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15 July 2009

By fax 2865 6776 & by post

Mr Steve Ong
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Hong Kong Institute of Certified Public Accountants
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Dear Mr Ong

International Accounting Standards Board (IASB) Request for Comments on Discussion Paper on Preliminary Views on Leases (Discussion Paper)

Thank you for your letter dated 27 May 2009.

After having consulted our members on the above Discussion Paper, we would like to set out comments from some of our members as follows:

Question 2 - Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

We consider that the proposed new standard should include non-core asset leases and short-term leases so as to provide useful information to users.

Question 9 - Should a new lease accounting standard permit a lessee to elect to measure its obligation to pay rentals at fair value? Please explain your reasons.

Since the fair value measurement method may result in using different measurement methods or parameters making it more difficult for users to compare financial information, we disagree to permit a lessee to elect to measure its obligation to pay rentals at fair value.

<u>Question 12 - Some board members think that for some leases the decrease in value of the right-of-use asset should be described as rental expense rather than amortization or depreciation in the income statement. Would you support this approach? If so, for which leases? Please explain your reasons.</u>

We disagree that the decrease in value of the right-of-use asset should be described as rental expense. If the leased asset is classified as property, plant and equipment, however, then conceptually, the proposed reduction in carrying amount of this asset should be consistent with the classification of the asset (i.e. in this case, depreciation).

<u>Question 20 - The boards discussed two possible approaches to recognising all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments: (a) recognise any change in the liability in profit or loss (b) recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset. Which of these two approaches do you support? Please explain your reasons. If you support neither approach, please describe any alternative approach you would prefer and why.</u>

We support the second approach to recognise any change in the liability as an adjustment to the carrying amount of the right-of-use asset because it reflects an adjustment to the expected inflows of economic benefits over time and by including this in the measurement of the asset, it would be recognised in the income statement over the remaining life of the asset.

<u>Question 25 - Do you think that a lessor's right to receive rentals under a lease meets the definition of an asset? Please explain your reasons.</u>

We think that a lessor's right to receive rentals under a lease meets the definition of an asset because it gives rise to the inflow of future economic benefit to the lessor and can be reliably determined.

<u>Question 26 - This chapter describes two possible approaches to lessor accounting under a right-of-use model: (a) derecognition of the leased item by the lessor or (b) recognition of a performance obligation by the lessor. Which of these two approaches do you support? Please explain your reasons.</u>

We prefer approach (b) in that the lessor's obligations are recognised at inception of the lease. The question would then be whether the receivable and the obligation, being to the same counterparty, should be offset.

<u>Question 27 - Should the boards explore when it would be appropriate for a lessor to recognize income at the inception of the lease? Please explain your reasons.</u>

We suggest a lessor should recognize income once the lessee begins to possess the asset. At this point, the lessor begins to fulfil its obligation to make the asset available to the lessee and the earnings process has commenced.

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We consider that the non-interest element could be recognized upfront (e.g. an operating profit for a manufacturer or merchant) while the interest element could be amortized over the life of the lessor, using constant interest method, to reflect the financing service provided by the lessor.

<u>Question 28 - Should accounting for investment properties be included within the scope of any proposed new standard on lessor accounting? Please explain your reasons.</u>

Our view is that accounting for investment properties should be excluded from the scope of any proposed new standard on lessor accounting since the existing IAS 40 *Investment Property* provides sufficient guidance on the recognition and measurement of investment properties and has been applied well with no significant issues.

Yours sincerely

Jennifer Cheung
Secretary