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July 16, 2009

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir or Madame

Comments on Discussion Paper "Leases – Preliminary Views"

The Japan Leasing Association (JLA) appreciates the efforts of the International Accounting Standard Board (IASB) and the US Financial Accounting Standards Board (FASB) on the project on lease accounting.

This document contains the JLA's comments on the discussion paper "Leases – Preliminary Views" for your review and consideration.

The comments are presented in the following two sections: "Important Comments" and "Responses to the Questions." The former describes the points that the JLA would particularly like to emphasize and the latter details the JLA's views for each question to which public comments were invited.

Sincerely yours,

Takao Sunami
Chairman, Japan Leasing Association

Important Comments

I. Request concerning the proposed new standard in general

1.1 The lessee accounting proposed in the discussion paper is extremely complicated. As such, the introduction of the new standard as currently proposed would sharply decrease the use of leases by enterprises and have a significant impact on the economic growth of all countries. Achieving the objective of the lease accounting project would lose its relevance unless lease transactions continue to be used worldwide. The JLA strongly requests the IASB and the FASB (hereinafter referred to as the "boards") to focus their efforts on resolving issues surrounding the off-balance accounting for operating leases and to develop a simpler new standard that takes into consideration the administrative cost borne by the preparers of financial statements.

II. Scope of the new standard and definitions (Chapter 2)

2.1 Leases to which accounting for the right-of-use asset is applied include a number of leases with characteristics that are distinctly different from those of "leases that are in substance purchases," and there are among them certain leases with strong service characteristics. As assets under "leases that are in substance purchases" are not right-of-use assets, it is advisable to define "leases that are in substance purchases" to make a distinction between such leases and leases other than such leases (refer to Comment 3).

2.2 In order to clarify that the proposed accounting for the right-of-use asset and the obligation to pay rentals is not applied to leases whose non-cancelable period is not prescribed under the lease contract, but is applied only to "lease transactions whose non-cancelable period is prescribed under the lease contract," i.e. non-cancelable leases, the definition of "non-cancelable lease" should be provided. In addition, as the accounting for leases other than non-cancelable leases (i.e. cancelable lease) is not explicitly prescribed, the accounting treatment that is currently applied to operating leases should be prescribed for such leases (refer to Comment 4).

2.3 As assets under non-core asset leases and short-term leases are often insignificant assets to the lessee, the accounting treatment that is currently applied to operating leases should also be applied to such leases (refer to Comments 5 and 6).

III. Approach to lessee accounting, initial measurement, and subsequent measurement (Chapters 3, 4, and 5)

3.1 The JLA agrees with the proposed approach to lessee accounting that would require the lessee to recognize a right-of-use asset and a liability for its obligation to pay rentals with respect to non-cancelable leases. However, the approach to initial and subsequent measurement proposal by the boards is nearly the same as the accounting model currently applied to finance leases. As such, it is not appropriate to apply it to all leases. The JLA contends that uniform and mandatory application of such approach to all types of leases would rather cause new problems (refer to Comments 8 and 10).

3.2 It is the view of the JLA that the acquisition of a right-of-use asset is not the acquisition of a physical asset and there are certain leases with strong service characteristics among those leases that are currently classified as operating leases (e.g. a lease whose term is shorter than the economic life of the leased asset) and that it is appropriate to recognize a right-of-use asset for such leases with strong service characteristics at the sum of the lease payments payable by the lessee over the lease term. The JLA therefore believes that, similar to the existing standards, the new standard should provide criteria to make a distinction between leases with strong service characteristics and others and, with respect to the former, permit the lessee to initially recognize a right-of-use asset and a liability for its obligation to pay rentals at the sum of the lease payments.

Furthermore, the JLA believes that the new standard should permit the lessee to initially recognize a right-of-use asset and a liability for its obligation to pay rentals at the sum of the lease payments also with respect to core asset leases, in consideration of the administrative cost borne by the lessee, if, for example, the ratio of the leased assets under such leases to the total property, plant and equipment and intangible fixed assets of the company is small (refer to Comment 11).

3.3 If the lessee is permitted to initially recognize a right-of-use asset and a liability for its obligation to pay rentals at the sum of the lease payments with respect to leases with strong service characteristics, the lessee should amortize the right-of-use asset by the amount of the lease payments over the lease term and reduce the corresponding liability by the amount corresponding to the satisfaction of the obligation to pay rentals (i.e. the amount of lease payments). Consequently, the lessee would recognize the amount of lease payments as amortization of the right-of-asset and reduction of the corresponding liability (refer to Comment 12).

