

## The LIAJ's Comments on the Exposure Draft: *Leases*

We, The Life Insurance Association of Japan (LIAJ) would like to extend our gratitude to the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) for providing us with an opportunity to submit our comments on the Exposure Draft, *Leases*.

The LIAJ is a trade association comprised of all 47 life insurance companies currently operating in Japan. Its aim is to promote the sound development of the life insurance industry and maintain its reliability in Japan.

### **Our comments on the exposure draft**

Japanese life insurers usually hold many investment properties as part of their asset management activities. In this exposure draft, an entity is required to apply proposed requirements to investment properties excluding those that are measured at fair value in accordance with IAS 40. From this view point, we submit our comments along with the each question in this exposure draft.

#### **Question 5: Scope exclusions**

The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not?

If not, what alternative scope would you propose and why?

(Comments)

We do not agree with the proposed scope.

We believe that investment properties should be excluded from the scope of the proposed IFRS.

As the investment properties are presumed to be leased to multiple and different lessees during their lives, holders of the investment properties (lessors) need to maintain and manage the assets. In this case, we think that it is possible for the lessors to reflect the economic substance only by depreciating the assets, recognising impairment losses, and then recognising rentals as revenue.

If the proposed performance obligation approach was implemented, those that will be recognised as assets (the right to receive lease payments) may be limited to the present value of the future cash flows arising from the current tenant contracts because, for example, the changes in tenant would not be taken into account. Considering that the present value of future cash flows arising on investment properties (those cash flows are not limited to the cash flows from the current tenant contracts) has been an important component of the fair value of the underlying assets that are required to be disclosed in the financial statements, if the value disclosed in the statement of financial position would be different from those required, we think those information would not only be useful for users of financial statements, but furthermore, might lead to turmoil among them.

Accordingly, we believe that rental transaction approach should be applied for the measurement of investment properties even if the lessors measure the properties at cost, as we consider both of a performance obligation approach and a derecognition approach are not appropriate. Rental transaction approach is the accounting treatment that the lessors recognise the rentals as revenue over the life of the lease without recognising the assets (right to receive lease payments) or liabilities (lease liabilities) arising from rental transaction, then recognise only depreciation while continuing to recognise the underlying assets. We believe that this is the most appropriate accounting for investment properties for users of financial statements.

Besides, if the proposed performance obligation approach was implemented for investment properties, there is a concern that the duplicate recognition of underlying assets and the right to receive lease payments would arise, and in this perspective, we think it would result in providing users of financial statements with unuseful information. Although we believe that investment properties should be excluded from the scope of the proposed IFRS, in case where it is decided not to revise the accounting for investment properties proposed in this exposure draft, considering the consistency with the treatment proposed in the exposure draft : *Revenue from Contracts with Customers*, we think the possible alternative to avoid duplicate recognition of the underlying assets and the right to receive lease payments for investment properties would be, at a minimum, permitting the right to receive lease payments and the lease liabilities to be presented directly net in the statement of financial position.

**Question 8: Lease term**

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

(Comments)

We do not agree with the proposal.

This exposure draft defines the lease term as “The longest possible term that is more likely than not to occur.” We think that it is extremely difficult in practice to estimate the probability of exercising any options at the date of inception of a lease for lessee or a lessor, and also even if we estimated the probability, it would be difficult to ensure the objectivity of the estimates. Furthermore, we believe that the comparability of financial statements would be undermined if the lessee or a lessor recognises options that are difficult to estimate the probability of their occurrence and that contain uncertainty in their exercise as asset or liability. Accordingly, we propose that the lease term should be ‘contractually non-cancellable term.’

**Question 13: Statement of comprehensive income**

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead?

Why or why not?

(Comments)

We do not agree with the proposal.

We think that the separate presentation of lease income and lease expense from other income and expense in profit or loss should be voluntary basis considering the significance of the amount to be presented in the statement of comprehensive income, as we are in the view that the separate presentation might lead to less useful information depending on the business profile of the lessor.