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September 9, 2013

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Japan Leasing Association (JLA)'s view on the revised exposure draft *Leases* (re-ED)

JLA would like to express its view on the re-ED in JLA's comment letter.

JLA conducted a survey on the re-ED in order to understand views on the re-ED from public companies and large companies (9,226 companies) in Japan from the standpoint of lessee accounting and JLA received views on the re-ED from 1,251 companies.

According to the result of the survey, more than 90% of the respondents disagree to the proposals for lessee accounting by the boards and 80% of the respondents who disagree to the proposals view that the current lease accounting standard should be retained.

JLA would like to emphasize the points below given the result of the survey (i.e. the views expressed by the majority of lessees).

- The re-ED includes many defects and is extremely burdensome to preparers of financial statements.
- The proposed lessee accounting would reduce the usability of leases of assets other than property, and would critically prevent entities from using leases.
- The boards should not implement a new lease accounting standard with defects remained.
- The boards should focus on only improving disclosures, retaining the current standard.

The Japanese Government led by the Prime Minister, Shinzo Abe, published an economic policy that was called as "Abenomics", in which expanding capital investment was listed as one of the most important keys and making the best use of leasing was also stated as a priority. This implies that the Japanese Government thinks of it as essential to make the best use of leasing so as to revive the Japanese economy.

As preparers of financial statements, JLA totally agrees to the boards' purpose of developing a high quality accounting standard and also shows respect to the boards for the enormous efforts made by the boards. However, any change of accounting standards should be friendly to the development of global economy.

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According to the proposals in the re-ED, costs and benefits for leases of assets other than property were not well considered and opinions from preparers of financial statements were not well reflected. In addition, the proposals in the re-ED are anything but improvement to the current standard, because the proposals would not faithfully reflect various leases by extremely focusing on making all leases recognized under the on-balance sheet treatment.

The result of the survey conducted by JLA represents the views expressed by the majority of preparers of financial statements in Japan, and the views are reflected in JLA's comment letter. JLA strongly proposes that the boards should carefully consider the JLA's view in re-deliberating lease accounting and the boards should carefully cope with revising the current lease accounting standard.

Yours faithfully,

Shunichi Asada
Chairman
Japan Leasing Association

September 9, 2013

Japan Leasing Association (JLA)'s view on the revised exposure draft

JLA conducted a survey on the revised exposure draft leases (re-ED) issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). The purpose of the survey is to understand views on the re-ED from public companies and large companies (9,226 companies) in Japan from the standpoint of lessee accounting. JLA received views on the re-ED from 1,251 companies. "JLA's basic view on lease accounting" and "JLA's view on the discussing points in the re-ED" include the result of the survey (many lessees' opinions).
In addition, JLA also conducted another survey on lease accounting in which examinees are 50 users of financial statements by questionnaire and they are picked out considering the ratio and balance of types of business of public companies into account. According to the result of the survey, the minority of respondents are supportive of the proposal by the boards that all the leases should be recognized on lessees' balance sheets, while the majority of the respondents view that the disclosures in the current standard should be improved or that the current standard has no defects. Consequently, JLA views that the current standard should be retained with the disclosures requirements improved considering costs incurred by preparers of financial statements into account because benefits arising from the proposals by the boards are limited, which is justified by the result of the survey for users of financial statements.
The details of those surveys are attached to this comment letter.

◆ **Summary of the survey (1) Lessee Accounting**

According to the result of the survey, the majority of the respondents (companies) disagree to the lessee accounting proposed in the re-ED, while the minority of the respondents agree the proposal.

(a) Disagree to the proposed lessee accounting (90.8%).
(b) Agree to the proposed lessee accounting (9.2%).

The respondents who disagreed to the proposal in the re-ED indicated the reasons for disagreeing to the proposal as follows. Over 80% of respondents, who chose either (a) or (b) below, view that the current standard should be retained. This implies that the respondents have strong concerns associated with costs and burdensomeness if the proposed lessee accounting in the re-ED were implemented.