3.4 Although the JLA agrees with the linked approach proposed by some board members in that under such approach the amount of expenses to be recognized in the income statement would be the same as under the approach proposed by the JLA, given the administrative cost borne by the lessee, the JLA expects that the simpler accounting model proposed by the JLA would be more readily accepted by the lessee than the linked approach (refer to Comment 18).

3.5 Although it is acknowledged by the boards in their proposal regarding amortization that there is a difference in the amortization period between the asset under "leases that are in substance purchases" and the right-of-use asset, the amortization method is not clearly addressed. As it is appropriate to account for the asset under "leases that are in substance purchases" as a purchase of a physical asset rather than a purchase of right to use an asset, the boards should clearly prescribe, by applying the existing standards, that the lessee should amortize the leased asset under "leases that are in substance purchases" over its economic life based on the same amortization method as is applied to fixed assets owned by the lessee (refer to Comment 14).

IV. Options, contingent rentals, and residual value guarantee (Chapters 6 and 7)

4.1 The JLA believes that uncertain factors such as options should not be considered in the recognition of assets and liabilities and the lessee should initially measure an obligation to pay rentals and a right-of-use asset based on the contractual lease term unless, as proposed by some board members, the option is priced to provide a significant incentive to exercise the option (the “bargain purchase option” prescribed by the existing standards would be an example of such option). Therefore, the JLA believes that the lessee should not be required to reassess the lease term at each reporting date (refer to Comments 19, 20, and 21).

4.2 Neither of the proposals by the IASB and the FASB on recognition of contingent rentals can be implemented in actual practice. As already argued in relation to options, uncertain factors such as contingent rentals should not be considered in the recognition of assets and liabilities. Therefore, the JLA believes that unless the amount of the contingent rentals can be reasonably determined, contingent rentals should not be included in the initial measurement of an obligation to pay rentals and remeasurement of the obligation to pay rentals should also not be required (refer to Comment 22).

4.3 Neither of the proposals by the IASB and the FASB on recognition of residual value guarantee can be implemented in actual practice. As already argued in relation to options, uncertain factors such as residual value guarantee should not be considered in the recognition of assets and liabilities. Therefore, the amount of residual value guarantee should not be included in the initial measurement of an obligation to pay rentals. If an approach that includes the amount of residual value guarantee in the initial measurement is adopted, the only approach that can be implemented in actual practice would be the one that includes in the initial measurement the maximum amount guaranteed under residual value guarantee (refer to Comments 23 and 24).

V. Presentation (Chapter 8)

5.1 With regard to the presentation of right-of-use assets, assets under “leases that are in substance purchases” should be presented in accordance with the nature of the underlying leased properties and other right-of-use assets should be presented as a separate line-item “leased assets” within the Property, Plant and Equipment section or the Intangible Fixed Asset section (refer to Comment 26).

VI. Lessor accounting (Chapter 10)

6.1 The JLA strongly suggests that when a new standard is issued, both lessee accounting and lessor accounting should be included. If the accounting standard for lessee accounting is issued prior to the issuance of the accounting standard for lessor accounting, not only there will be problems surrounding subleases, but also there could be a situation in which further revisions to lessee accounting are required as the development of lessor accounting progresses. Consequently, confusion and concerns would arise not only among the lessors, but also among the lessees. If enterprises that will adopt IFRS for the first time during or after 2011 are to be considered, the effective date of the new standard should be determined after careful consideration only when a new accounting standard encompassing both lessee accounting and lessor accounting is ready for issuance. As the boards are developing a new standard under a definitive policy aimed at improving the lease accounting standard, they should not permit inconsistent accounting treatments even for a limited period (refer to Comment 29).

Responses to questions

Chapter 2: Scope of lease accounting standard

Response to Question 1

1. The JLA agrees with the tentative decision by the boards to base the scope of the proposed new lease accounting standard on the scope of the existing lease accounting standards. However, the JLA also proposes the following:

2. With regard to the definition of lease contract, the criteria for determining whether the contract contains a lease should be further clarified.

3. Leases to which accounting for the right-of-use asset is applied include a number of leases with characteristics that are distinctly different from those of "leases that are in substance purchases," and there are among them certain leases with strong service characteristics. As assets under "leases that are in substance purchases" are not right-of-use assets, the JLA believes that, at least for purposes of subsequent measurement or presentation, "leases that are in substance purchases" and leases other than "leases that are in substance purchases" should be distinguished (refer to Comments 14 and 26). Therefore, it is advisable that the new standard provide the definition of "leases that are in substance purchases" to make a distinction between such leases and leases other than such leases.

