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March 7, 2011

Sir David Tweedie
Chairman
International Accounting Standards Board

Dear Sir David

Survey on Lease Accounting Standard

Japan Leasing Association (JLA) appreciates the efforts of the International Accounting Standards Board and the Financial Accounting Standards Board on the project on lease accounting.

JLA is well aware that the boards have received a number of comment letters on the Exposure Draft Leases and have started discussion on the issues from the proposals in the Exposure Draft.

JLA has conducted a survey on the new IFRS for leases in order to obtain the feedback from lessees, although JLA has already sent its comment letters to the boards. Today, JLA has completed the "Survey on Lease Accounting Standard" as attached.

As a result of the survey, a majority of lessees are concerned with the proposed accounting requirements that would be difficult and complex in determining or accounting for leases. They also express their opinion that it would be quite difficult to apply the accounting requirements in practice. Furthermore, it has been still doubtful that operating leases should be capitalized, even though those leases are cancelable such as a lease of a real estate and the other equipments having same notion with it.

According to the result of the survey, it has also become clear that a number of lessees have common concerns.

JLA hopes that the boards take into consideration the feedback from the lessees in the survey as well as the JLA's comment letters. Furthermore, JLA hopes that the proposals in the Exposure Draft would be drastically amended in order for the new IFRS for leases to be a workable standard that would address the concerns raised by constituents.

Sincerely yours,

Naotaka Obata
Chairman
Japan Leasing Association

Survey on Lease Accounting Standard

March 2010

Japan Leasing Association

Index

I. The summary of this survey

<Purpose of this survey>

- The purpose of this survey is to obtain feedback from lessees in Japan on the exposure draft leases (the Leases ED) and to prepare background materials in publishing JLA's view to interested parties.

<Researched entities and method to conduct survey>

- Researched entities (lessees) are 171 companies, which have transactions with JLA members. They are classified as a listed company, an unlisted company that is subject to the Financial Instruments and Exchange Act, or a large company defined by the Companies Act that is not subject to the Financial Instruments and Exchange Act. <Refer to the table below.>
- JLA members have directly visited the entities to obtain their feedback.

<Period>

- From September 2010 to February 2011

<Main points of this survey>

(1) How many lessees are aware of the Leases ED; **90% are aware of the Leases ED**.

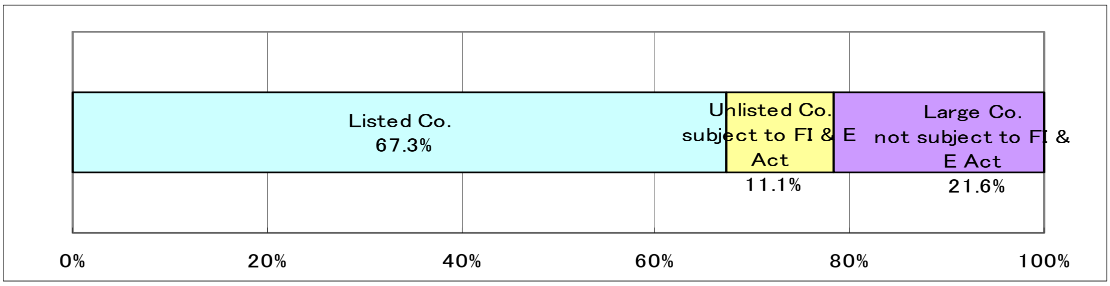
(2) How many lessees are aware of the detailed accounting requirements in the Leases ED; **89% are aware of the requirements.**

(3) The proposals for on-balance treatment for operating leases; **67% view it as inappropriate.**

(4) The proposals for options to extend/terminate the lease; **90% view them as inappropriate.**

(5) The accounting requirements to estimate probabilities of options to extend/terminate the lease; **94% view them as difficult.**

☐ **Classification of researched entities** (n=171)＊



※Refer to page 11-13 in terms of business types and their ratio.

＊ "n" in the table means the number of researched entities.

