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December 15, 2010

To the International Accounting Standards Board

The Japanese Bankers Association

Comments on the IASB Exposure Draft “Leases”

The Japanese Bankers Association is an organization for banks and bank holding companies operating in Japan. It represents the Japanese banking industry.

The Association is pleased to provide for your review its comments on the “Leases” currently under deliberation by the Board.

It is hoped that the comments below will assist the Board in its further deliberation of this topic.

Question 3

<p>We are opposed to the proposed simplified requirements for short-term leases. We request that short-term leases and small-value leases should continue to be treated as leases in line with operating lease accounting as defined in the current IAS 17, from the perspective of materiality as well as cost-benefit.</p>
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(Reasons)

The proposed simplified approach for short-term leases can hardly be considered simple. It requires the estimation and determination of the maximum possible lease term, including any options to renew or extend, followed by the calculation of a right-of-use asset and recognition thereof as an asset and a liability. Significant burdens are entailed in comprehensively identifying and tracking short-term leases and extremely small-value leases for equipments, etc., while these are assets of relatively low importance, so the benefits to be obtained are not commensurate to the substantial burdens that would be incurred, including modifications of systems. We see little improvement to financial statements as a result of these efforts.

In addition, this approach lacks consistency with the lessor's treatment not to recognize assets or liabilities from short-term leases on statements of financial position.

Question 8

We are opposed to defining lease term as the “longest possible term that is more likely than not to occur” or to accounting for the impact of options to extend or terminate when determining the lease term.

(Reasons)

The lease term estimation method proposed in the exposure draft will be strongly swayed by subjective elements such as the method used to estimate probability. This will raise questions about the reliability and comparability of financial statements, and the results of such estimates will not constitute useful information for financial statement users. It is common in the Japanese banking industry to rent business offices from lessor, and most real estate lease contracts are automatically renewed with option to cancel by 6 month advance notice. With such contracts, it is questionable whether the estimation of a long lease term would faithfully represent the substance of the lease transaction. We also question the justification for recognizing the option to cancel as assets and liabilities on the financial statements, and indeed consider it extremely difficult to even arrive at such an estimate because in actual practice the management decision of whether to exercise that option is made immediately prior to the exercise deadline. We are therefore opposed to reflecting the impact of options to extend or terminate to lease term. We are also opposed to the proposed concept of a lease term from the cost-benefit perspective because costs will be incurred when estimating lease terms according to the proposed approach.