   "Leases that are in substance purchases" refer to leases that clearly transfer the ownership of the leased asset to the lessee as indicated by their defining characteristics listed in the following (a) through (c) (i.e. those leases satisfying paragraph 10(a), (b), and (e) of the existing IAS 17). As such, leases whose term extends over most of the economic life of the leased asset (those leases satisfying paragraph 10(c) of the existing IAS 17) should not be included in "leases that are in substance purchases" unless it is apparent that the ownership of the asset will be transferred to the lessee.

   (a) The terms of the lease contract require that ownership of the leased asset will be transferred to the lessee at the expiration of, or during, the lease term;

   (b) The terms of the lease contract grant the lessee a right to purchase the leased asset, at the expiration of, or during, the lease term, for a payment of a nominal amount, or an amount that is substantially lower than the expected fair value of the leased asset at the time of exercising the right (hereinafter collectively referred to as a "bargain purchase option"), and there is a reasonable expectation at the inception of the lease that the exercise of the right is certain; and

   (c) It is apparent that the lessee alone can use the leased asset for the entirety of its useful economic life due to the fact that the asset is custom-made or custom-built to suit the specific needs of the lessee, such as the purpose of the usage (custom-made/custom-build leased asset), and consequently the lessor is unlikely to be able to sell or lease the asset to any other party if it were to be returned to the lessor.

4. In order to clarify that the proposed accounting for the right-of-use asset and the obligation to pay rentals is not applied to leases whose non-cancelable period is not prescribed under the lease contract, but is applied only to "lease transactions whose non-cancelable period is prescribed under the lease contract," i.e. non-cancelable leases, the

definition of “non-cancelable lease” should be provided.

“Non-cancelable lease” can be defined as a lease that cannot be cancelled by either of the parties to the lease contract during the whole or part of the lease term.

In addition, as the accounting for leases other than non-cancelable leases (i.e. cancelable lease) is not explicitly prescribed, the accounting treatment that is currently applied to operating leases should be prescribed for such leases.

Response to Question 2

5. Based on the understanding that assets under non-core asset leases and short-term leases that are non-cancelable are insignificant assets to the lessee, the accounting treatment that is currently applied to operating leases should also be applied to such leases.

6. The JLA understands that non-core assets are assets that are insignificant to the lessee in view of the business operations of the lessee. Whether an asset is deemed to be a core asset or a non-core asset depends on the business operations of the company. Therefore, it is necessary to prescribe a provision that permits the accounting treatment that is currently applied to operating lease to be applied to leased assets that are judged to be insignificant by the company.

   As the cost for the recognition and measurement of rights and obligations arising from short-term leases whose term is equal to or less than one year generally exceeds the corresponding benefit, and the assets under such leases are often insignificant assets to the lessee, it is also necessary to prescribe a provision that permits the accounting treatment that is currently applied to operating lease to be applied to leases equal to or less than one year. Unless there is a bright line criterion such as the one discussed above, the accounting requiring the recognition of a right-of-use asset and an obligation to pay rentals would be applied, for example, to non-cancelable leases whose lease term is extremely short (e.g. a few days), which would make the practical application of the standard extremely difficult.

Chapter 3: Approach to lessee accounting

Response to Question 3

7. The JLA agrees with the boards’ analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract.

Response to Question 4

8. The JLA agrees with the proposed approach to lessee accounting that would require the lessee to recognize a right-of-use asset and an obligation to pay rentals. However, a uniform application of the same accounting requirements to all types of leases would create problems and there are certain leases for which accounting based on the sum of the lease payments would be more appropriate. Therefore, the JLA proposes a different approach to measurement (refer to Comments 10, 11, and 12).

Response to Question 5

9. The JLA does not support the approach proposed by the boards. It is not appropriate to

record an amount that includes an uncertain amount as an asset or liability, as it could lead to misleading presentation of the financial condition of the company. Furthermore, although the proposed approach appears, at first glance, to be simple enough for the lessee to implement, as the boards require reassessment of the lease term and the obligation to pay rentals, it would create an excessive burden for the lessee (refer to Comments 19 through 24).

Chapter 4: Initial measurement, Chapter 5: Subsequent measurement

Response to Question 6 to 8

10. The approach to initial and subsequent measurements of the right-of-use asset and obligation to pay rentals proposal by the boards is nearly the same as the accounting currently applied to finance leases. As such, it is not appropriate to apply it to all leases.

