

21 November 2019

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
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**Comments on the Tentative Agenda Decision Relating to
Definition of a Lease: Shipping Contract (IFRS 16)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to Definition of a Lease: Shipping Contract (IFRS 16), proposed in the September 2019 IFRIC Update.
2. The tentative agenda decision concludes that the contract described in the submission includes a lease based on sub-paragraph c of the fact pattern described below.

“Many, but not all, of the relevant decisions about how and for what purpose the ship is used are predetermined in the contract. The customer has the right to make the remaining relevant decisions about how and for what purpose the ship is used throughout the period of use. Those decision-making rights are relevant because they affect the economic benefits to be derived from use of the ship.”
3. However, we think the tentative agenda decision is unclear as to whether it is intended to:
 - (a) indicate that, when the customer retains some decision-making rights, such decision rights would always be relevant, leading to the conclusion that the contract would always include a lease; or

- (b) indicate that, when the customer determines, based on the facts and circumstances, that those remaining decision-making rights of the customer are relevant, that would lead to the conclusion that such contract would include a lease.
4. If the intent of the tentative agenda decision is (a) in the preceding paragraph, we disagree with the tentative agenda decision. Our views related to the customer's remaining decision-making rights are as follows:
- (a) In some cases, the customer's remaining decision-making rights may be relevant because they affect the economic benefits to be derived from the use of the ship. However, in other cases, the customer's remaining decision-making rights may not be relevant because they do not affect the economic benefits to be derived from the use of the ship.
 - (b) Whether the customer's remaining decision-making rights are relevant depends on the facts and circumstances. The customer is required to determine whether its remaining decision-making rights are relevant based on the facts and circumstances.
 - (c) Whether the contract includes a lease should be considered based on the determination that the customer has made on the relevance of its remaining decision-making rights.
5. If the intent of the tentative agenda decision is (b) in paragraph 3 of this letter, we think the final agenda decision should clarify that the customer is required to determine whether its remaining decision rights are relevant. In other words, the final agenda decision should clarify that, based on the facts and circumstances, there may be cases where the customer concludes that the contract does not include a lease.
6. To make the point in paragraph 5 clear, we propose the following changes to be made to the tentative agenda decision:

(sub-paragraph c of the fact pattern) New text is underlined and deleted text is struck through

“Many, but not all, of the ~~relevant~~ decisions about how and for what purpose the ship is used are predetermined in the contract. The customer has the right to make the remaining ~~relevant~~ decisions about how and for what purpose the ship is used throughout the period of use. The customer has determined, based on the facts and

circumstances, that those remaining decision-making rights it has are relevant because they affect the economic benefits to be derived from use of the ship.”

(the following text should be inserted at the end of the tentative agenda decision)

“The conclusions are reached based on the customer’s determination that the remaining decision rights are relevant. It should be noted that there may be cases where the customer’s remaining decision-making rights are not relevant and, therefore, the contract does not include a lease”.

7. We hope that our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Kogasaka', written in a cursive style.

Atsushi Kogasaka

Chair

Accounting Standards Board of Japan