



## สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์

FEDERATION OF ACCOUNTING PROFESSIONS  
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

June 10, 2014

Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr. Hoogervorst,

### Comment Letter on ED/2013/06 Leases

The Federation of Accounting Professions of Thailand would like to show our appreciation on the opportunity to comment on *ED/2013/06 Leases*. Overall, we support the main changes in this exposure draft, such as modifications in lease definition, amendments to accounting treatments for parties in lease contract, and other changes in classification of lease contract. We believe that these changes will enhance transparency and quality of financial report than they were previously. Nevertheless, we note our concerns to the use of subjectivity in the accounting judgments under these modifications. Although we are getting off a rule-based accounting standard, a purely principle-based accounting standard sometimes confuses financial statement preparers and users.

Please find our responses to the specific questions raised in ED/2013/06 Leases in an attachment. We believe that this proposed amendment will clarify the issues that may arise in the future and that our comment letter will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Federation of Accounting Professions of Thailand.

The Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Vorasak Tummanond  
Chair of Thai Accounting Standards Board  
Federation of Accounting Professions of Thailand  
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Copied to:

- 1) Chairman, Subcommittee on Monitoring of International Financial Reporting Standards

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### 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.

**FAP** : Entities have different views on this. Whereas most entities agree with the above definition, some entities hold the view that the definition is not clear enough, relies too much on interpretation and is difficult to apply in practice. For example, would a case where Company A gives the rights to control a certain asset to Company B, the rights holder, who was not involved in the design process of said asset at any stage yet receives benefit from the use of the said asset, be considered as being within the definition of a lease contract? What about a case in which Company A leases an asset from Company B to sublet to Company C, would the contract between Company A and Company B or the contact between Company A and Company C be considered a lease contract according to the definition? Because there is not clear explanation with regards to controlling rights or direct use, the standard, therefore, should include clear definitions for the term, “specified asset” and “the right to control the use of asset”.

**FAP** : The IASB should provide more examples for various industries, so it can be a guideline for differentiating a lease contract and a service contract.

### 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?

**FAP** : Overall, entities agree with amendments of the accounting standard that affect the recognition of lease contracts in the Statement of Financial Position and thereby make the financial reports more transparent than they were previously.

**FAP** : Nevertheless, in the case of a Type B lease contract in which a lessee has to record liabilities arising from lease contracts but does not actually have to present interest expense in the separate category of “financial cost” in comprehensive income, a discrepancy arises between accounting recognition and the abovementioned financial presentation. In order to prevent this inconsistency, the IASB should specify that a lessee must present the interest expense in the line item, “Financial cost in the comprehensive income”. In the case of a Type B lease contract, the presentation of financial cost will enable users of financial reports to better understand the financial cost because said item may have an effect on the evaluation of the Company’s ability to pay back interest, or its ‘interest coverage ratio’.

### **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?

**FAP** : Most entities agree with the regulations because the economic substance of a type A lease contract and a type B contract are different and, therefore, the accounting treatment should be different in order to better reflect this difference in economic substance.

**FAP** : Nevertheless, because the classification of the right of use of asset as tangible or intangible assets affects financial institutions’ calculation of capital requirement, the IASB should clearly define the classification of the right of use of asset, differentiating tangibles and intangibles, so that the Bank of Thailand may use them as an appropriate framework in the calculation of a financial institution’s capital requirement, in accordance with the Basel III framework.

**FAP** : Some regulator has the point of view that in order to provide a framework in which administrative discretion can be exercised, the IASB should define the criteria for judgment and provide examples regarding this issue, including the following:

- a. the determination of parent asset in the case of a lease contract which contains various assets, because this may effect a lease contract’s classification.
- b. the determination of the residual value of an asset when the lease is complete.

### **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?

**FAP** : The differentiation of Type A and Type B lease contracts based on the contract time period, and assessment of whether or not such time period is more than an insignificant portion compared to the useful life of the asset, during which it can give economic benefit, is subjective, open to interpretation and, therefore, may cause difficulties in practice. For example, which type of lease contract should a case of a 30-year commercial property lease, for which the asset has a useful economic life of 40 years

be classified under, or a case of a 5 years vessel lease for which the asset has a useful economic life of 10 years?

**FAP** : The IASB should add criteria for the classification of leases or clarify the level of “insignificant portion” to assist companies to classify lease contracts in accordance with the same framework. This will improve consistency and comparability of financial statements.

<b>Question 5: Lease term</b>
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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?
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**FAP** : We agree with the regulations on the lease contract time periods. The introduction of too many new factors may cause changes in the lease contract’s time period or significant changes in the discount rate.

**FAP** : Nevertheless, the IASB should provide more examples for cases of change in the time period or conditions of a lease contract, which may result in a difference between the accounting values of the existing contract’s and new contract’s assets and liabilities in the profit and loss statement.

<b>Question 6: Variable lease payments</b>
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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?
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**FAP** : Yes, we agree. If the indicators or index detailed in the contract is significantly changed, the company should reassess the value of the contract so that said change will be reflected in the financial statements for the benefit of users of the financial statements.

**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?

**FAP** : We do not agree. In practice, during the period of change, apart from the IASB mandating that the lessor and lessee realize and assess the value of the contract at the first pay period in presentation using the modified retrospective, or a full retrospective, the IASB should additionally mandate in a case where the company cannot conduct a full retrospective or a modified retrospective, whether this is because the cost of providing the financial statements is higher than any benefit derived by the users of the financial statements or because the company is unable to find the data to be used in a retrospective, that the Company can apply the new standard prospectively. In such a case, the Company must disclose the facts as to why it cannot conduct a retrospective along with the reason why it cannot use a full retrospective or a modified retrospective, as well as disclosing the important details of the lease contract in the notes to the financial statements.

**Question 8: Disclosure (The examples of some unnecessary disclosure are illustrated in the 2<sup>nd</sup> paragraph.**

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?

**FAP** : We agree because it will allow the user of the financial statements to better assess the Company's future cash flow.

**FAP**: Nevertheless, the over-disclosure of either the lessor's or lessee's data may cause users of the financial statements to be unable to appropriately analyze the effects on the financial position. It also might cause the cost of the management of data to be higher than any benefit derived by the users. Examples of disclosures of data without significant benefit to users of the data would be an aging maturity mismatch of accounts receivable from lease contracts or liabilities due to lease contracts or the disclosure of risk management data related to the residual value of assets.

**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?

**FAP** : We agree, if the economic substance of a lease contract can be meet this Draft's definition and conditions of an investment property, then the aforementioned properties must be applied to conform with the lease accounting standard and comply with the Substance Over Form principle.