    The JLA believes that the accounting currently applied to finance leases should be maintained and a new accounting that requires the sum of the lease payments to be recognized should be prescribed by the new standard from the perspective of recognition of the right-of-use asset or reduction in the administrative cost borne by the lessee.

    Granted that a new lease accounting standard is being developed based on a new concept that is different from the existing standards, the underlying difference in the lease characteristics between leases that transfer substantially all of the risks and rewards associated with the lease to the lessee and leases other than such leases should not be disregarded. The JLA contends that uniform and mandatory application of the approach proposed by the boards to all types of leases would rather cause new problems. The accounting model currently applied to finance leases is based on the similarity between the acquisition of a physical asset and the finance lease. If an accounting model, which is essentially the accounting model currently applied to finance leases, is required to be applied under the new accounting standard to all leases encompassing various forms of leases, the intent of such uniform application should be clearly explained.

11. It is the view of the JLA that the acquisition of a right-of-use asset is not the acquisition of a physical asset and there are certain leases with strong service characteristics among those leases that are currently classified as operating leases (e.g. a lease whose term is shorter than the economic life of the leased asset) and that it is appropriate to recognize a right-of-use asset for such leases with strong service characteristics at the sum of the lease payments payable by the lessee over the lease term.

    The JLA therefore believes that, similar to the existing standards, the new standard should provide criteria to make a distinction between leases with strong service characteristics and others and, with respect to the former, permit the lessee to initially recognize a right-of-use asset and a liability for its obligation to pay rentals at the sum of the lease payments.

    Furthermore, the JLA believes that the new standard should permit the lessee to initially recognize a right-of-use asset and a liability for its obligation to pay rentals at the sum of the lease payments also with respect to core asset leases, in consideration of the administrative cost borne by the lessee, if, for example, the ratio of the leased assets under such leases to the total property, plant and equipment and intangible fixed assets of the company is small.

    Although the boards propose to require the lessee to distinguish payments for services from payments for the right to use an asset, it would often be extremely difficult for the lessee in actual practice to separate payments for services from the total lease payments and calculate the present value of the lease payments for the right to use an asset. Therefore, also from the practical perspective, it is desirable to initially measure the right-of-use asset and obligation to pay rentals at the sum of the lease payments.

12. If the lessee is permitted to initially recognize a right-of-use asset and a liability for its obligation to pay rentals at the sum of the lease payments with respect to leases with strong service characteristics, the lessee should amortize the right-of-use asset by the amount of the lease payments over the lease term and reduce the corresponding liability by the amount corresponding to the satisfaction of the obligation to pay rentals (i.e. the amount of lease payments). Consequently, the lessee would recognize the amount of lease payments as amortization of the right-of-asset and reduction of the corresponding liability.

    If a lessee has multiple lease contracts, the lessee may apply the accounting model proposed by the boards to all the leases. Alternatively, the lessee may choose to apply the simplified accounting model proposed by the JLA to all the leases if the lease term of all the leases is shorter than the economic life of the leased assets. If there are different types of leases, the lessee may also choose to apply the most suitable accounting model depending on the type of lease. The JLA considers that all of the above are appropriate accounting practice and would not create any special problems in terms of the comparability, transparency, or reliability of the financial statements.

13. The boards are proposing to initially measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate. However, under leases that transfer substantially all of the risks and rewards associated with the lease to the lessee, such as the financing lease under the existing accounting standards, the acquisition cost of the leased asset is sometimes lower than the present value of the lease payments. Therefore, the boards should provide an accounting option that permits the lessee to recognize a right-of-use asset and a liability for its obligation at the acquisition cost of the leased asset in such cases provided that the acquisition cost of the leased assets to the lessor is known to the lessee.

14. Although it is acknowledged by the boards in their proposal regarding amortization that there is a difference in the amortization period between the asset under "leases that are in substance purchases" and the right-of-use asset, the amortization method is not clearly addressed. As it is appropriate to account for the asset under "leases that are in substance purchases" (refer to Comment 3) as a purchase of a physical asset rather than a purchase of right to use an asset, the boards should clearly prescribe, by applying the existing standards, that the lessee should amortize the leased asset under "leases that are in substance purchases" over its economic life based on the same amortization method as is applied to fixed assets owned by the lessee.

