#### Review Opinion on Revised IFRS Leases Exposure Draft

### The Credit Finance Association\* (\*the representative of korean leasing companies)

#### 1. Domestic Lease Industry Status

- ☐ Korea's lease market, which rapidly shrank since **IMF Currency Crisis,** is gradually recovering around automobile lease.
  - o However, machinery and equipment lease for small and mid-sized companies only amounts to 0.9% of total facility fund loan (13.5% in 1997) due to the change in accounting standards and expansion of banking industry's facility fund loan.

## <Progress on machinery and equipment lease ratio over facility fund</p> loan and lease execution amount for each type of leased

#### properties >

(in hundred millions of Korean won, %)

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Types	′97	′98	′11	′12
Machinery and equipment <sup>1)</sup> (A)	85,171	17,392	24,371	22,811
	(65.6)	(53.8)	(23.0)	(22.2)
Automobile	8,300	708	61,804	58,247
	(6.4)	(2.2)	(58.3)	(56.8)
Other <sup>2)</sup>	36,406	14,244	19,843	21,569
	(28.0)	(44.0)	(18.7)	(21.0)
Total	129,877	32,344	106,018	102,627
	(100.0)	(100.0)	(100.0)	(100.0)
Total facility fund loan(B)	629,944	578,175	2,063,592	2,327,000
Machinery and equipment lease execution amount over total facility fund loan(A/B)	13.5	3.0	1.1	0.9

- 1) General industrial machines, power driving machines, machine tools, construction machines, etc
- 2) Medical equipments, ships, office machines, etc
- ☐ Automobile lease is being used for the purposes of accounting convenience(operating lease) and managerial convenience for corporations and private businesses. Also, it contributes to the development of automobile industry

## 2. Impact of Revised IFRS Leases Exposure Draft on Domestic Lease Industry

- ☐ It is expected that domestic automobile lease industry and the related market will shrink if IFRS leases is to be revised as proposed ED.
  - o Especially, the study shows that customer satisfaction on automobile lease will drop rapidly from the increase in complexity of accounting treatment. (*Impact analysis on automobile lease market and related markets from revised IFRS lease standard*, by Samil PwC in June 2011)
  - Unsatisfaction ratio has increased from 1.1% to 57.8%
  - O Moreover, domestic automobile lease market is expected to decrease by KRW 9,963 hundred million, automobile sales market by KRW 1,532 hundred million and front back related industry by KRW 797 hundred million. In total, it is expected to decrease by KRW 12,292 hundred million.
  - It is expected to decrease even further when rental and import automobile lease market are considered as well.

#### <Impact of Revised Leases Exposure Draft>

#### **Leases ED Effect**

Since it is impossible to use operating lease treatment:

- accounting complexity has been increased
- effectiveness of accounting treatment compare to it cost has been decreased



Shrinking of Lease Market

# Possible reduction of automobile lease and the related market

The possible impact of reduction of lease product's role on automobile sales market and the related market:

- decrease in automobile purchase
- decrease in variety of purchase method
- decrease in inductive effect on investment in companies

#### 3. Opinion on Revised IFRS Leases Exposure Draft

It is	nece	essa	ary to ex	cepti	onally	allow	opera	ting	lease	e to	meet	the
purp	ose	of	Revised	IFRS	Leases	ED.	based	on	the	prind	ciples	and
cost effectiveness.												

- When operating lease is allowed only on the lease contract for less than one year, ignoring the impact of lease contract(asset) on the company's financial statements,
- o the accounting effectiveness will drop rapidly because right-of-use will become mandatory not only on automobile lease but also on others such as office stationaries.
- ☐ It is necessary to exclusively allow operating lease on the assets required for the operation and management of the company, other than operational core assets(e.g. airplanes, ships, etc).

#### <Suggested Operating Lease Exception Range>

- \$500,000 and below per lease asset
- o Operating lease is allowed when total lease liability is below 1/10 of equity capital per company
- ☐ Relating to the materiality principle, IASB explained at IASB's project podcast in April, 2010 that the materiality is the common item for accounting standards and lease standards may not be applied on immaterial leases.

⇒ Relating to the materiality principle, the Credit Finance Association strongly suggest that a practical guideline would prevent confusion in the work if the IFRS lease standard, revised in the leases ED, is implemented.