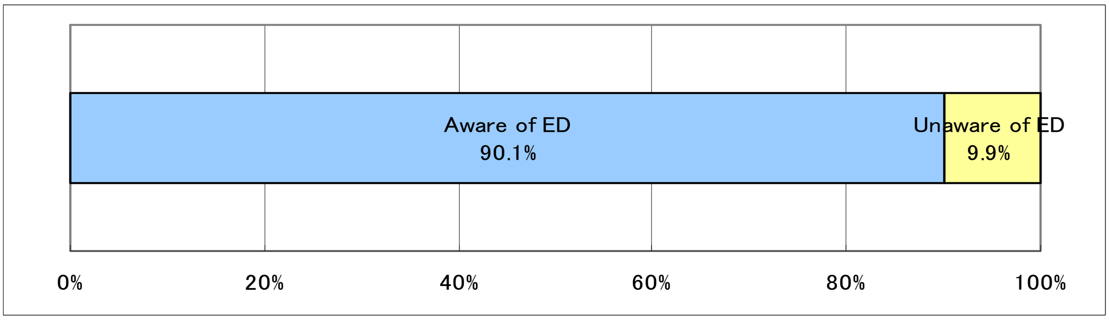
II. Findings of this survey

(1) How many lessees are aware of the Leases ED

About 90% of the researched lessees (90.1%) are aware of the Leases ED, while a minority of lessees (9.9%) are unaware of the Leases ED. Therefore, the Leases ED is well known to lessees.

Almost all the lessees that are unaware of the Leases ED are listed companies, some of them are utilizing many lease transactions.

Table 1: How many lessees are aware of the Leases ED (n= 171)

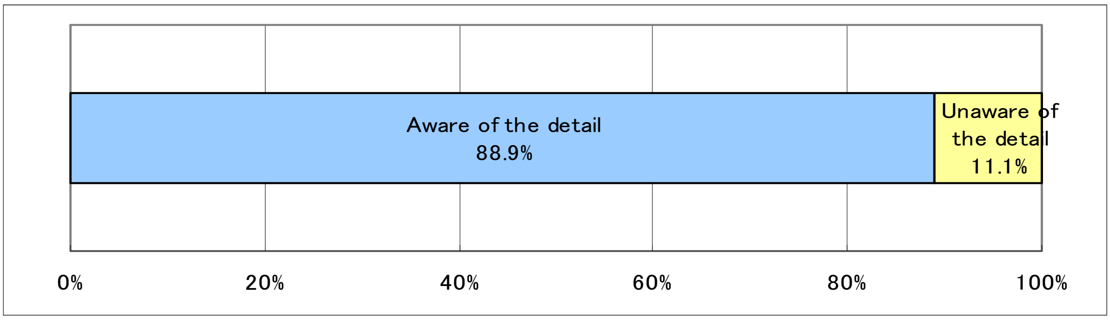


(2) How many lessees are aware of the detailed accounting requirements in the Leases ED

Nearly 90% of the researched lessees (88.9%) are aware of the detailed accounting requirements in the Leases ED that would abolish the bright line between a finance lease and an operating lease and apply a single accounting model to all the leases, including leases of real estates such as an office building and a short term rental transaction. Consequently, the ratio (11.1%) of lessees that are unaware of the detailed requirements is small.

Through face to face interviews, however, it has become clear that some lessees are unaware of the fact that they would be required to estimate a lease term for a lease of a real estate such as an office space or factory site and to recognize the asset and liability on the balance sheet. In addition, they have not clearly recognized that they would be required to apportion lease payments between interest expense and principal for a lease of an office building.

Table 2: How many lessees are aware of the detailed requirements under the Leases ED (n=171)



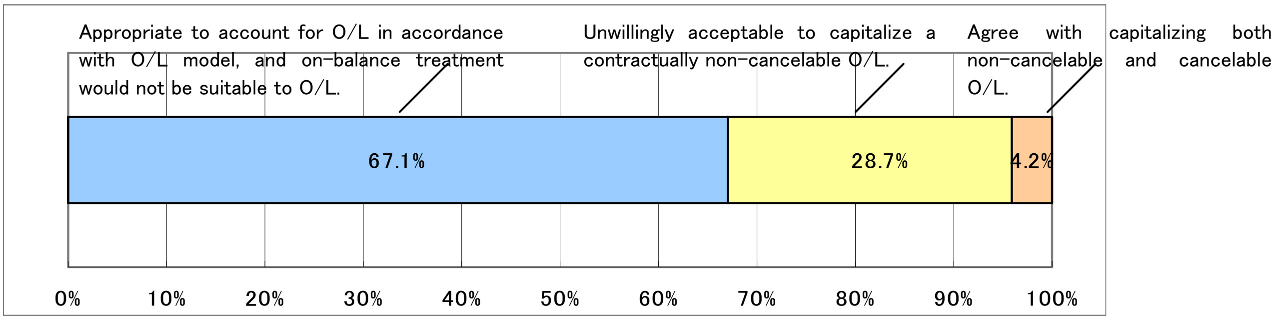
(3) The proposals for on-balance treatment for the current operating leases

Although the Lease ED requires all the leases to be capitalized on the balance sheet similarly to the requirements for the current finance lease, many lessees (67.1%) think that it would be appropriate to account for current operating leases in accordance with the operating lease model, and on-balance treatment would not be suitable to operating leases based on the reasons, such as a concern with overstatement, unreasonable presentation to capitalize an operating lease, and practical difficulty to do so.