Response to Question 9

15. As the boards pointed out (DP 5.19), the disadvantages of requiring subsequent measurement of the obligation to pay rentals at fair value outweigh the potential benefits to users. Furthermore, as the lease payments do not generally change during the lease term except for certain contingent rental arrangements and contractual lease payments are not

affected by market conditions and other factors, it is difficult to directly observe the fair value of an obligation to pay rentals. Therefore, a new lease accounting standard should not permit a lessee to elect to measure its obligation to pay rentals at fair value.

Response to Question 10

16. Given the basic principle that the subsequent measurement is based on the amortized cost, it is unnecessary to require the lessee to make an adjustment to its obligation to pay rentals to reflect changes in its incremental borrowing rate. Such requirement would be an excessive burden to the lessee and the lessee should not be required to make adjustments that do not have significant implications.

Response to Question 11

17. The JLA agrees with the decision by the boards.

Response to Question 12

18. Although the JLA agrees with the linked approach proposed by some board members in that under such approach the amount of expenses to be recognized in the income statement would be the same as under the approach proposed by the JLA, given the administrative cost borne by the lessee, the JLA expects that the simpler accounting proposed by the JLA would be more readily accepted by the lessee than the linked approach .

Chapter 6: Leases with options

Response to Question 13 to 15

19. The JLA does not support any of the proposals by the boards described in Question 13 and Question 14. It would be impossible to derive the most likely lease term based on "non-contractual financial factors" and "business factors" indicated in DP 6.39. Furthermore, given the existence of other factors such as the usage status of the leased assets during the lease term (i.e. physical and economic obsolescence), financial performance of the lessee, and the economic environment that are to be considered, initial measurement based on the estimation of the likelihood of the exercise of options is inherently inappropriate. Even in a situation where there is no change in the factors discussed above during the lease term, it would be practically impossible to determine the most likely lease term, for example, a 8-year lease contract (without an option to extend) that permits cancellation any time after 5 years. If such estimation is forced, the comparability of the financial statements may be seriously impaired.

20. Therefore, such uncertain factors should not be considered in the recognition of assets and liabilities and the lessee should initially measure an obligation to pay rentals and a right-of-use asset based on the contractual lease term unless, as proposed by some board members, the option is priced to provide a significant incentive to exercise the option (the "bargain purchase option" prescribed by the current standard would be an example of such option). Consequently, The JLA believes that the lessee should initially measure an

obligation to pay rentals and a right-of-use asset based on the contractual lease term and that the lessee would be able to account for such leases more appropriately if the new accounting standard clearly and specifically prescribes the accounting treatment to be applied when the option to extend, the option to terminate, or the option to purchase is exercised, instead of requiring the lessee to include the uncertain factors in the recognition of assets and liabilities.

21. For all these reasons, the JLA does not support the approach that requires reassessment of the lease term at each reporting date with respect to leases with options. To begin with, requiring such reassessment seems to contradict the decision by the boards to adopt an amortized cost-based approach rather than a fair value-based approach for purposes of subsequent measurement.

Chapter 7: Contingent rentals and residual value guarantees

Response to Question 16 to 20

22. Neither of the proposals by the IASB and the FASB on recognition of contingent rentals can be implemented in actual practice. As already argued in relation to options, uncertain factors such as contingent rentals should not be considered in the recognition of assets and liabilities. Therefore, the JLA believes that unless the amount of the contingent rentals can be reasonably determined, contingent rentals should not be included in the initial measurement of an obligation to pay rentals. Contingent rentals can be reasonably determined if, for lease contracts under which the lease rentals are contingent on changes in a price or other index, it is possible to calculate the total lease payments based on the price or other index at the inception of the lease.

On these grounds, the JLA believes that remeasurement of the obligation to pay rentals should not be required and any changes in the obligation to pay rentals under contingent rental arrangements should be reflected in the profit and loss calculation for the period in which they arise.

Response to Question 21

23. As noted in DP 4.12, the lessee may have little knowledge of the residual value of the leased asset at the end of the lease. Therefore, under either of the methods proposed by the IASB and the FASB, it is impossible at the beginning of the lease term to estimate the amount of residual value guarantee at the end of the lease term. Even if such amount is estimated, it is impossible to judge whether the estimate is appropriate.

Therefore, as already argued in relation to options, such uncertain factors should not be considered in the recognition of assets and liabilities and the amount of residual value guarantee should not be included in the initial measurement of an obligation to pay rentals. If an approach that includes the amount of residual value guarantee in the initial measurement is adopted, the only approach that can be implemented in actual practice would be the one that includes in the initial measurement the maximum amount guaranteed under residual value guarantee, as prescribed by the existing standards.

