

March 6th, 2015

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board

Re: Comments on *Leases-Joint Project of the FASB and the IASB*

Dear Chairmen Hoogervorst and Golden,

The Japan Leasing Association (JLA) would like to express its opinions once again on *Leases-Joint Project of the FASB and the IASB*, given that “permission to ballot” is presented as a topic for leases at the IASB meeting to be held in March.

<< JLA’s Basic View >>

As suggested a number of times to IASB and FASB (“the Boards”), JLA’s basic view is that disclosures should be improved by retaining the current lease accounting standards. Preparers of financial statements not only in Japan but also in Europe have continued to argue that the current lease accounting standards should be retained.

There are three main reasons why JLA has been calling for the retention of the current standards, namely:

1. The differences between leases and services have not been clarified;
2. A single model fails to reflect the economics of various leases; and
3. It is unreasonable to require all entities to perform complex accounting across the board, and the costs incurred by preparers of financial statements are not commensurate with the benefits received by users of financial statements.

The problem regarding the differences between leases and services stated in 1. above is a concern among many stakeholders. In this context, it is extremely deplorable that the deliberation of stakeholders’ concerns was inadequate even in the re-deliberation.

In regards to 2. above, JLA believes that the economics of various leases would not be reflected in the single model proposed by IASB. The fact that the Boards have failed to agree on a lessee accounting model and each of the Boards is proposing an accounting treatment that is different from the other, despite having held a series of discussions over many years, is proof that it is extremely difficult to adopt a single right-of-use model for all leases and that diverse accounting treatments are required for various leases.

With respect to 3. above, the reality of operating leases of listed companies in Japan, Europe and the United States surveyed by JLA is as follows, as presented already to the Boards.

| | Japan | Europe | U.S. |
|---|-------|--------|-------|
| Ratio of remaining balance of operating leases to total assets | 0.94% | 1.24% | 2.19% |
| Percentage of entities whose ratio of remaining balance of operating leases to total assets is less than 5% | 91.0% | 73.2% | 75.2% |

In other words, this shows that there are few entities where users of financial statements may benefit from the revision of lease accounting standards, and that the impact of operating leases on financial statements is minuscule for the majority of entities. It is therefore unreasonable to require all entities to perform complex accounting across the board, and the costs incurred by preparers of financial statements are not commensurate with the benefits received by users of financial statements.

JLA has been arguing that the reality of operating leases should be accurately identified and analyzed by targeting a wide range of entities so that the stakeholders could be convinced, rather than conducting an analysis on specific entities where lease use is high. It is extremely regrettable that, in spite of this, the Boards are ceasing the deliberations without getting an accurate grasp of the reality of operating leases.

<< Convergence >>

The Boards have made different decisions on lessee accounting in many aspects, such as the exemption for leases of small assets, reassessment of variable lease payments, presentation requirements for lessees, accounting for sale-and-leaseback transactions and disclosure requirements for lessees.

Especially in regards to lessee accounting, the fact that two different accounting treatments exist would not only cause the problem of reduced comparability, but also impose a heavy burden on entities engaged in global activities as it would make work in practice cumbersome. Furthermore, the most crucial problem is that the respective natures of right-of-use assets and lease liabilities are

deemed to be the same in all leases in the IASB model, whereas the respective natures of right-of-use assets and lease liabilities are deemed to be different depending on whether the lease is a Type A lease or a Type B lease in the FASB model.

JLA believes neither the IASB model nor the FASB model is appropriate. In a nutshell, the IASB model fails to reflect the economics of various lease transactions and the intention behind the transactions on the part of lessors and lessees. In the FASB model, there is no link between the measurement of right-of-use assets and lease liabilities in the balance sheet and the measurement of lease expenses in the profit/loss statement, lacking consistency in terms of accounting theory. The fact is that this has been pointed out by many stakeholders, not just JLA, even though each of the Boards believes that the model it proposes is correct.

JLA has been arguing that the Boards should avoid any situation where two different lease accounting treatments exist, and that the publication of different standards is totally unacceptable. While JLA appreciates that the Boards have continued to make efforts towards the convergence of lessee accounting, it is extremely deplorable and unacceptable that it would result in the publication of lease accounting standards that are not converged between IFRS and US GAAP. JLA is deeply concerned about the Boards publishing the final lease accounting standards when neither the IASB model nor the FASB model has gained the active support of many stakeholders.

Each of the Boards has explained to stakeholders that its tentatively-decided accounting model could be applied at a lower cost in practice than the other, but stakeholders are not able to understand whether the explanation given by IASB or that of FASB is correct. Therefore, the Boards should verify whether it is the IASB model or the FASB model that could be applied in practice at a lower cost, and release the outcome of discussions between the Boards to the stakeholders, and confirm the stakeholders' assessment of the IASB model and the FASB model.

Based on the above, JLA is adamantly opposed to the Boards ceasing deliberations on lease accounting and commencing the drafting of lease accounting standards for the ballot to publish the final lease accounting standards.

<< Materiality (Scope of Application) >>

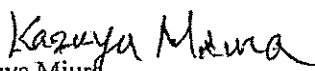
As described above, it is unreasonable to require all entities to perform complex accounting across the board including the majority of entities where the impact of operating leases on financial statements is miniscule, and the costs incurred by preparers of financial statements are not commensurate with the benefits received by users of financial statements. Accordingly, JLA has been arguing that materiality guidance should be established so as not to drag in entities whose users of financial statements would not benefit from it; put differently, the scope of application of accounting of the right-of-use model should be limited.

The general materiality guidance at present is not easy to apply and is hardly fulfilling its function in practice, so JLA strongly demands that materiality guidance as described below be clearly stated so that the burden on entities whose off-balance-sheet leases are immaterial can be alleviated.

1. In cases where off-balance-sheet leases are immaterial in light of the business of an entity and are immaterial relative to its financial statements as a whole, accounting (of right-of-use model) required under these standards is not applied. (Although IASB decided at the meeting in February to exempt leases of small assets, it is inadequate as a remedy in that the scope of small assets is limited.)
2. Even in cases where off-balance-sheet leases are material relative to an entity's financial statements as a whole, if the interest element is immaterial, an undiscounted lease payments approach can be applied. In other words, right-of-use assets and lease liabilities can be recorded at the total amount of lease payments, and a fixed amount of lease expenses can be recognized (interest expenses pertaining to lease liabilities and depreciation of right-of-use assets are not recognized.).

As shown above, by allowing cases where accounting of the right-of-use model is not applied and cases where a fixed amount of lease expenses can be recognized, it is possible to substantially converge the accounting of the IASB model and the FASB model's Type B leases at least in profit/loss statements of many entities.

Yours sincerely,


Kazuya Miura

Chairman,

Japan Leasing Association