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May 19th, 2014

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board

Mr. Russell Golden
Chairman
Financial Accounting Standards Board

Japan Leasing Association (JLA) shows respect to IASB and FASB (the Boards) for the enormous efforts made by the Boards for the purpose of developing high quality accounting standards. In addition, JLA, as preparers of financial statements, totally agrees to the development of high quality accounting standards. However, JLA believes that any change of accounting standards should be contributive to the development of global economy.

JLA has been proposing that the current lease standard (IAS 17) should be retained with disclosure requirements enhanced. This is because JLA previously conducted surveys on operating leases entered into in Europe and Japan and JLA has showed how immaterial those leases are when compared to the total assets for entities surveyed. In addition, JLA acknowledges that many of stakeholders in Europe also made suggestions similar to JLA's one (i.e. IAS 17 should be retained with disclosure requirements enhanced) in their comment letters. In spite of that, it is deeply disappointing stakeholders that the Boards are still pursuing the right-of-use model, for which many stakeholders have ever expressed critical concerns. Furthermore, it was also disappointing stakeholders that each of IASB and FASB tentatively reached diverged conclusions for lessee accounting in March 2014.

Finally, JLA would like to require the Boards to carefully consider three points JLA emphasizes in this letter.

- At first, the current standard should be retained with disclosures improved. The Boards should start discussing whether it is still necessary to make operating leases recognized on lessees' balance sheets even after improving the disclosure requirements.
- The Boards should avoid any situation where two lease accounting standards exist (i.e. either IASB or FASB publishes a new lease accounting standard that is different from the other.). Publication of different accounting standards between IASB and FASB would not be acceptable at all.
- The Boards should properly comply with their due process if the Boards continue the re-deliberation in line with the tentative decisions in March 2014. For example, the Boards should publish another exposure draft again.

Yours faithfully,

Shunichi Asada
Chairman
Japan Leasing Association

Japan Leasing Association's View on Re-deliberation on 18 and 19 March 2014

From the standpoint of clarifying where defects exist under the current lease standard, Japan Leasing Association (JLA) has required IASB and FASB (the Boards) to conduct a survey in order to have a grasp of the reality of operating leases entered into in each country. In JLA's view, the Boards should have started discussing lease accounting after fully understanding the reality of operating leases. In addition, JLA has suggested that the Boards should focus on improving disclosure requirements with the current lease standard retained, if there were any necessity to immediately cope with any problem associated with lease accounting.

JLA is deeply disappointed at the fact that the Boards have been still pursuing their goal to make operating leases recognized on lessees' balance sheets and the Boards have failed to discuss another approach in which the current lease standard should be retained with disclosures improved at the re-deliberation on 18 and 19 March 2014 in spite that this approach has been proposed by many of stakeholders in Europe and Japan. It is also disappointing that the Boards tentatively diverged on lessee accounting model.

JLA would like to emphasize the following points against the tentative decisions made in March 2014.

1. **At first, the current standard should be retained with disclosures improved. The Boards should start discussing whether it is still necessary to make operating leases recognized on lessees' balance sheets even after improving the disclosure requirements.**
2. **The Boards should avoid any situation where two lease accounting standards exist (i.e. either IASB or FASB publishes a new lease accounting standard that is different from the other.). Publication of different accounting standards between IASB and FASB would not be acceptable at all.**
3. **The Boards should properly comply with their due process, if the Boards continue the re-deliberation in line with the tentative decisions in March 2014. For example, the Boards should publish another exposure draft again.**

1. At first, the current standard should be retained with disclosures improved. The Boards should start discussing whether it is still necessary to make operating leases recognized on lessees' balance sheets even after improving the disclosure requirements.

The appendix attached to this letter shows the reality of operating leases in Europe, the US, and Japan. This reveals the fact that possible impacts arising from recognizing operating leases on lessees' balance sheets would be trivial for the majority of entities. The revision of the current lease standard would not be beneficial to the majority of users of financial statements because of there being limited entities whose operating leases are material, while the revision would be burdensome and costly to the majority of entities whose operating leases are immaterial, which seems to be unfair. One of the main reasons why many of preparers are concerned about the proposals by the Boards is that potential benefits arising from the revising the current lease standard would narrow down to limited entities, which is unique in the lease project.