(a) It is more reasonable to improve disclosures considering costs and practicability into account, if the information provided in the current standard is not sufficient (43.9%).
(b) The current standard is appropriate (36.4%).
(c) The off-balance sheet treatment is appropriate for a lease of property as required in the current standard (14.2%).
(d) If operating leases are recognized on a lessee's Balance Sheet (B/S), a straight line lease expense recognition is appropriate regardless of the nature of the underlying asset (3.0%).
(e) Others (2.5%).

The respondents who agreed to the proposal in the re-ED indicated the reasons for agreeing to the proposals as follows. The respondents who totally agree with the proposal in the re-ED (i.e. the respondents who chose (b) below.) account for only 3.8% of all the respondents.

(a)	Recognizing all the leases on a lessee's B/S is appropriate. However, it is agreeable to the proposed classification of leases (for the purpose of lease expense recognition patterns) unless another expense recognition is more appropriate (50.4%).
(b)	Recognizing all the leases on a lessee's B/S is appropriate and the proposed lease expense recognition patterns are also appropriate (41.6%).
(c)	Others (8.0%).

Given the result of the survey, JLA proposes as follows.

<JLA's basic view on lease accounting>

The revised exposure draft (re-ED) includes many defects and is extremely burdensome to preparers of financial statements.

The re-ED includes many defects and is not an improvement to the current lease accounting standard (IFRS and US GAAP). In addition, the proposals in the re-ED would be extremely burdensome to preparers of financial statements. →Points necessary to be discussed are as written below (seven points).

The proposed lessee accounting would reduce the usability of leases of assets other than property, and would critically prevent entities from using leases.

Leasing is a useful tool for entities to acquire pieces of equipment and is made the best use of in each country. Leasing has been playing an important role to contribute to economic development. The proposed lessee accounting would deteriorate the usability of leases of equipment (assets other than property) and would critically prevent entities from using leases of assets other than property. JLA would not accept critical impacts, which would be caused by the proposals in re-ED, on the global economy and advantages of leases.

IASB and FASB (the boards) should not implement a new lease accounting standard with defects remained.

JLA understands the boards' purpose to resolve the problem that leases similar to finance leases are accounted for as operating leases. However, the boards should not issue a new lease accounting standard with many defects remained.

The boards should focus on only improving disclosures, retaining the current standard.

Therefore, JLA proposes that what the boards should conduct is only to improve disclosures, retaining the current standard from the standpoint of the balance between costs and benefits (i.e. information about material property and assets other than property should be provided to users of financial statements in disclosures).

<JLA's view on the discussing points in the re-ED>

1. Differences between leases and services (JLA's answer to the Question 1)

The bright line between leases and services (non-lease components) is still unclear and irrational because of the reasons below.

- **The proposal in the re-ED would require a lessee to recognize only leases on its balance sheet without clarifying differences between leases and service contracts which include non-cancelable contractual term.**
- **According to the guideline to determine whether a contract includes a lease or not, similar contracts would be differently accounted for (i.e. some contracts as services and the others as leases).**
- **Judgments made by preparers of financial statements might be different and the comparability would be reduced because of the difficulty to determine whether a contract is a lease or service contract, or whether a contract includes a lease.**
- **A lessee would be required to account for an entire contract as a lease for the majority of leases which include service components because the lessee would not be able to practically separate those components.**

1.1 The boards concluded that a right and an obligation arising from a lease create an asset and liability for the lessee, because the lessee acquires and controls a right to use the underlying asset and has an obligation to make lease payments when the lessor delivers the underlying asset for use by the lessee. In addition, the right and obligation are assumed to meet the definitions of assets and liabilities according to the boards.

1.2 The boards also concluded that the nature of the rights and obligations arising at commencement of a typical service contract is different from the nature of the rights and obligations arising at commencement of a lease, because the customer does not obtain an asset that it controls at commencement of the service contract. Consequently, the customer typically has an unconditional obligation to pay only for the services provided to date.