Secondly, some lessees (28.7%) think that it would be unwillingly acceptable to capitalize a contractually non-cancelable operating lease. Many of them think that it would be rational from the standpoint of accounting theory. Other lessees note that it would not be too much burdensome to do so because they are preparing data and information for non-cancelable operating leases in footnote in accordance with the current Japan GAAP.

On the other hand, there are few lessees that agree with capitalizing both non-cancelable and cancelable operating lease (4.2%).

Table3: On-balance treatment for the current operating leases (n=167)



< Reasons many lessees view it as appropriate to account for current operating leases in accordance with the operating lease model, and on-balance treatment would not be suitable to operating leases (examples) >

Capitalizing operating leases would lead to overstatement of F/S.

- Unlike in the case of finance leases, capitalizing operating leases would result in capitalizing valuable rights that are different from estimated economic benefits acquired by an entity where the entity owns the underlying asset. The nature of operating leases might not be reflected in F/S because of much more factors to be considered in estimating lease terms (a listed company/transportation).
- Especially, in a short-tem operating lease, the nature of the transaction would not be appropriately reflected in F/S (a listed company/information and communication).

Capitalizing operating leases would seem unreasonable.

- An operating lease is the lease that does not transfer the title to the underlying asset to the lessee and the underlying asset is not the one that the lessee owns. Therefore, the lessee is viewed as neither owning nor controlling the leased asset. This is why capitalizing operating leases would seem unreasonable (a listed company/wholesale and retail etc.).
- It would be easily understood to coordinate a legal owner of the underlying asset with accounting requirements. In addition, there is no problem arising from the current operating model that allows a lessee

to recognize lease payments as expense in accordance with the usage by the lessee (a large company*/wholesale etc.).

Operating lease model is suitable to the current operating lease.

- We enter into a contract with a customer to deliver the products to the customer over the period (e.g. for 5 years) shorter than the useful life of the facility. Therefore, we use a manufacturing facility through an operating lease. The operating lease model enables us to recognize expenses evenly and to easily calculate expenses that will arise. This is very important and beneficial from the standpoint of management (a listed company/ pharmaceutical).
- The operating lease model is suitable to operating leases because operating leases are cancelable at any time. On-balance treatment is not suitable (a listed company/transportation).

It would be practically difficult to discount lease payments at the present value for every lease.

- It would be practically difficult for us to record all the leases on a consolidated basis by ourselves and to apportion all the lease payments between interest expenses and principals (a listed company/construction).
- We have many rental transactions rather than finance leases. Those rental transactions are immaterial from the standpoint of consideration. On-balance treatment is not suitable to those rental transactions other than a finance lease, given the burden (or costs) associated with on-balance treatment for those transactions (a listed company/manufacturing).

<Reasons some lessees view it as unwillingly acceptable to capitalize a contractually non-cancelable operating lease(examples)>

- It would be unwillingly acceptable to capitalize contractually non-cancelable operating leases because of those lease payments being contractually fixed. However, given immateriality per contract, there could be some cases where a lessee would be allowed not to capitalize immaterial contracts (a listed company/manufacturing).

- It is unwillingly acceptable that an asset and a liability arise during the contractually non-cancelable lease term. In addition, given the needs raised by users of F/S, it would be necessary to accept capitalization of non-cancelable operating leases. However, a lessee is able to avoid lease payments where the lessee has a right to cancel the lease without material penalty. It does not seem that this kind of lease would meet "a present obligation" in the definition of liabilities in IAS37. This is why it would be inappropriate to capitalize this kind of lease and this kind of lease should be accounted for in accordance with the operating lease model (a listed company/wholesale etc.).

- A lessee has financial information on contractually non-cancelable operating leases because the current

* A large company is the company defined by the Companies Act and that is not subject to the Financial Instruments and Exchange Act.

guidance requires a lessee to disclose contractually non-cancelable operating leases in footnote. However, capitalizing operating leases would require entities to prepare F/Ss more accurately and comprehensively. In addition, it has been already burdensome to accord with the internal control system regulated by the Financial Instruments and Exchange Act (Japanese Sarbanes-Oxley Act), and there would be some cases where staff in accounting division need to increase (a listed company/retail).

