

Jenny Ng

Subject: FW: Commnet of IASB exposure draft on lease

From: Tony Chan [mailto:tony.chan01@yahoo.com.hk]
Sent: Thursday, July 18, 2013 3:17 PM
To: P.T. Comment Letter
Cc: tony.chan01@yahoo.com.hk
Subject: Commnet of IASB exposure draft on lease

Dear Mr Riley,

I am a reader of A-Plus and would like to express my comment on the IASB Exposure Draft of Leases, as highlighted in Tech Q&A in A-Plus in July 2013.

The principle idea of the draft is that "a lessee would recognise assets and liabilities for leases with a maximum possible terms of more than 12 months. A lessee would recognise a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the leaes term."

This requirement is in substance same as the current concept of and requirement for a finance lease under HKAS 17, and the key change is to abolish the idea of an operating lease, which I believe should be retained for the ease of financial statements users' understanding.

My rationale is as follows:

First, for those items under the current operating lease concept, the current and future financial implication, such as, total lease term, total contractual lease payments, and actual rental expenses, have already been clearly reflected in the note to financial statements under "operating lease commitment" and those on rental expenses; and as a result, the new concept of "a right-of-use asset" does not provide more reliable and relevant information for users' decision-making. Since the business value of the leased asset for a lessee is subjective and difficult to measure, the quesiton that how valuable those operating lease is to the entity should be of the judgement of individual user to make.

Second, for many users who are non-accountants, the recognition of a right-of-use asset in situations where an operating lease would be applied currently could be against the common sense - "An entity only rents it, instead of purchasing it", as a non-accountant users would reasonably understand the situation this way. For other cases, the current concept of a finance lease already works well for the "purchase" through rental in substance.

I believe the current IAS/HKAS 17 has effectively reflected the businss substances for users' decision-making, and disagree with the proposed change to the standard.

Thank you.

A reader of A-Plus
Tony Chan