In addition, the fact that the Boards have not yet reached a converged answer in spite of having spent seven years in the lease project reveals how difficult it is to adopt the right-of-use model for lessee accounting. Furthermore, the fact that IASB and FASB respectively have reached diverged conclusion also proves that it is necessary to apply multiple lease accounting models to various types of leases. In JLA's view, the Boards have been already and fully aware of strong concerns raised by constituents related to applying the right-of-use model to all the leases and distinguishing services (executory contracts) from leases.

The new lease accounting would be conceptually weak and unpractical if the Boards rush into finalizing the new standard, focusing on making operating leases under on-balance sheet treatment but failing to have a grasp of the reality of those leases. In addition, the new standard would be not only costly to preparers but also useless to users of financial statements because users would continue adjusting financial statements even after applying the new standard*.

Given the fact that many of preparers of financial statements are against the proposals by the Boards and the fact that tentative decisions made by the Boards have been always changing, the Boards should cease the re-deliberation on the new lease accounting model and should move forward concentrating on improving disclosure requirements with the current standard retained, which has been proposed by many constituents in Europe and Japan. Retaining the current standard with disclosures improved would be the best and the most realistic solution to the lease project in order to meet various needs of users of financial statements.

* Users of financial statements are not always supportive of the proposed lessee accounting. There are many users who are unsupportive of the revising the current standard due to users' needs being various, although the Boards explain that the majority of users are supportive of the proposed lessee accounting.

If it were to be still necessary to recognize operating leases on lessees' balance sheets even after expanding disclosures, the Boards may move forward recognizing operating leases on lessees' balance sheets at that stage. However, the Boards must address strong concerns raised by constituents (i.e. concerns related to the conceptual basis of right-of use model and distinguishing between services (executory contracts) and leases). In addition, cost and benefit analysis should be carefully conducted and considered by the Boards (refer to the notes below.).

2. **The Boards should avoid any situation where two lease accounting standards exist (i.e. either IASB or FASB publishes a new lease accounting standard that is different from the other.). It would not be acceptable at all for either IASB or FASB to publish a new lease accounting standard that is different from the other.**

   If the Boards reached to diverged decisions between IASB and FASB on lessee accounting model, the following critical problems would arise. Therefore, the Boards should avoid any situation where two lease accounting standards exist (i.e. either IASB or FASB publishes a new lease accounting standard that is different from the other.). It would not be acceptable at all for either IASB or FASB to publish a new lease accounting standard that is different from the other.

   i. It is the most meaningful for the Boards to have been jointly discussing the lease project among joint projects, considering into account the fact that leases are broadly and globally made use of by entities. If IASB and FASB would respectively reach to diverged conclusions, neither IFRS nor US GAAP for leases would be a global standard and this would create an outcome far from the goal of the lease project which was launched out as one of the joint projects. This implies that the meaning of the lease project, which was launched out as a joint project, would be neglected. Consequently, it would not be acceptable at all for either IASB or FASB to publish a new lease accounting standard that is different from the other.

   ii. The current lease accounting standards between IFRS and US GAAP are converged. If each of the Boards adopts an approach different from the other for lessee accounting, this would critically reduce comparability between entities under IFRS and ones under US GAAP. This would be also confusing and misleading to users of financial statements, which is anything but improvement of the current lease standard.

   iii. Any divergence between IFRS and US GAAP would be extremely burdensome to an entity that is required to prepare its financial statements under both of IFRS and US GAAP.

3. **The Boards should properly comply with their due process, if the Boards continue the re-deliberation in line with the tentative decisions in March 2014. For example, the Boards should publish another exposure draft again.**

   IASB tentatively decided to support a lessee accounting model, which was rejected three years ago in response to the feedback by many constituents that the model would not faithfully reflect economics of leases that vary. JLA notes that the majority of constituents were against the single accounting model for lessee because it would not reflect economics of various leases.