<Reason few lessees agree with capitalizing both non-cancelable and cancelable operating lease (examples)>

➢ It is agreeable to remove the subjective classification between a finance lease and an operating lease, as proposed in the Leases ED. However, there is still a concern that the right-of use model would be more burdensome in practice because of expanding the scope of transactions that need to be capitalized and so on. Therefore, it might be necessary to consider another approach in which the right-of-use model is applied only to leases with materiality (i.e. if the right-of-use model is not applied to those material leases, this could provide misleading information to users of F/S.) (a listed company/manufacturing).

(4) The proposals for options to extend/terminate the lease in the Leases ED

For the proposals in the Leases ED for options to extend/terminate the lease (i.e. estimating a lease term and recognizing an asset and liability during the estimated lease term at the inception of the lease), nearly 90% of the researched lessees (89.9%) view the proposals as inappropriate, while only 10% of the researched lessees (10.1%) are supportive of the proposals. The reasons why many lessees view the proposals as inappropriate are as follows:

- Options to extend/terminate the lease are provided in order to cope with future uncertainty. Estimating options to be exercised would be neither accurate nor reliable. Therefore, the proposals would reduce reliability of financial statements (75.7%).
- Estimating options to extend/terminate the lease would lead to either overstating or understating an asset and liability, which would not reflect nature of an entity (53.9%).
- Estimating options to extend/terminate the lease would be an unnecessary process, because an entity determines its lease term based on the business plan (30.9%).

Other reasons are related to costs and benefits, subjectivity, or impossibility to estimate those options.

Table 4-1The proposals for options to extend/terminate the lease in the Leases ED (n=169)

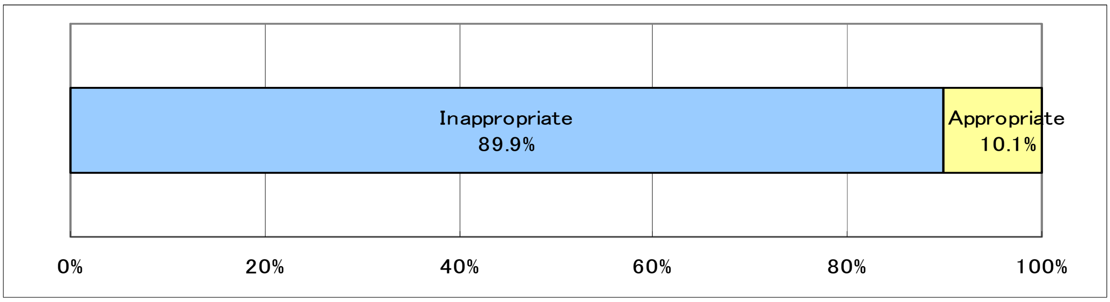
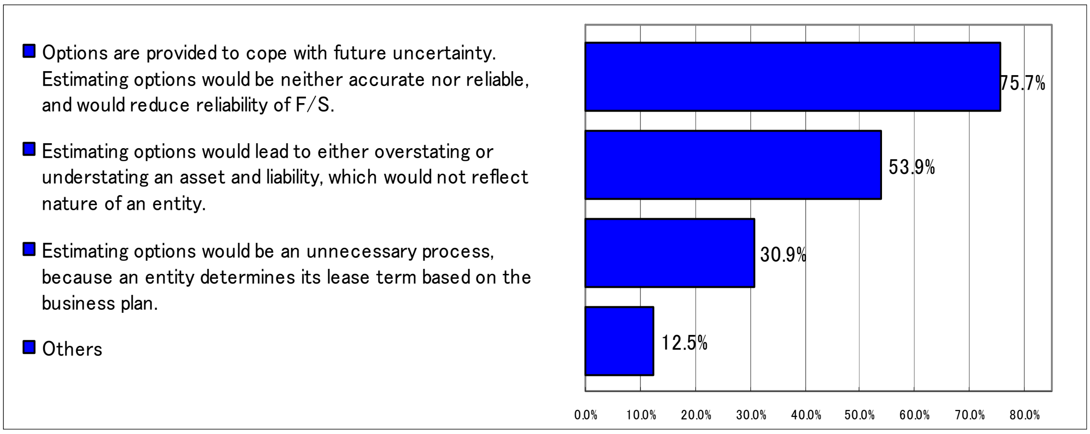