1.3 If the boards conclude that a right and an obligation arising from a lease create an asset and liability for the lessee (i.e. the lessee is required to recognize an asset and liability arising from a lease), the boards should clarify the reason that a customer is not required to recognize a right and an obligation arising from a service contract that might create an asset and liability for the customer (especially, a service contract where there is a non-cancelable contractual term.). If the boards consider whether there are some service contracts which create an asset and liability for the customer and conclude that some service contracts create assets and liabilities for the customer, the boards should clarify the reason to justify that service contracts are accounted for differently from leases.

1.4 According to the proposal by the boards, a lessee would be required to determine whether a contract contains a lease by assessing whether the fulfilment of the contract depends on the use of a specific asset and whether the contract conveys the right to control the use of the underlying asset to the lessee. For example, if a supplier has a substantive right to substitute the underlying asset, the contract does not contain a lease. However, a contract where the supplier has a substantive right to substitute the underlying asset but the supplier will not be expected to do so is regarded as a contract that does not include any lease. However, there is no any difference between that contract and a contract that is regarded as the one including a lease. In addition, according to the proposal by the boards, a contract would be incidental to the delivery of services if the customer can obtain the benefits from use of the asset only in conjunction with additional goods or services that are provided by the supplier and not sold separately by the supplier or other suppliers; and the underlying asset was designed to function only with the additional goods or services provided by the supplier. However, there is no any difference between that contract and a contract including a lease. Therefore, contracts that have a similar nature would be accounted for differently (i.e. some would be classified into services and others would be into leases.). Furthermore, there would be practical difficulties to determine whether a contract is a lease or includes a lease, and judgments made by preparers of financial statements might be different, which would reduce comparability of financial statements.

1.5 The proposal in the re-ED requires an entity to identify and account for a lease component and a non-lease component within the contract. The proposal also requires an entity to combine each of components as a single lease component if there are no observable stand-alone prices for any components of the contract or if there are observable stand-alone prices for one or more, but not all of the components. Usually, lessees use leases for the purpose of not only financing but also usability of leases, while lessors try to satisfy lessees' needs by providing leases including additional values. For example, lessors typically provide lessees with leases where the lessor pays fixed-asset tax, insurance expenses associated with the underlying asset. In addition, a lessor provides the lessee with an automobile lease where the lessor typically provides maintenance services associated with the leased automobile. From the standpoint of practice, a lessee is unlikely to have an ability to allocate the consideration to each component of the contract and the lessee would account for the contract, as a whole, as a single lease component (it seems that the purpose of accounting for a contract including both a lease component and service components as a single lease component was mitigating costs and burdensome to lessees.). This implies that there would be an inconsistency because some service components would be differently accounted for (i.e. some services are recognized as assets and liabilities, while others are not.) depending on whether those services are incidental to leases or not.

1.6 Because of the reasons listed above, the bright line between leases and services is still unclear and irrational.

2. Lessee accounting (JLA's answer to the Question 2)

For leases of assets other than property, where the amount of lease payments accounted for as operating leases under the off-balance sheet treatment are immaterial, it is not meaningful to require an entity to recognize assets and liabilities arising from those leases. The proposal by the boards would be extremely burdensome and costly to preparers of financial statements and the costs incurred by the preparers of financial statements would outweigh the benefit for users of financial statements. JLA strongly opposes to the proposal by the boards that would reduce the usability of leases of assets other than property and would prevent entities from using leases. In addition, it is irrational for the boards to propose the depreciation method for type B, where the lessee recognizes depreciation as difference between lease expense and interest, in order to realize a straight-line lease expense recognition pattern. The depreciation method for type B is inconsistent with that for other non-financial assets, although the depreciation method for the non-financial assets (i.e. PP&E) reflects the pattern in which the entity expects to consume the non-financial asset's future economic benefits.