If IASB continues the re-deliberation in line with the tentative decision in March 2014, IASB seems to have a responsibility for explaining why IASB revisit the proposal in 2010 ED to constituents who have been involved in the lease project and why IASB reached to a conclusion that was different from the one FASB reached to by publishing another exposure draft. In addition, appropriateness of the proposed lessee accounting model transparently should be clarified by publishing another exposure draft. Finalizing a new lease accounting standard without publishing another ED would not comply with the due process.

If FASB assumed that "display approach" was adopted as type B lease accounting, FASB seems to have tentatively adopted an accounting model that has not been discussed in either 2010ED or 2013ED.

FASB should also publish another exposure draft in order to explain why FASB reached to a conclusion that was different from the one IASB reached to. In addition, FASB should also listen to stakeholders on appropriateness of the proposed lessee accounting model by publishing another exposure draft. Even though stakeholders in the U.S. are supportive of the "display approach", finalizing a new lease accounting standard without publishing another ED would not comply with the due process because the "display approach" is far from approaches proposed in 2010ED and 2013ED.

Notes

JLA cannot accept the fact that the Boards rejected including "specific requirements on materiality in leases guidance" in March 2014. In the paragraph B4 of appendix B of agenda paper 3F, the staff set out disadvantages in the case of including materiality guidance in the lease standard. However, those disadvantages would also apply to general materiality threshold. In fact, the general materiality threshold is difficult to apply and does not work well in practice.

JLA expects that "an explicit exemption for leases of small asset", which is supported by IASB, would contribute to mitigating costs incurred by lessees to an extent. However, that exemption would not be good enough to reduce the costs. In addition, applying leases guidance at a portfolio level would be neither practical nor applicable to the majority of lessees.

The Boards tentatively decided not to include specific requirements on materiality in leases guidance. However, the Boards need to provide a drastic cost relief (e.g. the lease standard would not be applied to an entity whose operating leases are immaterial compared to its total assets.) for the purpose of mitigating costs incurred by many entities, because applying the lease standard to an entity with immaterial operating leases would not be beneficial to users of financial statements.

Survey on the remaining balance of operating leases used by listed companies in Japan

1. Purpose

The purpose is to understand the situation of the remaining balance of operating leases used by listed companies in Japan.

2. Companies surveyed

1,752 listed companies in the first section of the Tokyo stock exchange as of on 31th July, 2013 (excluding foreign corporations)

3. Result

Table 1 Total amount by the 1,752 listed companies

A. The total assets	18,533.622 billion US$
B. The remaining balance of operating lease (OL) payments	174.114 billion US$
C. The ratio of OLs to the total assets (B/A)	0.94 %

