

## Accounting Standards Board of Japan (ASBJ)

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Financial Accounting Standards Board  
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Dear Sir or Madam,

### **Comment on the Exposure Draft Leases**

We appreciate the longstanding efforts of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (hereinafter collectively referred to as “the Boards”) on the joint Leases project and welcome the opportunity to comment on the Exposure Draft *Leases* (hereinafter referred to as “the ED”).

#### **General Comments**

1. Regarding lessee accounting, we agree with the general direction that the right-of-use model should be applied in the accounting for all leases.
2. However, regarding the treatment of options to extend or terminate the lease, we have grave concerns from the viewpoints of faithful representation and relevance. We agree with the direction that the effects of such options, in addition to the lease payments during the non-cancellable term, should be included in the recognition of lease liabilities. However, we are concerned that the Boards’ proposed criterion to determine “the lease term as the longest possible term that is more likely than not to occur” may lead to recognising a liability for possible cash outflows related to periods which the entity is less bound to continue the lease.

Accordingly, we believe that a probability threshold that is higher than “more likely than not” should be used in determining the expected lease term.

3. We agree with recognising contingent rentals as existing rights and obligations arising from the lease contract at the date of commencement of the lease, regardless of the types of contingencies. However, because there could be cases where such contingent rentals cannot be estimated reliably by the lessee, we believe that the recognition criteria for measurement reliability should be provided not only for lessors but also for lessees.
4. Regarding lessor accounting, we agree with the proposal to use a hybrid model and to account for the leases using either the performance obligation approach or the derecognition approach. We acknowledge that applying two approaches may lead to complexity and structuring opportunities. However, we believe that there are certain leases which should recognise Day 1 gains and others which should not. Applying a single approach without distinguishing between these two types of leases may impair comparability.
5. We believe that the criterion for determining whether to apply the performance obligation approach or the derecognition approach based on risks or benefits as proposed in the ED would also function as the criterion for determining the timing of revenue recognition for lessors. We believe that the criterion is inconsistent with the transfer of control criterion in the Exposure Draft “Revenue from Contracts with Customers” (hereinafter referred to as “the Revenue Recognition ED”), and that the inconsistency needs to be resolved.

### **Comments on questions**

Our comments on the specific questions set out in the ED are provided below.

#### **Question 1 – Lessees**

- (a) Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?
- (b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Regarding (a):

6. Regarding lessee accounting, we agree with the general direction proposed in the ED that a single right-of-use model (that is, a lessee should recognise a right-of-use asset and a liability to make lease payments) should be applied in the accounting for all leases.

7. We believe that the right to use the underlying asset and the obligation to make lease payments in the lease contract represent the lessees' existing rights and obligations arising from entering into the lease contract. Recognising these rights and obligations as assets and liabilities in the statement of financial position would be useful for users in making economic decisions and would also lead to the improvement in financial reporting compared to the current standard, of which the accounting is largely dependent on whether the lease is a finance lease or an operating lease.
8. As commented above, we generally agree with the right-of-use model but have grave concerns regarding the treatment of options to extend or terminate the lease. For details, please refer to our comments on Question 8.

Regarding (b):

9. We agree with the proposed subsequent accounting for the right-of-use asset and the liability to make lease payments. We believe it is appropriate that a right-of-use asset is accounted for consistently with other tangible fixed assets and a liability to make lease payments is measured at amortised cost using the effective interest method similarly with other financial liabilities.

**Question 2 – Lessors**

- (1) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
- (2) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

Regarding (a):

10. Regarding lessor accounting, we agree with the proposal to use a hybrid model and to account for leases using either the performance obligation approach or the derecognition approach based on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term.
11. However, as commented in paragraphs 12 to 18 below, we believe that the Boards should reconsider whether there should be criteria for distinguishing between a contract that represents a purchase or sale and a lease and how to describe the criteria when choosing from the performance obligation approach and the derecognition approach.

