a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". An entity would determine whether a contract contains a lease by assessing whether:

(a) fulfilment of the contract depends on the use of an identified asset; and

(b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

Response

Although the proposals on the identification of leases have been improved from those in the previous ED of 2010, the revised ED still entails problems in the provisions on the distinction between lease transactions and services, as described below. For this reason, we ***cannot accept*** the revised ED's proposals as they are.

- Paragraphs 23(b)(ii) and 23(c) stipulate that, if there are no observable prices for one or all of the components of a contract containing a lease, these components be combined and accounted for as a single lease component. However, in the case of a contract where the size of the service component is not small relative to that of the lease component, it is not appropriate for the lessee to recognize a right-of-use asset and a lease liability for the service component. In such a case, a correct approach is not to account for the entire contract as a lease, but to determine whether the main component is a lease or a service and then to account for the entire contract as either of the two.

- Property rental agreements that cannot generally be viewed as a substitute for purchase and have characteristics analogous to service transactions should not be treated as leases, and assets and liabilities should not be recognized for them. Rather than require treating all property rental agreements as leases and recognizing assets and liabilities for them on balance sheets, the boards should specify the limited situations where on-balance-sheet accounting is required.

Other Matters That Need Improvement or Clarification

- Paragraph BC116(c) of the Basis for Conclusions indicates the boards' view of cases in which separating lease and non-lease components of a contract is not possible. Whether or not to be able to separate lease and non-lease components of a contract constitutes the first step in identifying a lease. Hence, this view should be included in the main text of the standard and inserted immediately before paragraph 7 of the "Identifying a Lease" section.

- Examples 1A, 3, and 4 all conclude that the respective contracts contain lease and non-lease components. We request that the reasons for reaching that conclusion be clearly stated.

- At inception of a contract, entities are required to determine, according to the provisions in paragraphs 7(a) and 7(b), whether the contract contains a lease. The criteria to meet the paragraph 7(b) definition of "a contract conveying the right to control the use of the identified asset" are set out in paragraphs 12(a) and 12(b). We request that the criterion of "the customer having direct access to the asset"—a criterion similar to the one provided for in paragraph 9(b) of IFRIC 4—be added to facilitate the application of the standard in practice.

- Paragraphs 18 and 19 lay out the specific requirements for meeting the criterion in

paragraph 12(b). In relation to these, both Examples 1A and 4A provide explanations on paragraph 12(b) and refer to the requirement set out in paragraph 18, but neither of them refers to paragraph 19. We request that a reference to paragraph 19 be added.

- More illustrative examples should be provided on separating components of a contract (such as paragraphs 20 and 23).

Question 2: lessee accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Question 4: classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Response

We ***strongly oppose*** the proposals on the classification of leases and lessee accounting. The revised ED contains numerous fundamental problems related to the linchpin of the accounting model, as listed in "Main Problems" below.

To solve these main problems, we suggest "Alternative Proposal 1" and "Alternative Proposal 2" below. We firmly request that the boards amend the revised ED proposals once again including these two proposals, attentively listening to the opinions of market participants.

Main Problems

1. The proposed lease classification would lead a majority of non-property leases, albeit some exceptions, to be classified as Type A leases, for which on-balance-sheet accounting and front-loaded recognition of expenses are required. However, there are a wide variety of leases whose underlying assets are not property, ranging from those similar to purchasing of underlying assets to those similar to service transactions. Under the proposed classification, it would be impossible to reflect such diverse nature of leases in financial statements.

2. Leases are required to be classified into Type A or Type B according to the criterion of whether more than an insignificant portion of the economic benefits is expected to be consumed. With no specific thresholds set, however, determination will prove to be extremely difficult in practice.

3. Lessees are required to recognize all non-short-term leases on balance sheets. But, non-short-term leases involve a wide range of transactions, including ones that can never be viewed as a substitute for purchasing transactions, such as a majority of property rental agreements, and ones that do not have a non-cancellable period. Recognizing right-of-use assets even for such transactions is not consistent with the substance of these transactions and does not accord to the traditional concept of assets, either. Moreover, we believe that from a cost-benefit perspective, immaterial leases should not be subject to on-balance-sheet accounting, although no explicit mention is made in the revised ED.

4. Lessee accounting is conceptually inexplicable with respect to amortization charges of right-of-use assets arising from Type B leases, in that these charges are not calculated based on the consumption of assets and will gradually increase with the passage of time; as a result, the carrying amount of the right-of-use assets recognized will have no accounting significance. In addition, these accounting procedures call for highly complex computation in practice.