exchange-rate	
JPY/USD	0.0100

Table 2 Breakdown by types of business of the1,752 listed companies

Types of business	The number of Corp	The total assets ($million) (A)	The remaining OL lease payments ($million) (B)	The ratio of OLs to the total assets (B/A)	Breakdown by the ratio of OLs to total assets among the 1,752 companies																
					More than 5%											Less than 5%					
						More than 100%	More than 75% to 100%	More than 50% to 75%	More than 20% to 50%	More than 10% to 20%	More than 9% to 10%	More than 8% to 9%	More than 7% to 8%	More than 6% to 7%	More than 5% to 6%		More than 4% to 5%	More than 3% to 4%	More than 2% to 3%	More than 1% to 2%	Less than 1%
Fishery, Agriculture & Forestry	5	11,241	84	0.75%	0											5				1	4
Mining	7	45,237	121	0.27%	0											7					7
Construction	96	238,868	38,312	16.04%	5		2		1	1			1			91			4	5	82
Foods	69	211,622	1,358	0.64%	1										1	68			3	7	58
Textiles & Apparels	41	62,618	147	0.23%	1									1		40				2	38
Pulp & Paper	11	55,752	7	0.01%	0											11					11
Chemicals	128	357,355	2,288	0.64%	0											128		3	1	8	116
Pharmaceutical	38	165,790	1,418	0.86%	0											38		1	2	2	33
Oil & Coal Products	11	149,578	489	0.33%	0											11					11
Rubber Products	11	53,818	1,923	3.57%	1										1	10				2	8
Glass & Ceramics Products	33	78,047	426	0.55%	0											33		1	1	2	29
Iron & Steel	32	181,246	540	0.30%	0											32			1		31
Nonferrous Metals	24	96,928	309	0.32%	0											24				2	22
Metal Products	37	59,104	327	0.55%	0											37				2	35
Machinery	120	285,117	1,285	0.45%	1									1		119			2	6	111
Electric Appliances	154	802,115	12,213	1.52%	0											154	1	4	8	18	123
Transportation Equipments	62	933,574	3,643	0.39%	0											62			1	1	60
Precision Instruments	28	57,383	265	0.46%	1					1						27				1	26
Other Products	48	89,972	791	0.88%	3					1	1				1	45	1	3	2	1	38
Electric Power & Gas	17	518,707	322	0.06%	1							1				16					16
Land Transportation	37	352,764	5,491	1.56%	7				1	1	1	1	1		2	30	1	2	2	2	23
Marine Transportation	9	65,238	8,960	13.73%	5					4				1		4			1		3
Air Transportation	3	34,188	3,991	11.67%	2					1		1				1					1
Warehousing & Harbor Transportation Services	21	22,686	776	3.42%	4					1				2	1	17	3	1	1	1	11
Information & Communication	113	501,886	5,566	1.11%	11				4	2	1		2	2		102	1	4	7	8	82
Wholesale Trade	146	697,947	14,552	2.08%	8					4		1			3	138	1		10	15	112
Retail Trade	159	320,177	32,677	10.21%	71		2	4	18	30	2	6	3	2	4	88	6	4	5	18	55
Banks	85	9,676,174	8,340	0.09%	0											85					85
Securities & Commodity Futures	21	635,854	2,217	0.35%	0											21				3	18
Insurance	6	1,005,816	969	0.10%	0											6					6
Other Financing Business	22	421,895	571	0.14%	0											22					22
Real Estate	45	229,591	17,392	7.58%	6	2			1		2	1				39	2	1	1	5	30
Services	113	115,335	6,344	5.50%	29	2		2	10	4	1	1	2	4	3	84	1	2	4	3	74
Total	1,752	18,533,622	174,114	0.94%	157	4	4	6	35	50	8	12	9	13	16	1,595	17	26	56	115	1,381
						0.2%	0.2%	0.3%	2.0%	2.9%	0.5%	0.7%	0.5%	0.7%	0.9%		1.0%	1.5%	3.2%	6.6%	78.8%
					9.0%											91.0%					

Survey on the remaining balance of operating leases used by companies FT EUROPE 500 2013
(Information disclosed by lessees)

1. Purpose

The purpose is to understand the situation of the remaining balance of operating leases used by companies in Europe.

2. Companies surveyed

500 companies in FT EUROPE 500 2013

exchange-rate	
EUR/USD	**1.3247**
GBP/USD	**1.6116**
CHF/USD	**1.0963**
SEK/USD	**0.1540**
TRY/USD	**0.5591**

3. Result

Table 1 Total amount by the 500 companies

A. The total assets	57,076.496	billion US$
B. The remaining balance of operating lease (OL) payments	705.315	billion US$
C. The ratio of OLs to the total assets (B/A)	1.24	%

