

15 December 2010

International Accounting Standards Board  
Financial Accounting Standards Board

Dear Ms Jennifer Wilson

**Final comment on Exposure Draft of Leases**

Thank you for your invitation of final comment on the Exposure Draft ED/2010/9 of a new standard for lease accounting.

We are taking the benefits of numerous comments, reports and working papers being filed earlier. We agree that there is a necessity of consistency in conceptual frameworks and this is a good chance to ratify the issues or problems as reported. We fully support the principles behind of the ED and concur with most of the purposed changes as announced in the ED of lease accounting.

We just mention few problems with the current accounting standard which is of commercial substance.

In lessor perspective, the present accounting standard has no way to account for difference in nature of lease receivable and residual value for asset with long useful life. Not only does it fail to comprehend the substance or terms of lease agreement, but also, it distorts the commercial development of a lessor who has made good bargain on terms of Lease, i.e. application of same interest rate for income generated from the lease and the residual value of the underlying asset over the whole of lease term. Hence, we welcome the concept of Partial De-recognition, where incomes generated from lease

receivable are only on portion of underlying asset as provided in the lease agreement. Further, it would be accounted separately from the residual value which is of no relevancy to the lessee upon expiry of the lease.

Presently, there are too much irrelevant criteria being used in determining the accounting models between finance lease and operation lease. In case of a lessor with provision of financing activities where interest sensitivity and credit risk are of paramount importance than the depreciation policy of an underlying asset. We agree in considering the totality of facts rather than a specific set of criteria, with note disclosure in determining the adoption of a particular accounting model.

Finally, we note that the ED presumes lease of either fixed rental or rental subject to uncertainty, however, it does not accommodate variable rentals with reference to market interest rate, say LIBOR plus which is on floating rate basis for both lessee and lessor, e.g. floating rate lease.

Taking this opportunity, we would like to express our appreciation to the working group members, staff and board members of their hard work in ratifying current problems and aiming to improve the information on the financial statements.

Yours faithfully,

For and on behalf of

**Friedmann Pacific Investment Holdings Limited**



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**Fion Lai**

*Financial Controller & Company Secretary*