Table 4-2 Reasons many lessees view the proposals for options as inappropriate (multiple answers) (n=152)



<Other reasons (examples)>

<Reliability on financial statements>

- The proposals in the Leases ED would reduce reliability of F/S. In a case that an entity, as a lessee, leases retail stores and offices all over Japan, lease contracts of real estates are very different depending on an each business convention or each region. Although it would be staff in accounting division that record and account for a number of various lease transactions, it would be impossible for the staff to accurately trace those transactions and there would be discrepancies arising from estimating lease terms (a listed company/eating and drinking services).
- Even if we estimate a lease term based on the probabilities of renewal options to be exercised, we are not able to assure our investors of reliability associated with what occurs in the future. In addition, even investors would wonder if costs associated with estimating lease terms and capitalizing leases based on the estimated lease terms could excess the benefits to users of F/S (a listed company/service N.E.C.).
- Capitalizing leases with uncertainty could lead to subjective judgment (a listed company/transportation).
- Comparability could be reduced because each of estimated lease terms is different from each other, depending on how preparers estimate the lease terms regardless of whether preparers do so arbitrarily or not (an unlisted company/finance).

<Costs and benefits>

- Estimating probabilities of options to be exercised would not balance between costs incurred by preparers and benefits to users because of being much more burdensome and costly for preparers (a listed company/wholesale and retail etc.).

<Practical challenges>

- Each business division in an entity uses or is in charge of each leased asset but does not record the past usage data for leases by itself, while the accounting division in the entity records the data for leases for the purpose of accounting. It is impossible for the accounting division to be comprehensively in charge of each usage of each leased asset in each business division because of each usage being different from each other (a listed company/information and communication).

- ➢ Based on the useful life of the underlying asset or past convention, an entity usually determines the period (lease term) during which the entity uses the underlying asset. However, the period is determined based on the entity's business plan if the entity uses the underlying asset to launch into new business (a large company/wholesale).

(5) The accounting requirements to estimate probabilities of options to extend/terminate the lease

For the accounting requirements to estimate probabilities of options to extend/terminate the lease, almost all the researched lessees think that it would be difficult to do so (94.1%), while a minority of the researched lessees (5.9%) think that it would be possible to do so.

They specified reasons for difficulties in estimating probabilities of options as follows.

- It would be difficult to estimate, because probabilities of options to be exercised are uncertain (77.5%).
- It would be costly to estimate the probabilities of a lease-by-lease basis because of there being a number of leases (59.4%).
- When an entity enters into a lease contract, the lease term specified in the contract needs to be internally approved. Therefore, the entity is not able to estimate another lease term differently from the contractual lease term that is internally approved (27.5%).

Other reasons are related to impossibility in practice (or extraordinary difficulty) to estimate the probabilities, no information available to do so. The other is related to internal control system.

Table 5-1 Requirements to estimate probabilities of options to extend/terminate the lease (n=170)

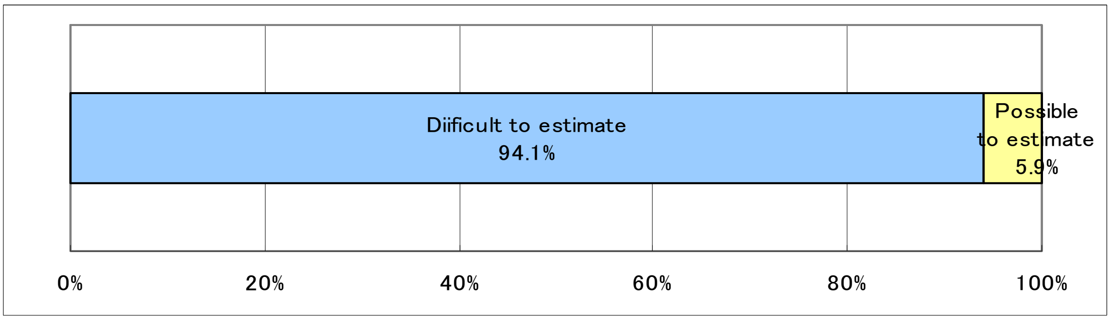
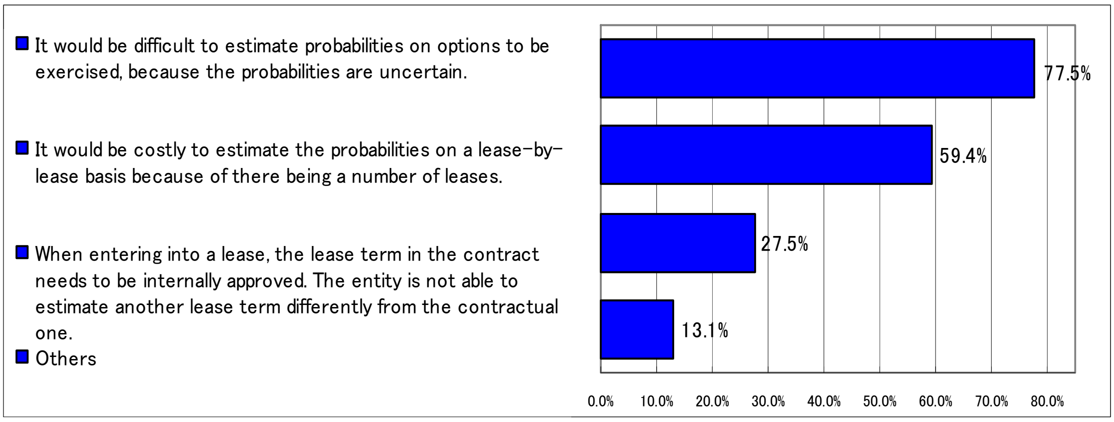