(Hybrid model)

12. Although we acknowledge that the proposed hybrid model may lead to complexity and structuring opportunities, we support the hybrid model for the following reasons:

- (1) The lessor should recognise lease revenue as the lessor performs its primary obligation of the lease contract, considering the substance of the lease contract. We believe that it is necessary to distinguish between (a) the accounting for the lease transactions whose economic substance is similar to a sale (and therefore income should be recognised at the inception of the lease) and (b) the accounting for the lease transactions whose income should be recognised over the lease term. Applying a single model may impair comparability.
- (2) If all leases were to be accounted for under the derecognition approach, the components of the underlying asset would be partially derecognised for most transactions and, accordingly, Day 1 gains would be recognised (if any) for the difference between the fair value and the book value of the underlying asset. This is inconsistent with the basic notion proposed in the Revenue Recognition ED which considers the transfer of control for promised goods or services that are distinct accounting units. Under the derecognition approach, lease revenue from a partial transfer of a portion of underlying asset may be recognised, whereas the approach proposed in the Revenue Recognition ED would not recognise such revenue.
- (3) Conversely, if all leases were to be accounted for under the performance obligation approach, no revenue would be recognised at the inception of the lease for lease transactions that are economically similar to instalment sales. In other words, the accounting could vary for transactions that have similar economic substance based on the type of the contract.

(Necessity to distinguish between a purchase or sale of an underlying asset and a lease)

13. We believe that the Boards should reconsider providing a scope exemption for a contract that represents a purchase or sale of the underlying asset by providing the criteria for distinguishing between such contract and a lease, in addition to providing the performance obligation approach and the derecognition approach for lessor accounting because it only introduces complexity. We believe it is sufficient to provide the performance obligation approach and the derecognition approach, and it is unnecessary to provide a scope exemption for a purchase or sale of an underlying asset.

14. A purchase or sale of an underlying asset and the derecognition approach are considerably similar in terms of revenue recognition at the date of commencement of the lease, except for the treatment of the residual asset. However, when determining between a purchase or sale of an underlying asset and the derecognition approach, the criterion “transfer of all but a trivial amount of the risks and benefits” would be considered in addition to determining between the performance obligation approach and the derecognition approach (based on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset), which increases complexity. Accordingly, we believe that unnecessary complexity could be reduced by removing the distinction between a purchase or sale of an underlying asset and the derecognition approach and integrate them into the derecognition approach.
15. Furthermore, when identifying a purchase or sale of an underlying asset, it is difficult to understand the proposed criteria that use the notion of transfer of “all but a trivial amount of the risks and benefits” together with the notion of the transfer of “control” at the same time. Moreover, the ED states that, the transaction represents a purchase or sale of an underlying asset if the underlying asset is transferred at the end of the contract, and the accounting for such purchase or sale are addressed in other accounting standards. However, the Revenue Recognition ED does not require that revenue be recognised at the inception of the contract when “control” is transferred at the end of the contract and, accordingly, the accounting could differ from the Boards’ intended consequences.
16. Even if it is important to distinguish between the accounting for lease contracts whose title to the underlying asset is transferred at the end of the contract and the accounting for other lease contracts, we believe that it would be sufficient to establish necessary accounting treatments within the scope of lease standard and that there is no need for additional categories.

(Relationship with the Revenue Recognition ED)

17. We do not object to the outcome that would arise from considering the proposed criteria and factors to account for the lessors’ lease contracts. However, the phrase “significant risks or benefits” for determining whether to apply the performance obligation approach or the derecognition approach should be described differently. The criterion regarding whether the lessor retains exposure to significant risks or benefits associated with the underlying asset (that is, whether to apply the performance obligation approach or the derecognition approach) is used to determine the recognition of assets and liabilities for lessors, but we believe this criterion is more important in the context of determining the timing of revenue recognition for lessors. Accordingly, we believe the criterion should be consistent with the criterion regarding the transfer of control proposed in the Revenue Recognition ED. We suggest the following

approach:

- (1) Establish a criterion that is described from the perspective of whether control (rather than risks or benefits) of the underlying asset is transferred (rather than retained) at the date of commencement of the lease for choosing from the performance obligation approach and the derecognition approach
- (2) At the same time, describe that the transfer of risks and benefits associated with the underlying asset is an indicator of transfer of “control” of the underlying asset and that it is likely that the control of the underlying asset itself is transferred when significant (or substantially all) risks and benefits are transferred. (Furthermore, describe that the transfer of title does not necessarily mean the transfer of control.)

