

PetroChina Company Limited

CNPC Building, 9 Dongzhimen North Street, Dongcheng District, Beijing, 100007, P. R. China Http://www.petrochina.com.cn

International Accounting Standards Board (the Board

30 Cannon Street London EC4M 6XH United Kingdom

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

9 August 2013 Dear Sir,

Feedback on Exposure Draft -Leases

We are privileged to respond to your invitation to comment on the above Exposure Draft.

We acknowledge that the current accounting model for lessee has long been criticized for failing to meet the needs of financial statements users. We support the proposed model in the exposure draft that the lessee recognizes a right-of-use asset and a lease liability. We believe that, by including those off-balance sheet leases in the financial statements, it will not only be useful for an entity to manage its assets, but also be useful for the financial statements users to understand the principle business and provide them with more objective information. However, we believe that the application of the proposals will result in the increase of financial reporting cost of preparers and complexity of the preparation of financial statements, and we propose the Board consider simplifying the presentation and disclosure.

Our comments are set out in the Appendix to this letter.

Thank you for your constant effort to perfect the exposure draft and finally make it get publishing.

Please kindly contact Ms. Yang Xiaohong, the Finance Department of PetroChina Company Limited, at +86 10 5998 6145 or yangxh@petrochina.com.cn in relation to any questions you may have on the contents of this letter.

Yours sincerely

Mr. Yu Yibo

Chief Financial Officer

PetroChina Company Limited

Appendix:

Question 1: identifying a lease

This revised Exposure Draft defines a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". An entity would determine whether a contract contains a lease by assessing whether:

- (a) fulfilment of the contract depends on the use of an identified asset; and
- (b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

Our views

We agree with the proposal.

Question 2: lessee accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Our views

We generally agree with the classification of leases depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset and the measurement. We suggest that the Board should consider appropriately simplifying the presentation requirements of the lessee, and disclosing the relevant information in the notes.

Question 3 -lessor accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Our views

We generally agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset.

However, we suggest that the Board should consider that the lessor should classify the leases type according to the transaction substance, not only based on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset.

For example, in the case of the sublease, X will lease the underlying asset to Y, then Y sublease this underlying asset to Z. Y classifies the lease as Type B in accordance with the lease contract with X. And Z classified the lease as Type B in accordance with the lease contract with Y. In the Y-Z contract, Y must classify the lease as Type B as "a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset". However, in the circumstances that Y has subleased the whole benefits of underlying assets or most of it to Z, but does not derecognize the right-of-use asset in the financial statement according to the measurements of Type B leases, instead, continue amortizing in the lease term, which conflict with the economic substance of transactions and will mislead the financial statements users to make a right judgment.

Question 4 classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Our views

We agree with the classification of leases based on the economic life of the underlying assets, which differ depending on whether the underlying asset is property. It will effectively avoid the lessee classify the lease as type A while the remaining economic life of the underlying asset, which is not property, is very short, therefore it is consistent with economical substance.

As mentioned by the exposure draft, when the lease component contains the right of use more than one asset, the classification of leases should be determined by the "primary asset". But the concept of "primary asset" is vague, and is not useful for substantial application. Take the lease of oil & gas station for example, the buildings and the right to use the land are all essential for the lease. We do not believe it is reasonable if the classification of leases is only determined with the buildings (the "primary asset"). In some countries such as China, an entity can only obtain the rights to use the land with limited years. It may exist that the remaining economic life of the rights to use the land are shorter than the remaining economic life of the buildings. In such consideration, we suggest the Board provide further explanation to "primary asset" and more guidance and examples.

Question 5- lease term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

Our views

We agree with the proposal.

Question 6- variable lease payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Our views

We agree with the proposal.

Question 7- transition Paragraphs C2–C22 state that a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why? Are there any additional transition issues the boards should consider? If yes, what are they and why?

Our views

We agree with the proposal.

Question 8- disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Our views

Generally, the proposal introduced a number of new, detailed requirements not contained in IAS 17. Such disclosures would have to be applied separately for Type A and Type B lease arrangements, which may increase the financial reporting burden of preparers.

Why do the Boards propose to implement a fundamental change in the lessee accounting model and increase the disclosure burden at the same time? If the new accounting model is providing the information that users need, then one might expect to a decrease in disclosures.

Other views

We suggest the Board provides further guidance to the elimination of intercompany leases in the consolidated financial statements.