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Comment Letter No. 782

APEC Business Advisory Council

Deb Henretta
ABAC Chair 2011

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
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Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
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Dear Chairman Tweedie and Chairman Seidman:

The APEC Business Advisory Council ("ABAC") is the formal private sector advisory group of the Asia-Pacific Economic Cooperation ("APEC") Forum. Representing the business communities of all 21 APEC member economies, ABAC is tasked with supporting the success of APEC by providing private sector insights on how best to achieve APEC's goals, both through APEC's own initiatives, and in dialogue with other international organizations.

In ABAC's 2010 *Report to APEC Economic Leaders*, we expressed our strong support for adoption of IFRS throughout the APEC region, as part of APEC's goal of encouraging regulatory coherence and of promoting regional economic integration. At the same time, ABAC noted that adoption of IFRS should be undertaken in a manner that minimizes impacts on real economic activities. In particular, ABAC would be concerned with any impacts of implementation on financing for activities of small and medium enterprises ("SME's"), as this is a focus area for Inclusive Growth initiatives, one of the pillars of APEC's growth strategy.

In this context, we note that IASB and FASB jointly released an exposure draft (ED) on August 17, 2010, proposing new accounting rules for treatment of lease financing, and calling for finalization of the rules by June 2011. During the public comment period ending on December 15, 2010, approximately 800 submissions were made on the ED. The IASB/FASB preliminary analysis of submissions noted that significant concerns were raised with the ED, including, as most concerns us, the potential for the rules to have a negative impact on lease financing availability for SME's. Among the concerns we share are:

- In its present form the ED would reduce the ability of businesses, particularly SMEs, to access funding, including in many APEC economies.

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- The ED would artificially expand lessee balance sheets by requiring capitalisation of options and contingent rentals, thus inflating gearing ratios without any actual increase in assets or liabilities.
- As a result of the front-end loading of lease expenses, notwithstanding that the underlying financial position of lessees has not changed, financial ratios would be impaired, the risk of loan covenant breaches would increase, and lease financing would become more expensive and in many cases less available.
- The end result is that the funding ability of both lessees and lessors would be constrained, and lease financing, currently a significant component of overall liquidity available to businesses, would become scarcer.
- The negative impacts on credit availability would be particularly severe for SME's, which generally lack the alternative funding sources that may be available to larger corporations, such as through established banking relationships or access to the capital markets.
- The standard takes little account of the circumstances in much of Asia where commercial property lease terms are generally much shorter and renewal options do not create financial obligations until exercised.
- The administration involved in the application of the standard is likely to be costly and cumbersome.

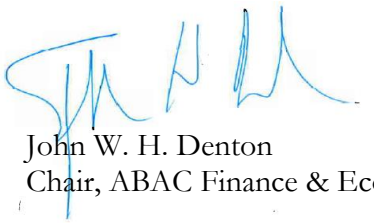
While having these concerns, ABAC is encouraged by the tentative decisions taken by the IASB and FASB, at their joint meeting in London during the week of February 14, to revisit certain aspects of the ED in a way that might address some of the above concerns, including in the areas of accounting for lease renewals, and in acknowledging other types of leases besides finance leases, the details of which will be considered at a future meeting. ABAC is aware that at a technical level, it is not constituted to provide detailed financial accounting input on all aspects of the ED. We are also aware that much of this was done through the large number of submissions made through the public comment process, and will continue through the ongoing outreach endorsed at the recent joint meeting. Indeed, leasing associations in many of our APEC economies have been at the forefront of comments on how the ED will likely constrict the availability and/or raise the cost of lease financing for many users.

However, we do respectfully believe that ABAC has a duty to underscore at a higher level that the ED be implemented in a way that does not impair APEC's overarching themes of Inclusive Growth, and think this consistent with the IASB/FASB conceptual framework that implementation of accounting standards should be neutral with respect to economic impact. ABAC's Finance and Economic Working Group and Advisory Group on APEC Financial System Capacity Building have over the past two years sponsored several analytical workshops and presentations supporting APEC initiatives on the promotion of SME financing and validated the critical importance that SME access to financing has for promoting inclusive economic growth and entrepreneurship within the region. Specific language reflecting these learnings was included in the above-referenced 2010 *Report to the APEC Leaders* and in the *Report to APEC Finance Ministers*. These statements were acknowledged and adopted in large measure by the APEC Leaders' Statement issued in Yokohama and the APEC Finance Ministers' Statement issued in Kyoto in November, 2010. Against this background, it is thus appropriate that ABAC, while not addressing technical interventions on all aspects of the ED implementation, underscore that sufficient time must be allowed for an economic impact analysis of how the ED as currently drafted would affect credit availability generally and for SMEs in particular, and that any appropriate revisions be made before final adoption of the rules.

We respectfully urge IASB and FASB to extend the June 2011 timeline for finalizing the ED. This extension would allow for ample consideration of the many comments received to date, as well as the additional input likely to be made based on the proposals issued at the recent joint meeting. It would also allow the Boards time to consider further appropriate changes to ensure that the ED implementation does not undercut the important goals of promoting SME financing, entrepreneurship and regional economic growth. We would be happy to continue a dialogue with you on these matters.

Yours respectfully,

Deborah Henretta
ABAC Chair 2011



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