18. We believe that the above approach, which considers risks and benefits as an indicator of transfer of control, would be consistent with the control model under the consolidation standard which is currently being developed by the IASB. We are supportive of the approach in the consolidated standard which is currently being developed which states that the transfer of risks and benefits does not necessarily mean the transfer of control but could be important indicators.

Regarding (b):

19. We agree with the Boards’ proposals for the recognition of assets, liabilities, income, and expenses for the performance obligation and derecognition approaches to lessor accounting.

### **Question 3 – Short-term leases**

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

- (1) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).
- (2) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).

(See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

20. We agree with establishing simplified requirements for short-term leases in order to avoid unnecessary burden in practice when useful information cannot be obtained. For lessors, we agree with the simplified accounting that allows the recognition of lease payments in profit or loss over the lease term. However, for lessees, we suggest the Boards to reconsider the proposal to simplify accounting where the right-of-use asset and the liability to make lease payments are measured at the undiscounted amounts.
21. We acknowledge the Boards' concern in paragraph BC43 of the Basis for Conclusions of the ED that short-term leases could give rise to material assets and liabilities and a scope exemption for short-term leases would introduce an artificial distinction between leases that are recognised and those that are not. However, further comparison and consideration are necessary to assess the costs and benefits associated with requiring lessees to account for all short-term leases. If the costs exceed the benefits, we believe it is appropriate to allow expensing of the lease payments as incurred.
22. The ED requires that options to extend or terminate the lease be considered in determining whether a lease is short-term. Our understanding is that this requirement would cover short-term leases that are essentially long term because they are continuously renewed and would apply the right-of-use model to such leases. However, we have grave concerns about the Boards' proposed criterion regarding "the lease term as the longest possible term that is more likely than not to occur." For details, please refer to our comments on Question 8.

**Question 4**

- (a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
- (b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?
- (c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

23. Regarding (a), we agree with the proposed definition of a lease.

24. Regarding (b), as we have commented for Question 2, we disagree with the proposed distinction between a lease and a purchase or sale of an underlying asset. (Please refer to paragraphs 13 to 16.)
25. Regarding (c), we do not object to the guidance for distinguishing leases from service contracts, which we believe is carried over from IFRIC 4 and Topic 840, although the proposed three conditions to identify the right to control the use of a specified asset are complicated.

**Question 5 – Scope exclusions**

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

26. We disagree with excluding leases of intangible assets from the scope of the proposed lease requirements for the following reasons:
- (1) The lessees' accounting for leases of software and licenses may be different from the accounting for leases of tangible fixed assets that fall under the right-of-use model. For example, if the software and hardware (such as servers) are leased together, it would be unreasonable to separate them and apply lease accounting to the hardware and another accounting method to the software.
  - (2) Options to extend or terminate the lease may be accounted for differently depending on whether the underlying asset of the lease is an intangible asset or a tangible fixed asset, because there is no clear guidance for lessees regarding the treatment of such options for leases of intangible assets. Moreover, for lessors, if the Revenue Recognition ED was to be applied to the lease, the effects of such options may be treated differently because the Revenue Recognition ED provides guidance to require an entity (lessor) to consider the effects of the options only if those options provide a material right to the customer (lessee), which is inconsistent with the guidance in the ED.
  - (3) The Basis for Conclusions of the ED indicates that there is no conceptual reason why a lease accounting standard should exclude intangible assets (paragraph BC36). Although we understand the possible delay in finalising the standard if intangible assets were to be included in the scope, the Boards should consider the concerns raised above.



**Question 6 – Contracts that contain service components and lease components**

The exposure draft proposes that lessees and lessors should apply the proposals in *Revenue from Contracts with Customers* to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

- (a) the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.
- (b) the IASB proposes that:
  - (i) a lessee should apply the lease accounting requirements to the combined contract.
  - (ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.
  - (iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in *Revenue from Contracts with Customers*.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

27. We agree with the FASB’s proposal (a) above. We disagree with the IASB’s proposal (b) above to allow an exception for lessors applying the derecognition approach because we believe that separation of service components and lease components is unnecessary when the components are non-distinct even under the derecognition approach for the following reasons:

- (1) Our understanding is that the IASB’s proposal was developed to address concerns regarding the recognition of all service revenue (which should be recognised over the lease term) at the date of commencement of the lease together with lease revenue. However, assuming the proposed hybrid approach to lessor accounting and the criteria to be considered, if the non-distinct service component is material, such transactions are likely to be accounted for using the performance obligation approach. In most cases, the derecognition approach would be applied only to transactions whose non-distinct service components are immaterial. Accordingly, we believe the Boards’ concern would be insignificant.
- (2) Requiring a separation for such immaterial service components, when the Revenue Recognition ED does not require such separation, would result in more costs incurred than the benefits received.

