



THE JAPANESE SHIPOWNERS' ASSOCIATION

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

15 December 2014

Dear Sir,

COMMENTS ON THE DEFINITION OF A LEASE

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, August 2014 and October 2014. However, in the October 2014 IASB and FASB meeting and in the staff paper regarding the "Definition of a lease", which was published recently for the December 2014 FASB and IASB meeting, 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.

Therefore, we explain our position again in this letter.

1. Comment on EFRAG's proposal

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 expressed negative views on this point in paragraphs 69 through 72 in the staff paper for the October 2014 IASB and FASB meeting because the distinct guidance in the revenue recognition standard was developed to address a different objective than that of the definition of a lease, and this proposal was rejected.

The JSA shares EFRAG's views with regard to the unbundling of contracts. We also think that the distinct guidance should be consistent between revenue recognition and lease standards when revenues or expenses from a contract with multiple components are recognised in the income statements. We recommend that the IASB and the FASB re-deliberate EFRAG's proposal further.

2. Comment on the staff paper for December 2014 IASB and FASB meeting

The JSA does not agree with any of the alternatives (Alternative 1- 3) proposed in the staff paper for the December 2014 IASB and FASB meeting because our opinions have not been considered.

As we have repeatedly explained, a lease contract and a service contract have different economic characteristics. A lease and a service should be properly classified as different types of transactions and the lease standard should not be applied to a service contract.

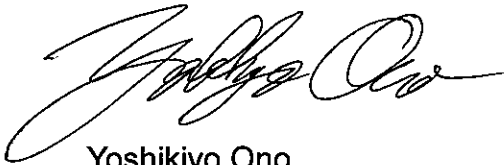
Under a time-charter contract in the shipping industry, the charterer (customer) purchases a service; that is, an ability to operate the vessel safely (transport service). It is an owner's obligation to operate and manage the vessel. The charterer (customer) cannot arrange the captain and crew who actually navigate the vessel, or decide where the vessel will be docked and what will be repaired.

However, three alternatives proposed in the staff paper focus only on the right or the ability to derive the benefits from directing the use of an asset to identify a lease in a contract and do not properly consider various provisions of a contract such as a time-charter contract described above. The JSA is deeply concerned that a service contract will be regarded as a contract which contains a lease according to the proposals in the staff paper.

The JSA has also regrettably to say that it remains unconvinced that the concept of the “right-of-use asset” can be applied to judge whether a contract contains a lease since the application of the concept only might lead to the misjudgment that a substantial service contract is recognised to contain a lease. It is its sincere hope that the IASB and FASB will allocate sufficient time in reconsidering the ROU concept without jumping to a hasty conclusion in order to develop a new lease standard which can obtain the full support and understanding of both suppliers and users of accounting reports based on the new standard.

Thank you very much for your attention.

Yours faithfully,

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

Yoshikiyo Ono
Director General
The Japanese Shipowners' Association