



## **Federation of Asean Shipowners' Associations**

**c/o Singapore Shipping Association**

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

Dear Sirs

### **IFRS EXPOSURE DRAFT ("ED") ON LEASES (AUGUST 2010)**

The Federation of ASEAN Shipowners' Associations (FASA) is an approved ASEAN<sup>1</sup> Non-Governmental Organisation representing the interests of the national shipowners' associations from seven ASEAN countries, namely Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Collectively the FASA members control almost 14,000 vessels totaling some 66 million gross tons. They own, manage or charter roughly 8% of the world's fleet and are strongly motivated by a common desire for closer co-operation in order to increase the role of ASEAN shipping in the carriage of the region's cargoes as well as contribute to the development of intra-ASEAN trade.

Whilst FASA supports the principle behind the International Accounting Standards Board's (IASB) and the US Financial Accounting Standards Board's (FASB) proposals to improve the reporting of lease contracts by reducing diversity and complexity, the Boards' proposed standard to remove the distinction between finance and operating leases is not in line with the operational practices of the shipping industry and will in fact complicate and increase the complexity of lease accounting.

FASA assumes that the removal of the differences between operating and finance leases in the proposed standard was intended to simplify lessee lease accounting.

FASA maintains, however, that the introduction of two separate approaches (the "performance obligation" and "derecognition" approaches), the use of which must be assessed by the lessors, will have the opposite effect - not only will the complexity of financial reporting increase, but lessors' financial statements may also be subject to considerable distortion.

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<sup>1</sup> ASEAN stands for The Association of South East Asian Nations. Additional information on ASEAN can be found at its website at <http://www.aseansec.org/>.

While the standard seeks to provide investors with a better understanding of the leasing activity, both the lessees and lessors are required to make use of best-guess estimates.

The lessors are put in a particularly onerous position as they would, in fact, have to second guess the proposed actions of the lessees in order to assess the lease term, contingent rentals and renewal options. Similarly, from the perspective of the lessee, the need to recognise a right-of-use asset and a liability to make payments will force lessees to make use of best-guess estimates for which a great deal of uncertainty exists, and the initial recognition of amounts for contingent rentals that may not occur.

The shipping industry is extremely dependent on the state of the global macroeconomy and is susceptible to volatility in charter rates, vessel values and industry profitability. Whilst the dry bulk trade is typically cited as an example of industry volatility, the same applies to other sectors such as the container and tanker markets. Furthermore, even the lease arrangements reached at inception may be subject to further changes in response to rapidly-shifting market conditions.

Given the cyclical and extremely volatile nature of freight rates and an unstable ship-valuation market, an accurate and objective assessment of such factors as the estimated period of lease, the extent of contingent rentals embedded in lease payments and options to extend or terminate the lease simply cannot be made.

With so much uncertainty involved, any attempt to make a reasonable estimate is extremely difficult at best, and a futile and potentially misleading exercise at worst - not only will companies have to bear an increased compliance burden for companies, but the new standard may confuse users of the financial statements instead of providing them with a better understanding of the activity.

As it stands, the proposals put forward by the IASB and FASB will not provide an accurate, faithful representation of a shipping company's financial position and operations.

Furthermore, analysts who are familiar with current shipping industry standards and practices have already developed their own methodology to analyse the existing leasing information on the financial statement – with the revision in the standard, existing users will be forced to reinvent the wheel as they reconfigure their methodology to take into account the guesses inherent in the new standard.

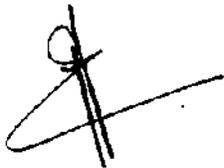
FASA is also extremely concerned that the complexity of the proposed standard will place an increased compliance burden, especially if large numbers of charter transactions were to be effected – whilst shipping companies may not be classed as “small and medium sized enterprises” as a result of the large transaction values, many ship operators, especially those who are solely charterers-in and have no other ship operating activity, would find such complexity both burdensome and expensive to satisfy.

FASA cannot support a proposed standard that will run to the IASB and FASB's underlying principles of reducing diversity and complexity

The Federation of ASEAN Shipowners' Associations is in agreement with the position adopted by the international shipping industry as a whole – whilst the proposed standard is technically ideal from an abstract point of view, it cannot be applied in practice to real-world shipping contracts.

We regret to inform that the Federation cannot support the proposed standard in its current form. We hope that you will take our views into consideration when developing an accounting standard that is suitable for adoption by the industry.

Yours faithfully  
FEDERATION OF ASEAN SHIPOWNERS' ASSOCIATIONS

A handwritten signature in black ink, appearing to be 'DANIEL TAN', written over a horizontal line.

DANIEL TAN  
Secretary General

**Acknowledgements:**

**The Federation wishes to thank all its following members for the comments and support:**

1. Filipino Shpowners' Association
2. Indonesian National Shipowners' Association
3. Malaysia Shipowners' Association
4. Myanma Five Star Line
5. Singapore Shipping Association
6. Thai Shipowners' Association
7. Vietnam Shipowners' Association