Table 2 Breakdown by types of business of the 500 companies

Types of business	The number of Corp	The total assets ($million) (A)	The remaining OL lease payments ($million) (B)	The ratio of OLs to the total assets (B/A)
Aerospace & defence	9	266,779	6,242	2.34%
Automobiles & parts	13	1,152,805	26,013	2.26%
Banks	49	33,905,003	81,735	0.24%
Beverages	13	403,068	6,518	1.62%
Chemicals	23	415,694	9,496	2.28%
Construction & materials	16	507,408	16,785	3.31%
Electricity	16	1,023,706	14,899	1.46%
Electronic & electrical equipment	6	87,795	2,435	2.77%
Financial services	19	1,032,811	6,667	0.65%
Fixed line telecommunications	13	572,833	44,614	7.79%
Food & drug retailers	14	343,987	77,223	22.45%
Food producers	11	297,917	12,324	4.14%
Forestry & paper	3	45,528	1,591	3.49%
Gas, water & multiutilities	12	912,448	18,817	2.06%
General industrials	6	259,104	6,752	2.61%
General retailers	7	87,804	34,237	38.99%
Health care equipment & services	9	92,566	7,990	8.63%
Household goods & home construction	9	91,873	1,237	1.35%
Industrial engineering	22	360,333	8,007	2.22%
Industrial metals & mining	10	259,399	3,488	1.34%
Industrial transportation	12	278,215	27,525	9.89%
Life insurance	13	5,195,415	10,523	0.20%
Media	20	270,004	18,907	7.00%
Mining	14	692,240	8,448	1.22%
Mobile telecommunications	11	542,621	41,854	7.71%
Nonlife insurance	19	3,967,370	8,448	0.21%
Oil & gas producers	24	2,252,917	94,956	4.21%
Oil equipment & services	11	137,135	7,702	5.62%
Personal goods	15	271,475	31,658	11.66%
Pharmaceuticals & biotechnology	15	529,197	10,107	1.91%
Real estate investment & services	3	33,439	116	0.35%
Real estate investment trusts	11	168,204	10,185	6.06%
Software & computer services	9	82,847	5,730	6.92%
Support services	19	123,796	10,283	8.31%
Technology hardware & equipment	6	112,439	4,193	3.73%
Tobacco	3	90,794	708	0.78%
Travel & leisure	15	209,529	26,903	12.84%
Total	500	57,076,496	705,315	1.24%

Breakdown by the ratio of OLs to total assets among the 500 companies

Types of business	More than 5%	More than 75% to 100%	More than 50% to 75%	More than 20% to 50%	More than 10% to 20%	More than 9% to 10%	More than 8% to 9%	More than 7% to 8%	More than 6% to 7%	More than 5% to 6%	Less than 5%	More than 4% to 5%	More than 3% to 4%	More than 2% to 3%	More than 1% to 2%	Less than 1%
Aerospace & defence	3						1		1	1	6			3	2	1
Automobiles & parts	1									1	12	1	1	2	3	5
Banks	0										49					49
Beverages	0										13		2	1	4	6
Chemicals	2				1				1		21	2	1	6	7	5
Construction & materials	3								2	1	13	2	1	4	4	2
Electricity	2							1	1		14	1		3	2	8
Electronic & electrical equipment	1								1		5		2	1	2	
Financial services	2				2						17	1	1	1	3	11
Fixed line telecommunications	7			1	3	1	1	1			6		1		3	2
Food & drug retailers	10		1	3	2	1	1	1		1	4	1			1	2
Food producers	3			1				2			8	2		3	2	1
Forestry & paper	0										3		3			
Gas, water & multiutilities	1									1	11	1	1	2	4	3
General industrials	0										6	1	1	1	2	1
General retailers	7	2	2	1	1	1					0					
Health care equipment & services	4				1	1			1	1	5	2		1	2	
Household goods & home construction	0										9	1			2	6
Industrial engineering	2								1	1	20	2	5	4	5	4
Industrial metals & mining	0										10		1		3	6
Industrial transportation	8			3	4					1	4					4
Life insurance	0										13					13
Media	9	1			4	1	2			1	11	2	2	1	4	2
Mining	0										14		2	1		11
Mobile telecommunications	4			1	2					1	7	3		1	2	1
Nonlife insurance	0										19			1	2	16
Oil & gas producers	6				2		2		1	1	18		1	1	7	9
Oil equipment & services	8				4	2	1		1		3				1	2
Personal goods	13		1	2	9				1		2				1	1
Pharmaceuticals & biotechnology	4							2		2	11		1	2	5	3
Real estate investment & services	0										3					3
Real estate investment trusts	3				2				1		8		1			7
Software & computer services	7				2	2	3				2		2			
Support services	11			1	4	1	3	1	1		8	1	4		1	2
Technology hardware & equipment	1					1					5	1	2	1	1	
Tobacco	0										3				2	1
Travel & leisure	12		2	4	1		1	1	3		3		1		1	1
Total	134	3	6	17	44	11	15	9	16	13	366	24	36	40	78	188
		0.6%	1.2%	3.4%	8.8%	2.2%	3.0%	1.8%	3.2%	2.6%		4.8%	7.2%	8.0%	15.6%	37.6%
	26.8%										73.2%					

Survey on the remaining balance of operating leases used by companies S&P500 FY2012
(Information disclosed by lessees)

Japan Leasing Association

1. Purpose

The purpose is to understand the situation of the remaining balance of operating leases used by companies in United States of America.