2.1 In Japan GAAP for leases, the off-balance treatment for finance leases was abolished in April 2008, which made entities in Japan avoid using leases due to the complexity of the lease accounting after the Japan GAAP was revised. However, lessors have been satisfying lessees' needs by providing a variety of services incidental to leases because lessees use leases for the purpose of not only financing but also usability of leases.

2.2 There is no criticism related to structuring operating leases that are similar to finance leases in Japan. According to the disclosures by approximately 1,700 listed companies in the first section of the Tokyo stock exchange, the total of remaining lease payments arising from non-cancelable operating leases is approximately 17,000 billion yen, which accounts for only 1% of the remaining balance of total assets of those companies. Furthermore, the majority of those operating leases are estimated to be leases of property. The boards indicated that the majority of leases were classified as operating leases in the re-ED. However, the boards should re-analyze what types of assets of leases are classified as operating leases in each country, and should re-analyze whether the majority of leases of assets other than property are classified as operating leases or not, and whether there is any need to require the current operating leases to be recognized on lessees' balance sheets.

2.3 As written above, for leases of assets other than property, where the amount of lease payments accounted for as operating leases under the off-balance sheet treatment are immaterial, it is not meaningful to require an entity to recognize assets and liabilities arising from those leases. The proposal by the boards would be extremely burdensome and costly to preparers of financial statements, and the costs incurred by preparers would clearly excess the benefits to users of financial statements. As the result of the survey conducted by JLA, the majority of companies view that the current standard should be retained because they have strong concerns related to costs and burdensomeness if the proposed lessee accounting in the re-ED were implemented. JLA strongly opposes to the proposal by the boards that would reduce the usability of leases of assets other than property, and would prevent entities from using leases.

2.4 JLA opposes to the classification principle based on the nature of the underlying asset (i.e. property or assets other than property) because it would not faithfully reflect either the economic nature of leases or lessors' business models. In JLA's view, the classification principle in the current standard is more appropriate to classify leases. In addition, it is irrational for the boards to propose the depreciation method for type B, where the lessee recognizes depreciation as difference between lease expense and interest expense, in order to realize a straight-line lease expense recognition pattern. The depreciation method for type B is inappropriate and inconsistent with that for other non-financial assets, although the depreciation method for the non-financial assets (i.e. PP&E) reflects the pattern in which the entity expects to consume the non-financial asset's future economic benefits.

2.5 If the boards were be able to justify the on-balance sheet treatment for some of operating leases under the current standard and were to alternatively adopt a straight-line lease expense for those operating leases, JLA believes that "undiscounted lease payments approach" would be appropriate. In the "undiscounted lease payments approach", a lessee would recognize a right-of-use asset and lease liability at undiscounted lease payments and would depreciate the right-of-use asset on a straight line basis over the lease term, while the lease liability would be amortized by the amount of lease payments in each period. Under the "undiscounted lease payments approach", the amount of lease payment in each period and that of depreciation in each period would be same if the lease payments are made evenly. The "undiscounted lease payments approach" proposed by JLA would be the most simplified and practical solution for some operating leases to be recognized by lessees if the boards' goal is to realize a straight-line lease expense recognition pattern as required for the current operating leases and the boards would not require a lessee to separately present depreciation and interest expense.

2.6 The majority of companies are much more supportive of the "undiscounted lease payments approach" rather than the proposal by the boards, which is costly and burdensome to lessees, because that approach is more appropriate from the standpoint of costs, benefits and practicability. The "undiscounted lease payments approach" is superior to the proposal by the boards from the standpoint of the rationale of depreciation method. In addition to this, there are some companies which prefer to choose either the proposal in the re-ED or the "undiscounted lease payments approach", and there are some which prefer another approach where the lessee apportions interest component of lease payments over the lease term on a straight line basis.

◆ **Summary of the survey (2) Recognition of lease expenses on a straight line basis**

<Recognition of lease expenses on a straight line basis>

(a)	Supportive of the "undiscounted lease payments approach" (78.6%).
(b)	Supportive of the proposal in the re-ED (10.9%).
(c)	Supportive of other approaches (10.5%).

