



Your Ref: C/FRSC
Our Ref: Lv133/09

BY FAX (2865 6776) & BY Mail

7 July 2009

Mr Steve Ong, FCA, FCPA
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37/F Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

Dear Mr Ong

Invitation to comment on IASB discussion documents – IASB Discussion Paper on Preliminary Views on Leases

Further to our letter dated 26 June 2009, please find enclosed a letter dated 25 June 2009 with comments provided by Manulife (International) Limited for your consideration.

We look forward to your favorable response.

Yours sincerely

Peter C H Tam
Chief Executive

c.c. Manulife (International) Limited

PT/IW/sw

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Michael Huddart
Executive Vice President &
Chief Executive Officer
Hong Kong

25 June 2009

The Hong Kong Federation of Insurers
29/F Sunshine Plaza
353 Lockhart Road
Wanchai
Hong Kong

Attn: Irene Wong, General Manager

Dear Ms Wong

Re: Discussion Paper on Leases Preliminary Views

In response to your letter dated 2 June 2009, we are writing to comment on the captioned.

1. Calculation of operating lease payments would no longer be straight line and get more complicated, especially using the incremental borrowing rate, which may be difficult to get. For a pure "net cash" Company, it is unable to determine an appropriate and correct borrowing rate. Each Company could use different rates to calculate these lease assets/liabilities' values. This reduces the comparability between financial statements.
2. Local Regulators have set up different rules and regulations on the liquid capital and solvency margin calculation as licensing requirement to financial institutions. The proposed ED could have significant impacts on this calculation of capital position and liquid capital position in future. For example, current SFC's rules on liquid capital position, a company is required to include all liabilities but have to exclude all intangible assets and long term assets in the calculation. The proposed ED is asking a Company to "crystallize" all future liabilities of an operating lease. As a result, a financial institution is required to obtain extra Capital to fulfill the licensing requirement. The accounting body should discuss with all regulators the possibility to amend the related rules as a result of the accounting standard change.
3. As contingent rentals and residual value guarantees are based on a probability-weighted estimate of amounts payable, it requires lessee to apply judgment and make estimates that could be challenging in some circumstances.
4. Lease term relating to renewal and purchase options are also based the judgment on most likely possibility. Again, this requires lessee to apply judgment and make estimates challenging in some circumstances.

We hope that you find our comments helpful. If you wish to discuss them further, please do not hesitate to contact us.

Yours sincerely

Michael Huddart
EVP & Chief Executive Officer
Manulife (International) Limited

Manulife (International) Limited

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