

November 20, 2010

From: Liye Zhou

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who is now taking International Accounting Course

To: ISBA and FASB

Re: comment of Exposure Draft Leases

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?

I strongly do NOT agree to determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of options to extend or terminate the lease.

First, this will add unnecessary complications. Although including in the contract the option to extend obviously indicates the original intention of the two parties, as circumstances can change since the initial date of the contract which makes the option to extend unfavorable for lessee. And predicting the likelihood of lease option renewals is therefore significantly more difficult on the lessor's side.

Secondly, this estimation is too subjective and hence will open the proposed standard to inconsistency in application. As one lessee includes the years they will possibly renew the lease, it also is required by the proposed standard to recognize a right-of-use asset and a liability to make lease payments. There is no correct answer to the probability calculation and will invite companies to act in a way that is more beneficial to their own situation at different times and allow the companies to adjust the book during their reassessment as they need, especially for lessors. However, options are NOT a guaranty of expense for lessee or future income for lessor.

I propose that the lease term ONLY includes the base lease term agreed in the leasing agreement for simplicity, objective and consistency purpose. Whenever the original term ends and the companies update the lease agreement or execute a new lease agreement, it can then record in the book to reflect the new base lease term.

Thank you for the opportunity to make comments on the draft.

Sincerely,

Liye Zhou