Table 5-2 Reasons the proposals for options are viewed as difficult (multiple answers) (n=160)



<Other reasons (examples)>

<Practical challenges>

- When determining a lease term, we regard the lease term as the period during which we actually use the underlying asset at the inception of the lease. Therefore, it is impossible to estimate probabilities of renewal options (a listed company/manufacturing).
- Whether an entity renews the lease of its retail store or not depends on a future circumstance. Therefore, the entity is not able to estimate lease term at the inception of the lease. If the entity were required to estimate the lease term, the current staffing system would not be able to cope with the proposals in the Leases ED because of there being a number of leased retail stores and much more burdens (a listed company/wholesale and retail).
- We have many athletic clubs all over Japan. Each club uses training machines (leased assets) as a lessee. There are countless leased assets and those assets are held/managed by each club. Therefore, it would be substantially impossible for us, as an entity, to estimate each lease term (a listed company/service, N.E.C.).
- We have nursing homes. In the nursing homes, we, as a lessee, use pictures, artificial flowers and, curtains through rental transactions and there are many leased assets and parties that we have transactions with. Capitalizing those leased assets would be highly burdensome and the current staffing system would not be able to cope with the accounting requirements in the Leases ED (a listed company/care services).

<Data to estimate lease term>

- It would be impossible to estimate any lease term, because of lack of track record (a listed company/information and communication).
- We manufacture products using a leased facility and sell the products to a customer. If the customer stops purchasing the products, we do not need the leased facility any more. This is why it would be impossible to estimate any lease term. Even if we sell similar products to the identical customer, the track record for past leases is not useful to estimate a lease term (a large company/electronic-components manufacturing).

<Problems associated with estimating lease term>

- Internal control system may not work well (an unlisted company that is subject to the Financial Instruments and Exchange Act/services).
- Under circumstances that both business condition and business activity could drastically change, it would be impossible and would not make sense to estimate a lease term. Renewal options are provided to react to changing business conditions. If an entity knew at the inception the period during which the entity would use the underlying asset, the entity would regard the period as the contractual lease term (a listed company/printing).
- Utilizing many production lines introduced by way of lease contracts, we manufacture various products in line with the precise production plans. Because the plans are fixed, it would not make sense to estimate at the inception of the lease how long the underlying asset would be used (a large

company/plastic-products manufacturing).

- We sometimes transfer a production line from Japan to another country, or between other countries. For example, if we transfer a production line in Hong Kong to mainland China, each of Hong Kong and mainland China has useful lives specified in each tax treatment. Consequently, this requires us to determine a lease term different from the previous lease term. Even though accounting forms are often discussed separately from tax treatments, it is not workable to require an entity to determine an idealistic lease term, only focusing on an accounting perspective (a listed company/pharmaceutical).

（6） Other views on the new lease accounting standard, adoption of IFRSs, and Japan GAAP etc.

<Scope/Definition of a lease>

- A lease of an intangible asset should be included in the scope of the new IFRS for leases. We often enter into many lease contracts where PP&E and intangible asset are packaged. It seems unreasonable that an intangible asset is excluded (a listed company/IT-equipments manufacturing etc.).
- The criteria on whether a contract is a lease or not should be more clarified. We need to determine whether a contract is or contains a lease based on the nature of the contract. However, it would be practically impossible to do so where an entity has countless contracts (a listed company/information and communication).