**Question 7 – Purchase options**

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

28. We disagree with the proposed treatment of purchase options. We believe that a purchase option should be accounted for consistently with the accounting outcome resulting from the proposed treatment of an option to extend or terminate the lease.
29. We acknowledge that it is logical from the viewpoint of a “pure” right of use model to think, as stated in the ED, that it is inappropriate to include the exercise price in the measurement of right-of-use asset, because an option to extend or terminate the lease is a right directly associated with the extent of the use of the underlying asset, whereas a purchase option is the right to purchase the underlying asset and a means to terminate the right of use.
30. However, if options specified in a lease contract were not treated as separate components but rather included in the lease asset and liability in accordance with a single asset and liability approach, we believe it is appropriate and consistent that any option, regardless of the type, should be accounted for as part of the lease.
31. Furthermore, when the probability of exercising a purchase option is expected to be considerably high, recognising the cash outflows related to the exercise price as a liability would better represent the lessee’s obligation associated with the terms and conditions of the lease contract (Please refer to our comment on question 8 for the probability of exercising).

**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?

32. We have grave concerns from the viewpoints of faithful representation and relevance, regarding the treatment of options to extend or terminate the lease in determining the expected lease term.

33. We believe that, if the option to extend the lease exists and the lessee is bound to continue the lease, the lessee essentially has an obligation from the lease contract. In this case, we agree with the direction that the effects of such options should be included in the recognition of the lease liability in order to provide relevant financial information.
34. However, the Boards' proposed criterion "the lease term as the longest possible term that is more likely than not to occur" may lead to including in liabilities possible cash outflows related to periods which the entity is less bound to continue the lease, and we are doubtful if such outflows meets the definition of a liability. In addition, because the criteria would require estimation, it is unlikely to represent faithfully the lease transaction. Practically, objectivity cannot necessarily be ensured.
35. Furthermore, in the case of investment properties (for example, a leased building), it may impair faithful representation and provide less meaningful information to recognise the lease receivables that cover the existing contracts at the end of the reporting period (that is, do not include any subsequent contracts with other lessees) and that are based on the expected lease term determined by considering options to extend and other factors. In such case, we believe that the present value considering subsequent contracts with other lessees is more meaningful.
36. Conversely, if the possibility of the lessee (as an option holder) exercising the option to extend the lease is expected to be sufficiently high due to contractual or business reasons to restrict the lessee's actions, the lessee is bound to continue the lease and, accordingly, it may be a faithful representation to recognise the cash outflows for the extended period as a liability.
37. Considering all of the above, we propose using a probability threshold that is higher than "more likely than not," in determining the expected lease term, although we do not expect the Boards using an extremely high probability such as "reasonably certain" as defined in IAS 17 and "reasonably assured" as defined in Topic 840.

**Question 9 – Lease payments**

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

38. We agree with recognising contingent rentals and expected payments under term option penalties and residual value guarantees as existing rights and obligations arising from the lease contract at the date of commencement of the lease, regardless of the types of contingencies.
39. Furthermore, we agree with the proposal that lessors should include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments only if they can be measured reliably. Because their amounts and timing would depend on the lessees' behaviours, lessors may have difficulty in predicting the amounts and timing and the outcome resulting from estimation may vary significantly among lessors. Accordingly, we believe it is inappropriate to include such estimates in the lessors' lease assets when they cannot be measured reliably.
40. However, we believe that such recognition criterion regarding measurement reliability should be provided not only for lessors but also for lessees. Some contracts that include contingent rentals are affected by various factors including the economic environment, long-term business plans, and the degree of physical and economic obsolescence of properties, and we think it could be difficult for both lessors and lessees to reasonably estimate the amount and timing of contingent rentals based on these factors.
41. Regarding the measurement of lease payments including the estimate of contingent rentals and expected payments under term option penalties and residual value guarantees, similar to our disagreements regarding contingent consideration discussed in the project on revenue recognition and provisions (liabilities), we disagree with the Boards' proposal that requires the use of expected amounts. We believe estimation using the probability-weighted amount is inappropriate when it is highly likely that the entity will receive one of the several possible consideration amounts, and the estimates may be significantly different from the results depending on the distribution of the probabilities. Accordingly, we believe that the most likely lease payments would be appropriate under certain circumstances and, therefore, disagree with the proposal to require the measurement using probability-weighted average amount under all circumstances.