Alternative Proposal 1: Amendment to the Revised ED Proposals

We consider that there are two key points in the revised ED proposals on the classification of leases and lessee accounting. One is to require on-balance-sheet accounting for material operating leases as currently required for finance leases. The other is to introduce separate treatment for property due to its characteristics being different from those of other underlying assets. To solve the main problems listed above while paying due attention to these two key points of the proposals, the following revisions should be made to the classification of leases and lessee accounting.

1. As stated in our response to Question 1, property rental transactions should in principle be excluded from the scope of the new standard. Only those transactions that are exceptionally designated as being subject to on-balance-sheet accounting should be covered by the new standard.

2. Of all the lease transactions not excluded by 1. above, those that do not have a non-cancellable period should be recognized as rental transactions in profit or loss. As for short-term leases, while the revised ED allows them to be accounted for as rental transactions, the pertinent provisions are not appropriate and should be revised as requested in (2) of “Other Comments” below. Furthermore, regarding immaterial leases, explicit statement should be made to the effect that such leases are allowed to be accounted for as rental transactions from the perspective of ensuring practicability for preparers, as requested in (1) of “Other Comments” below. Consequently, we propose that leases to be accounted for on balance sheets be limited to the following: leases with a non-cancellable period, non-short-term leases, and material leases.

3. Transactions accounted for on balance sheets should be classified into two categories pursuant to the current IAS 17 provisions (because we believe the current IAS 17 lease classification and accounting methods faithfully reflect the substance of the

diversity of lease transactions). Leases that are classified as finance leases in accordance with IAS 17 should be subject to the revised ED rules for Type A leases. When leases are classified as operating leases, the lease payments should be recognized (without discounting) on balance sheets and accounted for as expenses on a straight-line basis over the lease term.

4. In classifying leases, it is also conceivable to rely not on IAS 17 but on the revised ED's criterion of whether more than an insignificant portion of the economic benefits is expected to be consumed. In that case, however, thresholds must be specified. We propose that, in accordance with the numerical criteria set out in US GAAP that we find useful and reasonable, Type A lease accounting apply when one of the following two conditions is met: the lease term exceeds approximately 75 percent of the total economic life of the underlying asset; or the present value of the lease payments exceeds approximately 90 percent of the fair value of the underlying asset at the commencement date.

Alternative Proposal 2: Amendment to the Current IAS 17 Alone

To enhance the transparency of financial information, the IASB has been examining the adoption of a right-of-use model as the single accounting model for leases. Keidanren basically supported this approach when the 2010 ED was published.

However, whereas both the 2010 ED (proposing the single model) and the revised ED (proposing two models) would likely prevent improper structuring of leases by requiring on-balance-sheet accounting for lease transactions, neither of them would achieve what is most important to standards development—that is, proper reflection of the economic substance of transactions in financial reporting. Nor would they ensure practicability for preparers. (For the 2010 ED, refer to the attached Keidanren comments submitted at the time; for the revised ED, see the "Main Problems" listed above.) In contrast, IAS 17 is the standard that ensures both practicability for preparers and the proper reflection of the economic substance of transactions. In consequence, we, as financial statement preparers, have not found any major problems with IAS 17.

Then, it seems unlikely at present that the benefits to be derived from new model development will outweigh the costs. We therefore believe that, rather than making fundamental changes using new models, the boards should consider devising measures to prevent improper structuring within the framework of the current IAS 17, such as amending disclosure requirements.

Other Comments

(1)Determination of materiality (determination of immaterial leases; paragraph BC405)

Paragraph BC405 reads, "The IASB expects lessees to apply a similar materiality threshold to leases as it does to items of property, plant and equipment. This would result in a lessee not applying the proposals to leases considered to be immaterial on a

basis similar to that applied to items of property, plant and equipment." However, given that the capitalization of property, plant and equipment is an accounting rule applied to a wide range of items, even to ones of small value that does not reach the minimum financial statement reporting value, the above statements would place enormous burdens on lessees despite not contributing to improvements in material financial information. We therefore request that paragraph BC405 be deleted and an explicit statement be added to the standard main text to the effect that "a lessee shall determine off-balance-sheet items, assessing financial materiality to the lessee's financial statements as a whole."

(2) Short-term leases (paragraphs 118 to 120, defined term in Appendix A, and Example 11)

The revised ED defines a short-term lease as follows: "A lease that, at the commencement date, has a maximum possible term under the contract, including any options to extend, of 12 months or less. Any lease that contains a purchase option is not a short-term lease." We ***strongly oppose*** this definition, because it would place heavy burdens on entities due to difficulties in determining its applicability. In addition, this definition does not serve as a relief because it would lead to requiring virtually all leases to be recognized on balance sheets. Short-term leases should be defined consistently with the definition of the lease term.