<Short term lease>

- A Lessee should be allowed to apply the operating lease model to short term leases. A lessee usually pays lump-sum annual lease payment for re-lease. Therefore, the lessee is free from any liabilities. In spite that lease payments for re-leases are deductible as expenses in tax treatment, requiring a lessee to capitalize those re-leases would be unnecessary and unreasonable (many companies).

<Materiality; non-core asset or any simplified accounting requirements for sub-lease>

- Any simplified accounting requirements for a lease of a non-core asset should be developed, similarly to the simplified requirements under the current Japan GAAP. Applying the proposals in the Leases ED to all the leases would require an entity to develop a new IT accounting control system with much more costs incurred (a listed company/retail etc.).
- It would be preferable to continue to initially recognize an asset and liability at the undiscounted lease payments, and to subsequently amortize the asset and liability at the amount of the lease payments (a listed company/precision-instruments manufacturing etc.).
- It is questionable whether users of F/S are supportive of lease payments being apportioned between interest expense and principal, which results in spending much more costs in preparing F/S (a listed company/electrical-apparatus manufacturing).
- A subsidiary company, as a sub-lessor, operates sub-leases, which are not on a large scale. The subsidiary company has accounted for its sub-leases in accordance with the simplified accounting requirements

under the current Japan GAAP. However, if the parent company applies the IFRS for leases, the accounting requirements the subsidiary company has ever applied would be changed. This would be quite burdensome (a listed gas-fittings manufacturer)

<Adoption of IFRSs/Japan GAAP>

- It would be difficult to apply the new IFRS unless a more detailed guideline is published (a listed company/information and communication, a listed company/manufacturing).
- In spite that it would be rare for us that are listed in a local stock exchange to acquire funds from overseas, applying IFRS would be quite burdensome. It would be preferable not to apply the new IFRS (a listed company/retail).

Survey on the Lease Accounting Standard (numerical data)

☐ **Researched Entities (Lessees) : 171 companies**

☐ **Types of Researched Entities**

(n=171)

	Companies	Ratio
Listed companies	115	67.3%
Unlisted companies that are subject to the Financial Instruments and Exchange Act	19	11.1%
Large companies defined by the Companies Act that are not subject to the Financial Instruments and Exchange Act	37	21.6%

SQ Timing of Applying IFRSs by Listed Companies

(n=115)

	Companies	Ratio
Fiscal Year 2010	0	0.0%
Fiscal Year 2011	0	0.0%
Fiscal Year 2012	0	0.0%
Fiscal Year 2013	4	3.5%
Mandatory effective date	69	60.0%
Not yet determined	42	36.5%

☐ **Business Types of Researched Companies**

(n=171)

	Companies	Ratio
Construction	7	4.1%
Manufacturing	67	39.2%
Electricity, Gas, Hear supply, and Water	2	1.2%
Information and Communication	13	7.6%
Transportation	23	13.5%
Wholesale and Retail trade, Accommodation, eating and drinking services	23	13.5%
Finance and Insurance	9	5.3%
Real estate	4	2.3%
Services, N.E.C.	23	13.5%

☐ **Ratio of assets at the end of previous reporting period that arise from finance leases that do not transfer the title to the lessee (Compared to the total of both tangible assets and intangible assets)** (n=162)

	Companies	Ratio
0% ~ 5%	101	62.3%
5% ~ 10%	27	16.7%
10% ~ 20%	16	9.9%
20% ~ 30%	6	3.7%
30% ~ 40%	6	3.7%
40% ~ 50%	3	1.9%
50% ~ 60%	2	1.2%
60% ~ 70%	1	0.6%
70% ~ 80%	0	0.0%
80% ~ 90%	0	0.0%
90% ~ 100%	0	0.0%

☐ **Remaining lease payments arising from non-cancelable operating leases at the end of previous reporting period** (n=167)

	Companies	Ratio
~ 0.1 billion yen	55	32.9%
0.1 ~ 1 billion yen	32	19.2%
1 ~ 5 billion yen	19	11.4%
5 ~ 10 billion yen	8	4.8%
10 ~ 50 billion yen	24	14.4%
50 ~ 100 billion yen	5	3.0%
Over 100 billion yen	8	4.8%
unrevealed	16	9.6%

☐ **Reasons for using finance leases and operating leases** (n=156) (n=153)