**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?

42. We agree with the proposal that lessees and lessors should reassess their lease assets and liabilities arising under a lease. We believe reassessment is necessary because the proposed treatment of the lease term and the lease payments under the right-of-use model requires more estimates than the current model, and reassessing those estimates when they differ from actual figures would provide users with the most accurate information available and improve the reliability of the estimates.
43. We also agree with the proposed treatment regarding the timing of reassessment. Because the lease term or the contingent payments are basic inputs used to measure the liability to make lease payments and the right to receive lease payments, we believe that it is unnecessary to require reassessment at each reporting period when changes in facts or circumstances do not significantly affect the amounts in financial statements.

**Question 11**

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

44. As discussed in paragraphs 13 to 16 above, we believe the Boards should reconsider providing a scope exemption for a contract that represents a purchase or sale of the underlying asset. Accordingly, we disagree with using similar criteria for sale and leaseback transactions. However, because a sale and leaseback transaction can be characterised as a financing transaction, we agree with the ED's proposal that requires a strict transfer of risks and benefits for the transaction to be a sale by providing detailed additional guidance (such as that presented in paragraph B31), rather than the transfer of control criterion proposed in the Revenue Recognition ED.
45. Nevertheless, we believe the reason for this requirement being inconsistent with the Revenue Recognition ED should be explicitly articulated in the Basis for Conclusions.

**Question 18**

Do you have any other comments on the proposals?

(Lease of investment property)

46. We have concerns about the proposal that the application of lease accounting to investment property should be determined based on whether the cost or fair value is used as the

measurement attribute. The objective of lease accounting is to faithfully represent the existing rights and obligations arising from the lease contract, and we believe that the measurement attribute to be used for investment property is irrelevant to whether lease accounting should be applied for that lease.

47. From the viewpoint above, some ASBJ Board members disagree with applying lease accounting to investment property. These Board members believe that investment property has different characteristics from other lease assets and, based on the fact that the IASB has separately issued IAS 40 *Investment Property* with specific requirements, investment property should not be included in the scope of lease accounting.

(Residual value guarantee by third party)

48. The ED proposes that residual value guarantees that are provided by unrelated third parties are not included in the lessors' rights to receive lease payments, because such guarantees of the underlying asset are unrelated to the lease contracts between the lessees and the lessors and the payments only affect the value of the underlying assets.
49. However, we believe that for lessors, such guarantees are no different from other residual value guarantees provided by the lessee in that they represent the recoverable amounts associated with the lease. Moreover, those guarantees are often closely related to the terms and conditions of the lease contract (such as lease payments) which are negotiated between the lessor and the lessee (for example, in a case where the original seller of the underlying asset to the lessor provides a guarantee to the lessee). Accordingly, such guarantees should be included in the recognition of lessor's lease assets and liabilities rather than accounted for similarly to other guarantees. We believe that the proposed requirement in the ED is inappropriate in the sense that the lessors' transactions that are similar in economic substance would be accounted for differently depending on who is providing the residual value guarantees.

(Impairment of lessor's right to receive lease payments)

50. The ED proposes that a lessor shall apply IAS 39 or Topic 310 to determine whether the right to receive lease payments is impaired. However, there is no explicit requirement as to how to assess the impairment of the underlying asset and how to treat the associated lease liability (that is, the performance obligation).
51. Our understanding is that IAS 36 or Topic 350 would be applied for the impairment of underlying assets, similar to the impairment of fixed assets, but the final standard should

provide a clarification in this respect, together with the treatment of the associated performance obligation.

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We hope that our comments contribute to the forthcoming deliberations in the project.

Yours sincerely,

A handwritten signature in cursive script that reads "Masaji Miyako".

Masaji Miyako  
Board Member of the Accounting Standards Board of Japan  
Chairman of the Lease Accounting Technical Committee