Paragraph BC298 indicates that the boards have chosen this definition out of concerns that leases could be structured to obtain short-term lease accounting. We, however, believe such concerns to be unnecessary. As stated in paragraph BC110, if a lease is structured in the way the boards are concerned about, the following outcomes can be expected: the lessor would bear most of the risk of not recovering investment in the lease asset; and the lessee would pay higher lease payments than are justified from the standpoint of economic rationality to compensate the lessor for taking such risk. Hence, there is no need to fear that a lessor and a lessee may conspire to so structure the lease. It should also be noted that the quality of accounting standards would deteriorate if they were to be developed with an emphasis on concerns over improper structuring and without regard to the economic substance of transactions.

(3)Reassessment of lease payments (paragraph 44) and of discount rates (paragraph 45)

Paragraphs 44 and 44(b) require the reassessment of lease payments "if there is a change" in relevant factors that result in the lessee having or no longer having a significant economic incentive to exercise an option to purchase the underlying asset. Considering that relevant factors will undergo constant change, whether material or not, we request that "if there is a change" in paragraph 44 be reworded to "if there is a material change." The same amendment should be added to paragraph 44(a) in relation to the lease term provisions in paragraph 27(a).

For the same reason as the above, "if there is a change" in paragraph 45 should be revised to "if there is a material change."

(4)Additional criteria for classifying leases (paragraphs 29(a) and 30(a))

There is an inconsistency between paragraphs 29(a) and 30(a) concerning the treatment

of a lease term as an additional criterion for classifying leases. Specifically, for a Type A lease, the lease term is required to be compared with the total economic life of the underlying asset, whereas for a Type B lease, the lease term is required to be compared with the remaining economic life of the underlying asset. As such, Type A and Type B leases are not treated consistently. We request these two paragraphs be revised, as they lack logical consistency, making accounting work unnecessarily complex.

(5)Amortization method of Type A leases (paragraph 47, etc.)

While paragraph 47 stipulates that a lessee shall amortize the right-of-use asset arising from a Type A lease on a straight-line basis, its proviso states that "unless another systematic basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits." In addition, paragraph BC185 states that for Type A leases, a lessee will determine the amortization in each period consistently with existing IFRSs for nonfinancial assets that are measured at cost.

As a right-of-use asset is an asset created by capitalizing a right to use an underlying asset, it is not necessarily in line with economic substance to amortize right-of-use assets in a manner consistent with the amortization of purchased assets in general. Accordingly, we request that paragraph BC185 be deleted, and that the proviso in paragraph 47 be reworded to the following: "However, if it is presumed that another systematic basis is more representative of the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits, such another basis may be used."

(6)Reversal of impairment losses on right-of-use assets

Paragraphs 41(b), 51, BC187, and BC188 refer to or imply the application of IAS 36 *Impairment of Assets*. Although from a conservative standpoint we do not oppose recognizing an impairment loss on a lessee's right-of-use asset when needed, we oppose requiring a reversal of an impairment loss, which is implied by the application of IAS 36, for the following reasons.

- Reversal of an impairment loss in itself is prohibited under US and Japanese GAAPs.
- (If Type B lease accounting rules are not revised) amortization of right-of-use assets arising from Type B leases is the treatment of differences, and as such differs from the treatment after a reversal of an impairment loss required in paragraph 121 of IAS 36. Therefore, IAS 36 cannot apply unless its pertinent provisions are amended.

(7)Initial direct costs (paragraphs 40, 69, B10, and B11)

While initial direct costs are required to be included in a lessee's right-of-use asset and a lessor's lease receivable, such costs cannot be easily calculated. The application of this rule should thus be limited to "material initial direct costs."

(8)Expenses for installing leased equipment

The revised ED does not have any provisions on accounting for cases where a lessee pays expenses to have leased equipment installed. Such expenses are different from the costs of a lessee relating to the construction or design of an underlying asset mentioned

in paragraphs B12 to B14. Treatment of these expenses needs to be clearly stipulated.

(9) Accounting for security deposits and obligations to restore leased property to its original condition

A prevailing practice in Japan is that a lessee pays a security deposit in a property rental transaction. Also, as a related matter, in many of such transactions lessees have obligations to restore leased property to its original condition. Accounting for these deposits and obligations is not provided for in the revised ED and we request it be somehow specified. While paragraphs BC17 to BC19 state that an obligation to return the underlying asset to the lessor does not meet the definition of a liability in the Conceptual Framework, no reference is made regarding obligations to restore leased property to its original condition.

