June 30, 2009

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

Dear Sir/Madam

Discussion Paper, Preliminary Views on Leases

The Special Task Force of the Financial Accounting Standards Committee (FASC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above discussion paper.

The attachments are our comments to this discussion paper. The comments are those of the Special Task Force and do not necessarily represent official opinions of the FASC.

If you have any question about our comments, please contact us via conrad@mail.ntpu.edu.tw or mushenchen@ardf.org.tw.

Sincerely Yours,

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Question 2
Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.

Response to the above Question:
It is our opinion that the proposed new standard may exclude non-core asset leases or short term leases.

Rationale:
The dollar amount of non-core assets tend to be less than significant in relation to the total of an entity's principal assets. Based on industry practices, entities will most likely own their operational (core) assets rather than thru leases. Even if the entities need to lease the core assets, such leases are most likely on long-term basis so that they can ensure the operation will not be interrupted as a result. Short-term leases are often entered for non-core assets which have a lower degree of relationship with the entities' principal operation.

Proposal:
Non-core assets can be defined as "assets not used by an entity for its principal operating activities."

In order to properly define the scoped-out item for the proposed new standard, we would propose the description for scoped-out items as follows: "Leases that do not meet any of the four criteria under capital leases, not used in its principal operating activities, and not significant in dollar amounts to the entity."

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Question 3
Do you agree with the boards' analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract? If you disagree, please explain why.

Response to the above Question:
After reading the analysis on Appendix C, "Other approaches rejected by the boards," we tend to agree with the boards' analysis of the right and obligations, and assets and liabilities arising in a simple lease contract since, as stated in C10 (c), "the dividing line between finance and operating leases is difficult to define in a principled way." We fully disagree with the "executory contract approach," yet under certain circumstances, the new approach might make certain transactions too complicated and costly to record on the book. For example, lease of containers to be delivered by the container ships. (Please see further discussions under "Rationale" below.

Rationale:
The leases of containers to deliver merchandise from one country to another is quite common in the business world. Because of the volume of businesses, an entity may lease numerous containers throughout the year, the lease of each specific container may last for a period of weeks or months, and the number of containers leased can be more than insignificant to this entity. If the entity needs to account for those leases under the new approach as asset and liability for the rights and obligations, such accounting might be too trivial yet might not help to provide too much useful information to the users of financial statements.

Proposal:
We understand that the IFRS is "principles-based," yet offering some guidelines and/or scoped-outs might be necessary for a standard to be well-adopted by the world.

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Question 5

The boards tentatively decided not to adopt a components approach to lease contracts. Instead, the boards tentatively decided to adopt an approach whereby the lessee recognizes:

(a) a single right-of-use asset that includes rights acquired under options

(b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees.

Do you support this proposed approach? If not, why?

Response to the above Question:

We support the boards' approach not to adopt a components approach to lease contracts in that, as per paragraph 3.32, the "components of a lease contract are often interrelated," and a component approach "may not provide users with complete information about the economic position of the lessee."

Rationale:

The boards' tentative decision to have the lessees recognize "a single right-of-use asset that includes rights acquired under options" and "a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees" should help to provide a whole picture of a lease. In addition, those options and contingent clauses are often difficult to be separated from the lease itself.

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Question 13

The boards tentatively decided that the lessee should recognize an obligation to pay rentals for a specified lease term, ie in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Response to the above Question:

We disagree with the boards' approach that lessee should recognize an obligation to pay rentals for a specified lease term. We are of the opinion that the lease term should be based on probability-weighted, such as "through measurement" per paragraph 6.9 (a), instead of the "most likely lease term" as proposed by the boards.

Rationale:

The "most likely lease term" as proposed by the boards might have a higher degree of volatility than probability-weighted term. Therefore, despite of the fact that it might be difficult to reliably measure the probability and it may be a misfit of the de facto lease term as per paragraph 6.15, in order to minimize significant adjustments on the lessee side, "probability-weighted" term would be a more stable mechanism.

Proposal:

Please see "Rationale" above.

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Question 14

The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognized as an adjustment to the carrying amount of the right-of-use asset.

Do you support the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Would requiring reassessment of the lease term provide users of financial statements with more relevant information? Please explain why.

Response to the above Question:

We agree with the boards' approach to "require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances," and "changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognized as an adjustment to the carrying amount of the right-of-use asset." We also concur that "requiring reassessment of the lease term provide users of financial statements with more relevant information".

However, whether periodical reassessments would be a subject of manipulations by the lessee may warrant further study on a mechanism to avoid such from happening.

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Question 15

The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease.

Do you agree with the proposed approach?

If you disagree with the proposed approach, please describe what alternative approach you would support and why.

Response to the above Question:

We agree with the boards' proposed approach that "purchase options should be accounted for in the same way as options to extend or terminate the lease."

Question 17

The IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable. The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payment. A lessee would determine the most likely amount by considering the range of possible outcomes.

However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes.

Which of these approaches to measuring the lessee's obligation to pay rentals do you support? Please explain your reasons.

Response to the above Question:

We support the IASB's approach that "the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable."

Rationale:

The result of a "probability-weighted estimate" should be a better prediction of the final outcome in general.

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Question 20

The boards discussed two possible approaches to recognizing all changes in the lessee's obligation to pay rentals arising from changes in estimated contingent rental payments:

(a) recognize any change in the liability in profit or loss

(b) recognize any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Which of these two approaches do you support? Please explain your reasons.

If you support neither approach, please describe any alternative approach you would prefer and why.

Response to the above Question:

We support the approach to recognize any change in the liability as an adjustment to the carrying amount of the right-of-use asset.

Question 22

Should the lessee's obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons.

What additional information would separate presentation provide?

Response to the above Question:

It is our opinion that the lessee's obligation to pay rentals should be presented separately.

Rationale:

The obligation of the lessee to pay rentals is a unique class of liability, therefore it should be presented separately in the statement of financial position and be disclosed via a footnote to the financial statements.

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