	Finance lease		Operating Lease	
	Companies	Ratio	Companies	Ratio
Leases enable entities to streamline the administrative work.	33	21.2%	49	32.0%
Leases enable entities to easily recognize how much cost incurs.	18	11.5%	14	9.2%
Entities need not to prepare funds when acquiring new property, plant, and equipment.	68	43.6%	31	20.3%
Entities are able to adjust the lease term to the period for which they would like to use the asset.	14	9.0%	16	10.5%
Entities are able to comply with environmental-protection-related laws and regulations.	3	1.9%	0	0.0%
Leases have more advantages compared to bank borrowing.	9	5.8%	13	8.5%
Entities are able to derive the benefits from outsourcing assets.	5	3.2%	17	11.1%
Others	6	3.8%	13	8.5%

☐ Administration for financial information on operating leases (including a lease of real estate and a short-term rental transaction) (n=165)

	Companies	Ratio
On a consolidated company basis (a consolidated F/S basis).	43	26.1%
On an entity-by-entity basis (an unconsolidated F/S basis).	85	51.5%
On an site-by-site basis (not administering the info as an entity).	30	18.2%
Others	7	4.2%

SQ How to administer financial information on operating leases (O/L)

(n=38) (n=62)

	On a consolidated company basis		On an entity-by-entity basis	
	Companies	Ratio	Companies	Ratio
Administer both cancelable O/L and non-cancelable O/L	24	63.2%	38	61.3%
Administer only non-cancelable O/L	14	36.8%	24	38.7%

☐ Costs having arisen in introducing IT accounting system for the current Japan GAAP (n=163)

	Companies	Ratio
Much more costs have arisen compared to costs arising from other accounting standards.	22	13.5%
Costs have arisen that are approximately equal to costs arising from other accounting standards.	38	23.3%
Less costs have arisen compared to costs arising from other accounting standards.	35	21.5%
No costs have arisen.	68	41.7%

Question 1: How many lessees are aware of the Leases ED (n=171)

	Companies	Ratio
Aware of the Lease ED	154	90.1%
Unaware of the Lease ED	17	9.9%

Question 2: How many lessees are aware of the detailed accounting requirements in the Leases ED (that would abolish the bright line between a finance lease and an operating lease and apply a single accounting model to all the leases, including a lease of real estate such as an office building and a short term rental transaction) (n=171)

	Companies	Ratio
Aware of the detailed accounting requirements	152	88.9%
Unaware of the detailed accounting requirements	19	11.1%

Question 3: The proposals for on-balance treatment for the current operating leases

(N=167)

	Companies	Ratio
It is appropriate to account for current operating leases in accordance with the operating lease model, and on-balance treatment is not suitable to operating leases.	112	67.1%
It is unwillingly acceptable to recognize assets and liabilities arising from contractually non-cancelable operating leases.	48	28.7%
It is agreeable to recognize assets and liabilities arising from both non-cancelable operating leases and cancelable ones.	7	4.2%

Question 4: The proposals for options to extend/terminate the lease in the Lease ED

(n=169)

	Companies	Ratio
The proposals for options are appropriate.	17	10.1%
The proposals for options are inappropriate.	152	89.9%

SQ Reasons the proposals for options are viewed as inappropriate

(multiple answers) (n=152)

	Companies	Ratio
Options to extend/terminate the lease are provided to cope with future uncertainty. Estimating options to be exercised would be neither accurate nor reliable. Therefore, this would reduce reliability of financial statements.	82	53.9%
Estimating options to extend/terminate the lease would lead to either overstating or understating an asset and liability, which would not reflect nature of an entity.	115	75.7%
Estimating options to extend/terminate the lease would be an unnecessary process, because an entity determines its lease term based on the business plan.	47	30.9%
Others	19	12.5%

Question 5: The accounting requirements to estimate probabilities of options to extend/terminate the lease

(n=170)

	Companies	Ratio
It would be possible.	10	5.9%
It would be difficult.	160	94.1%

SQ Reasons the accounting for options are viewed as difficult (multiple answers) (n=160)

	Companies	Ratio
It would be difficult to estimate probabilities of options to be exercised because of uncertainty.	95	59.4%
It would be costly to estimate the probabilities on a lease-by-lease basis because of there being a number of leases.	44	27.5%
When an entity enters into a lease contract, the lease term specified in the contract needs to be internally approved. Therefore, the entity is not able to estimate a lease term differently from the contractual lease term that is internally approved.	124	77.5%
Others	21	13.1%