24. Furthermore, requiring the lessee to recognize changes in the estimated amount of residual value guarantees and to remeasure the obligation to pay rentals would be an

excessive burden for the lessee. It would also be difficult to validate the amount of changes estimated based on certain contributing factors. As such, the JLA does not consider such information to be appropriate for the users of financial statements. Therefore, reassessment of residual value guarantees should not be required and it suffices to prescribe the accounting treatment to be applied when a residual value guarantee is performed.

Chapter 8: Presentation

Response to Question 22 to 23

25. The JLA supports the tentative decision by the FASB to require the obligation to pay rentals to be presented separately. It is the view of the JLA that the right-of-use asset should be presented separately (refer to Comment 26), and therefore the JLA believes that the corresponding obligation to pay rentals should also be presented separately to provide more useful information to the users of financial statements. However, in cases where the ratio of the obligation to pay rentals to the total liabilities of the company is insignificant, including it in other financial liabilities for presentation purposes should cause no problem.

26. Presenting assets under “leases that are in substance purchases” (refer to Comment 3) in accordance with the nature of the underlying leased properties rather than separating them from the assets owned by the lessee would not cause any special problem. However, right-of-use assets under other non-cancelable leases should be presented separately from the assets owned by the lessee as the underlying leased properties will be returned to the lessor. Separate presentation of such assets would also provide more useful information to the users of financial statements.

Accordingly, it is the view of the JLA that, assets under “leases that are in substance purchases” should be presented in accordance with the nature of the underlying leased properties and other right-of-use assets should be presented as a separate line-item “leased assets” within the Property, Plant and Equipment section or the Intangible Fixed Asset section. However, in cases where the ratio of the leased assets to the total assets of the company is insignificant, including them in assets owned by the company for presentation purposes should cause no problem.

Therefore, the JLA does not support any of the three proposed approaches. By requiring separately presentation of leased assets, additional disclosure requirements can be minimized and the administrative cost borne by the lessee can be reduced.

Chapter 9: Other lessee issues

Response to Question 24

27. As already pointed out in Comment 10, as the discussion paper fails to provide the explanation of the intent for requiring uniform application of a single accounting model, which is essentially an accounting model currently applied to finance leases, to all leases under the new accounting standard and of the relevance of a uniform and mandatory application of a single accounting model to all types of leases, a clear explanation should be provided.

Chapter 10: Lessor accounting

Response to Question 25 to 29

28. The description of lessor accounting provided in Chapter 10 is insufficient for the JLA to make any comments. Therefore, the JLA requests a separate opportunity to provide comments when a discussion paper on lessor accounting is issued at a later stage at which further details are available.

29. The JLA strongly suggests that when a new standard is issued, both lessee accounting and lessor accounting should be included. The boards should first issue a discussion paper on lessor accounting to follow the current discussion paper on lessee accounting. Then, based on the comments received for both discussion papers, the boards should issue a new discussion paper including both lessee accounting and lessor accounting before they issue an exposure draft and finally the new accounting standard.

Although the discussion paper states that the application of new lessee accounting ahead of the application of new lessor accounting would benefit a large number of users (DP 1.21(b)), many constituents should find this idea difficult to understand. There are many lessors as well as lessees within countries that will adopt IFRS for the first time. If, with respect to a single lease transaction, completely different accounting models are applied to the lessor and the lessee during a certain period until the new standard for lessor accounting is developed, not only there will be problems surrounding subleases that are pointed out in Chapter 10, but also there could well be a situation in which the consistency with the new standard for lessee accounting that has already been issued is compromised as the development of the new standard for lessor accounting progresses. Consequently, further revisions to lessee accounting may become necessary. The JLA expects that the application of new lessee accounting ahead of the application of new lessor accounting will raise confusion and concerns not only among the lessors, but also among the lessees.

It is unthinkable that a lessee in a country that will adopt IFRS for the first time will intentionally arrange a lease designed to avoid the on-balance treatment of a finance lease by applying the existing IAS 17 during the period until the new accounting standard is developed.

If it is difficult to issue a new standard for lessor accounting before 2011 due to interaction with other ongoing projects, such as revenue recognition and derecognition, and the boards are concerned with the burden for the preparers created by changing the lease accounting standard shortly after the first-time adoption of IFRS scheduled during and after 2011 in many countries, the effective date of the new standard should be determined after careful consideration only when a new accounting standard encompassing both lessee accounting and lessor accounting is ready for issuance.

As the boards are developing a new standard under a definitive policy aimed at improving the lease accounting standard, they should not permit inconsistent accounting treatments even for a limited period.