Question 3: lessor accounting Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

<u>Response</u>

We ***do not agree*** with the proposals on lessor accounting. In particular, we disagree with accounting for Type A leases, which has been drastically revised, for the following reasons.

<u>Main Problems</u>

1. The revised ED proposes classifying a lease according to the nature of the underlying asset. However, this classification method does not take into account the benefits and risks specific to lessors concerning underlying assets, making it impossible to reflect the economic substance of lease transactions in a proper fashion.

2. Whereas a lessor is required to calculate the fair value of the underlying asset at the commencement date of the lease, this calculation would be highly complex and take time.

3. A lessor is required to recognize profit at the commencement date of the lease if the fair value of the lease asset is greater than its carrying amount. It, however, does not make sense to recognize profit at the commencement date of the lease. Moreover, recognizing profit at the commencement date of the lease would increase the lessor's risk of recognizing loss in the future.

4. Residual assets are of extremely limited importance in current finance lease

transactions. Hence, it is essentially meaningless to separate a residual asset from the lease receivable by going to the trouble of measuring the residual asset through complex calculations.

Specific Proposal

To date, no problems have been identified with the current IAS 17 lessor accounting rules. In contrast, the revised ED proposals would, as outlined in the "Main Problems" listed above, force preparers to follow complex accounting procedures although it is highly unlikely to lead to increased usefulness of financial information to users. ***Therefore, there is no need to change the IAS 17 lessor accounting rules***.

Even if revisions to these rules are made, consideration must be given to reducing administrative burdens on preparers, for example, by taking the following measures.

1. Add a clear statement that a lessor's referable sale price can normally be used as fair value.

2. Ensure that, when there is no large difference between the fair value of a lessee's lease asset and its carrying amount, profit is not required to be recognized at the commencement date of the lease. Ensure also that, when so projected, the fair value of the lease asset is not required to be measured.

Other Comments

(1) Reassessment of lease payments (paragraph 79) and of discount rates (paragraph 80)

For the same reason as described in (3) of "Other Comments" regarding Questions 2 and 4 above, "if there is a change" in paragraphs 79 and 80 should be changed to "if there is a material change."

(2) "Profit" at the commencement date of the lease

Whereas paragraphs 68(d) and 91 refer to "profit or loss," paragraphs 73 and 74 refer to "profit" only. These provisions are not consistent with each other and should be revised for greater clarification.

(3) Suppose a case in which a manufacturer or dealer sells its product to a leasing subsidiary, which in turn leases it to a third party as a finance lease. Under the current US GAAP, such a case is accounted for as a sales-type lease on a consolidated basis. The treatment of such cases is not stipulated in the revised ED and needs clarification.

(4) Paragraph BC229 uses the wording "on a cost basis" with a different meaning from that in other accounting standards, impeding readers' understanding. To facilitate understanding of the standard, the wording should be changed, for example, to "on a net of unrealized gain basis."

Question 5: lease term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

Response

We ***do not agree*** with the proposals on lease term.

The revised ED proposes that the addition to a lease term of periods covered by an option to extend (or terminate) the lease be determined based on whether the lessee has a significant economic incentive to exercise (or not to exercise) that option.

The Basis for Conclusion on the revised ED states that the "significant economic incentive" threshold is higher than the "more likely than not" threshold proposed in the 2010 ED (paragraph BC171) and provides a threshold that is similar to the "reasonably certain" concept in the current IAS 17 (paragraph BC140). We understand from these statements that the boards gave some consideration to practical issues.

The problem is that the "significant economic incentive" concept would have to involve an extremely subjective assessment in practice even if all relevant factors are considered. We are greatly concerned that, if the determination of a lease term includes the assessment of an option to extend or terminate the lease, reliability and comparability may be undermined. Caution should be exercised on this matter.

Even if periods covered by such an option are included in the lease term, the application of this rule should be limited to cases with high certainty. Accordingly, based on the statement that the "significant economic incentive" concept provides a high threshold similar to the "reasonably certain" concept in the current IAS 17 (paragraph BC140), we request that the wording "the lessee has a significant economic incentive to" in the revised ED be replaced with "it is reasonably certain that the lessee will." This revision would make it clear that periods covered by an option are included in the lease term only in cases with high certainty. In addition, concrete examples should be provided in the form of illustrative examples and guidance.

We also request that "change in relevant factors" in paragraph 27(a) be revised to "material change in relevant factors" in order to reduce administrative burdens on preparers.

Question 6: variable lease payments

Do you agree with the proposals on the measurement of variable lease payments,including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Response

We ***agree*** with the proposals on variable lease payments, as they have been improved from the proposals in the previous ED. However, the scope of "variable lease payments that are in-substance fixed payments" referred to in paragraphs 39(c) and 70(c) is still unclear and should be clarified through guidance and other means.

