

December 15, 2010

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

Dear Sirs or Madams,

Comment on the Exposure Draft “*Leases*”

We are a group of Japanese companies¹ that is mainly comprised of companies that prepare consolidated financial statements under the accounting principles generally accepted in the United States. We appreciate your long-term efforts on the Leases project. The following comments are those on the Exposure Draft, “Leases” (hereinafter, “ED”).

Comments on questions

Question 3 – Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

- (a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).
- (b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).

(See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

¹ The names of companies represented are noted at the bottom of this letter.

We agree with establishing simplified requirements for short-term leases and for lessors, we also agree the simplified accounting that allows the recognition of lease payments in profit or loss over the lease term. However, we do not agree with requiring lessees to recognise a right-of use asset and a liability for all short-term leases, because we believe the cost exceed the benefits. For lessees, we also believe it is appropriate to allow expensing of lease payments as incurred.

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?

We do not agree the ED's proposal that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur. We highly concern about requiring lessees to include in liabilities uncertain cash outflows from the lease contract that is less binding from the viewpoint of the definition of a liability.

In addition, we believe there are many practical difficulties in estimating such term for each contract. Furthermore, the outcome resulting from such estimation could be arbitrary and nonobjective.

Therefore, we believe the lease term should be determined on the basis of the term defined in the lease contract, and the existence of options to extend or terminate lease term should be considered if the possibility of exercising such option is expected to be reasonably certain and so on.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

We do not agree with the proposal that requires the use of expected amounts regarding the measurement of lease payments including the estimate of contingent rentals and expected payments under term option penalties and residual value guarantees. That is because the estimated probability-weighted amount could

be significantly different from the actual payment and the most likely lease payments could be appropriate under certain circumstances.

In addition, the use of expected amounts could lead to arbitrary result and decrease comparability between companies.

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognised in the financial statements arising from leases; and
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows

(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We expect the Boards to continue considering more carefully whether increase of disclosure (especially paragraphs 77 and 81) provides more benefit than the cost of the preparers.

Question 17

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We do not agree with the Boards' assessment.

Regarding the costs and benefits analyze process set out in paragraphs BC200 – BC205, we concern there is no explanation why the Boards decided benefit exceed cost. In *Basis for Conclusions* of the final standard, we highly expect the Boards to clarify the basis for decision.

Especially, the common concern stated in paragraph 203 could be critical for the preparers of financial statements. We expect the Boards to continue considering more carefully whether the benefit overcomes the cost.

Question 18

Do you have any other comments on the proposals?

(Lease of Investment Property)

We do not agree with the proposal to determine the application of lease accounting based on whether the investment property is measured at cost or fair value. In IAS 40 "Investment property", specific requirements have been set for investment property, so we believe investment property should not be

included in the scope of lease accounting.

If investment property were included in lease accounting, we would need to take into account the effect of any options to extend or terminate the lease in order to determine lease term. However we concern it is practically difficult or could lead to just arbitrary result.

(Leases of non-core assets for lessee's business or insignificant assets)

For those leases, we believe it should continue to allow the recognition of lease payments in profit or loss over the lease term, because benefits do not exceed the cost.

For cancellable leases, we also believe it is appropriate to allow expensing of the lease payments as incurred, since the risks and rewards are never transferred to lessor.

We hope that our comments contribute to your forthcoming deliberations in this project.

Sincerely yours,

A Group of Japanese Companies:

CANON INC.

Hitachi, Ltd.

Honda Motor Co., Ltd.

Komatsu Ltd.

KYOCERA Corporation

KUBOTA Corporation

MAKITA CORPORATION

Murata Manufacturing Co., Ltd.

Mitsubishi Corporation

Mitsubishi Electric Corporation

Mitsubishi UFJ Financial Group, Inc.

Mitsui & Co., Ltd.

NEC Corporation

Nippon Meat Packers, Inc.

Nomura Holdings, Inc.

Panasonic Corporation

RICOH COMPANY, LTD.

SANYO Electric Co., Ltd.

Sony Corporation

Sumitomo Corporation

TDK Corporation

Toshiba Corporation

Wacoal Holdings Corp.