



THE JAPANESE SHIPOWNERS' ASSOCIATION

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Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London
EC4M 6XH

21 October 2014

Dear Mr Hoogervorst,

RE: Comments on the staff paper regarding the “Definition of a lease” for the FASB/IASB meeting in October 2014

As you are aware, the Japanese Shipowners' Association (JSA) has a particular interest in the IASB's lease project and has indicated potential problems inherent in the proposed lease standard at various opportunities, including in its comment letters to the IASB of September 2013 and August 2014. However, in the staff paper regarding the “Definition of a lease”, which was published recently for the FASB/IASB meeting this week, the following issues previously raised, in particular, are not sufficiently considered:

- An appropriate procedure to unbundle a contract that contains a lease and a service should be demonstrated if unbundling is necessary since both the elements have different economic characteristics.
- A lease standard should not be applied to a service contract.

The IASB staff recommend Alternative B in the paper, which means that if customers have the right to derive the benefits from directing the use of an identified asset in a contract, the contract is regarded as containing a lease even though they do not have the ability to do so. The JSA has a grave concern that a service contract may be judged to contain a lease under Alternative B while

regarding Alternative A, suggestion in paragraph 47 is too subjective and judgmental. It strongly believes therefore that careful consideration is necessary regarding the alternatives with due-process including seeking comments from constituents.

Furthermore, the European Financial Reporting Advisory Group (EFRAG) tabled a proposal of crucial importance at the Accounting Standards Advisory Forum (ASAF) held in September 2014 that requirements to unbundle contracts that contain both a lease and a service, when unbundling is appropriate, should be aligned with the IASB's most recent thinking on unbundling that is codified in IFRS 15. The IASB staff express negative views on this point in the paper for the reason that the distinct guidance in the revenue recognition standard was developed to address a different objective than that of the definition of a lease. The JSA is of the opinion that the rationality of the views is not sufficiently explained in the paper either.

It is disappointing that the IASB still believes that the "right-of-use asset" should be recognised even for a service contract and that deliberations on the development of the lease standard are being conducted unilaterally with adherence to the concept of the "right-of-use asset". The JSA reiterates that it is sincerely hoped that the IASB should proceed with the project in order to develop a new lease standard which can obtain full support and understanding of all the constituents through thorough discussions and deliberations on opinions raised by them.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yoshikiyo Ono', written in a cursive style.

Yoshikiyo Ono
Director General
The Japanese Shipowners' Association