Question 7: transition

Paragraphs C2–C22 state that a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the boards should consider? If yes, what are they and why?

Response

We ***do not agree*** with the proposals on transition. The revised ED proposals pay attention to administrative burdens, as shown in the introduction of a modified retrospective approach. However, in view of drastic changes in operating lease accounting placing extremely heavy administrative burdens on lessees, further practical expedients should be provided. In particular, we request that the boards consider adding the following provisions: (1) the new standard shall apply to contracts concluded on and after the effective date; (2) the new standard shall apply to existing contracts prospectively after the effective date; and (3) an entity that is not a first-time adopter shall apply the new standard in a statement of financial position as at the beginning of the most recent comparative period.

Consideration should also be given to first-time adopters. Take, for example, an entity that is adopting IFRS for the first time during the period up to the effective date of the new standard. The entity would encounter the problem of having to account for leases in compliance with three standards—that is, home-country GAAP, IAS 17, and the new standard—over that short period of time. Additional transition measures, such as permitting application before the effective date, are needed.

In setting the effective date, attention should be paid to practical issues so that excessive burdens will not be imposed on preparers and an ample preparatory period will be established. At the very least, a preparatory period of about three years should be set.

Question 8: disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor.Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Response

We ***strongly oppose*** the proposals on disclosure. The main purpose of the revised ED is believed to be on-balance-sheet accounting for lease transactions with a view to ensuring the transparency of financial information. In that case, disclosure requirements should have been reduced compared to the previous ED; in reality, however, those requirements have been increased. To preparers, this development seems totally wrong and causes great concern.

First of all, explicit mention should be made in the standard to the effect that notes to interim financial statements are not needed. Also, while paragraphs 58 and 98 stipulate that lessees and lessors "shall disclose qualitative and quantitative information about all of the following," the wording should be changed to "shall disclose *material* qualitative and quantitative information about the following." In addition, we request that the following disclosure requirements be deleted as we cannot agree with them from a cost-benefit perspective.

Disclosure Requirements That Need to Be Deleted

(1) Lessee's information on the nature of its leases: the basis, and terms and conditions, on which variable lease payments are determined; the existence, and terms and conditions, of options to extend or terminate the lease; and the existence, and terms and conditions, of residual value guarantees provided by the lessee (paragraph 60(a))

Reason: It is extremely difficult for entities having numerous lease contracts to satisfy these disclosure requirements. Whether these pieces of information are useful to investors is questionable as well.

(2) Lessee's reconciliations of right-of-use assets (paragraph 61) and of lease liabilities (paragraph 64)

Reason: In spite of large costs to be incurred, the benefits would be limited. The current lease accounting rules do not require such reconciliations.

(3) Lessee's maturity analysis of lease liabilities (paragraph 67)

Reason: It is sufficient to disclose the sum of the lease liabilities with maturities of more than one year and up to five years as required for other interest-bearing liabilities. There is no justification for requiring detailed disclosure only for lease liabilities.

(4) Lessor's information on the nature of its leases: information on variable lease payments and on options to extend or terminate the lease (paragraph 100(a))

Reason: It is extremely difficult for lessors having numerous lease contracts to meet these disclosure requirements. Whether these pieces of information are useful to investors is questionable as well.

(5) Lessor's reconciliations of lease receivables (paragraph 103) and of residual assets (paragraph 104)

Reason: In spite of large costs to be incurred, the benefits would be limited.

(6) Lessor's maturity analyses of lease receivables and of lease payments for Type B leases (paragraphs 106 and 109)

Reason: It is sufficient to disclose the sum of these items with maturities of more than one year and up to five years as required for other receivables. There is no justification for requiring excessive disclosure only for lease receivables.

Question 12 (IASB-only): Consequential amendments to IAS 40

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 *Investment Property*. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property. Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

Response

We ***do not agree*** with the proposals on consequential amendments to IAS 40 *Investment Property*. We agree only with the inclusion of a right-of-use asset arising from a lease of investment property within the scope of IAS 40, but believe that disclosure at fair value should not be required for the following reasons.

- Practices related to investment property leases have not been fully established. Requiring disclosure at fair value at this stage would impose enormous administrative burdens on preparers.

- A right-of-use asset arising from a lease of investment property merely represents consumption of an insignificant portion of the economic benefits embedded in the underlying asset, and does not provide useful information to users.

- For these reasons, we believe that it is unlikely for the benefits to outweigh the costs and that disclosure at fair value should not be required.