2. Companies surveyed

500 companies in S&P500 FY2012

3. Result

Table 1 Total amount by the 500 companies

A. The total assets	29,241.427	billion US$
B. The remaining balance of operating lease (OL) payments	639.729	billion US$
C. The ratio of OLs to the total assets (B/A)	2.19	%

Table 2 Breakdown by types of business of the 500 companies

Types of business	The number of Corp	The total assets ($million) (A)	The remaining OL lease payments ($million) (B)	The ratio of OLs to the total assets (B/A)	Breakdown by the ratio of OLs to total assets among the 500 companies															
					More than 5%											Less than 5%					
						More than 100%	More than 75% to 100%	More than 50% to 75%	More than 20% to 50%	More than 10% to 20%	More than 9% to 10%	More than 8% to 9%	More than 7% to 8%	More than 6% to 7%	More than 5% to 6%		More than 4% to 5%	More than 3% to 4%	More than 2% to 3%	More than 1% to 2%	Less than 1%
Automobiles & Components	7	415,463	5,234	1.26%	1								1			6		2		1	3
Banks	14	3,102,675	19,442	0.63%	0											14				2	12
Capital Goods	41	1,541,263	25,054	1.63%	3					2				1		38	6	8	13	8	3
Commercial & Professional Services	12	108,734	6,158	5.66%	4				2				1	1		8	2	2	2	1	1
Consumer Durables & Apparel	18	117,250	12,259	10.46%	10		1		4	2			2		1	8	2	1	1	2	2
Consumer Services	13	145,503	30,081	20.67%	10	1		1	2	4	1				1	3				1	2
Diversified Financials	27	10,649,157	69,220	0.65%	2				1	1						25	1	2	1	2	19
Energy	45	1,728,338	42,005	2.43%	6					4			1	1		39	1	7	6	11	14
Food & Staples Retailing	8	375,751	70,873	18.86%	6	2			2		1	1				2				1	1
Food Beverage & Tobacco	26	544,631	10,395	1.91%	1										1	25	3	2	6	7	7
Health Care Equipment & Services	30	663,015	14,630	2.21%	3					1		1	1			27	4	3	7	9	4
Household & Personal Products	6	183,842	5,983	3.25%	4				1			1	1		1	2		1		1	
Insurance	21	3,716,426	13,765	0.37%	2					1	1					19					19
Materials	31	532,347	13,712	2.58%	3					1		1			1	28	3	6	7	7	5
Media	15	563,347	22,310	3.96%	7					1		1	3		2	8	3	1	2	2	
Pharmaceuticals, Biotechnology	24	719,568	9,694	1.35%	3			1						1	1	21	1	1	6	7	6
Real Estate	19	297,529	15,890	5.34%	6				1	3				2		13	1	3	3	2	4
Retailing	31	341,726	87,574	25.63%	27	1	4	5	8	5		1	1	1	1	4		3		1	
Semiconductors & Semiconductor	15	189,050	2,596	1.37%	0											15	1	1	2	3	8
Software & Services	32	749,229	24,510	3.27%	11					3	1		2	1	4	21	2	4	3	6	6
Technology Hardware & Equipment	18	595,747	14,205	2.38%	1									1		17	1	3	6	6	1
Telecommunication Services	6	599,361	46,904	7.83%	4				1			1		1	1	2		1		1	
Transportation	11	260,451	40,712	15.63%	6				3	1		1		1		5	1	2	2		
Utilities	30	1,101,025	36,525	3.32%	4				1		1	1			1	26	1	1	1	10	13
Total	500	29,241,427	639,729	2.19%	124	4	5	7	26	29	5	9	13	11	15	376	33	54	68	91	130
						0.8%	1.0%	1.4%	5.2%	5.8%	1.0%	1.8%	2.6%	2.2%	3.0%		6.6%	10.8%	13.6%	18.2%	26.0%
					24.8%											75.2%					