<The reasons for being supportive of the "undiscounted lease payments approach">

(a)	The "undiscounted lease payments approach" is more appropriate to realize a straight line lease expense recognition pattern (83.7%).
(b)	The proposed lessee accounting in the re-ED would not reflect the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits. (12.6%).
(c)	Others (3.7%).

<The reasons for being supportive of either proposal in the re-ED or another approach other than the "undiscounted lease payments approach" >

(a)	Prefer to be able to choose either the approach proposed in the re-ED or the "undiscounted lease payments approach" (42.3%).
(b)	Prefer to apportion interest component of lease payments over the lease term on a straight line basis (39.8%).
(c)	Others (17.9%).

3. Lessor Accounting (JLA's answer to the Question 3)

There is no need to change the current lessor accounting because of no criticisms pointed out. The proposed lessor accounting for type A requires a lessor to separate a lease receivable from a residual asset. However, the proposed requirement would be less meaningful and would be confusing to users of financial statements. In addition, the proposed lessor accounting would be also complex and burdensome to preparers of financial statements. Therefore, the proposed lessor accounting is not an improvement of the current lessor accounting.

3.1 As one of the reasons for changing the current lessor accounting, "consistency between the proposed lessee accounting and the lessor accounting" is pointed out in the re-ED. However, if leases were classified into type A (almost all the leases of assets other than property) or type B (almost all the leases of property) in accordance with the proposal, the proposed lessor accounting for type B would be inconsistent with the proposed lessee accounting because the proposed lessor accounting for type B is similar to the current lessor accounting for operating leases. Therefore, it is not necessary for the lessor accounting for type A to be consistent with the ROU model either.

3.2 As one of the reasons for changing the current lessor accounting, “lack of transparency about information of residual asset risks” is also pointed out in the re-ED. However, lessors should depreciate underlying assets under the current operating leases and recognize lease incomes as economic benefits earned as a result of consumption of the underlying asset as required in the current standard regardless of whether the underlying asset is a property or not because the current lessor accounting for operating leases represents the economic nature of leases classified as operating leases more appropriately.

3.3 For the current finance leases, there is no materiality in residual assets and there is few difference between the current accounting for finance leases and the proposed accounting for type A from the standpoint of periodic profits and losses recognized by lessors. It is meaningless and complex to require lessors to recognize residual assets separately from lease receivables.

3.4 In addition, because there are some RVGs that would be accounted for as lease receivables and other RVGs that would be accounted for as residual assets, recognizing residual assets separately would reduce the “transparency of residual assets” and would make users of financial statements confused.

3.5 There were two approaches for presentation of residual assets in the boards’ deliberation. One approach was that residual assets should be presented separately from other assets because residual assets did not share the same economic characteristics as similar assets that were not leased. The other one was that residual assets should be presented similarly to the underlying assets that would be presented immediately after the expiry of the lease because residual assets are the rights retained in the underlying asset while the subject of a lease. This kind of discussing point arose from the boards’ decision to adopt an approach different from the approach in the current standard, although the boards resulted in adopting the former approach. However, JLA notes that the discussing point of the nature of a residual asset is still remained although the conclusion related to presentation of residual assets came out.

3.6 Consequently, the proposed lessor accounting for type A is not an improvement to the current lessor accounting because there it is meaningless to require lessors to recognize residual assets separately from lease receivables and the proposed lessor accounting would be confusing to users of financial statements. Furthermore, the proposed lessor accounting would be complex and costly to preparers of financial statements. This is why JLA notes that there is no need to change the current lessor accounting, and the current lessor accounting has not been criticized.

4. Classification of leases (JLA’s answer to the Question 4)

Classifying leases based on the nature of underlying asset (i.e. whether the underlying asset is property or not.) would not faithfully represent either the economics of leases or lessors’ business models. In addition, there would be subjectivity in determining which expense recognition pattern should be applied to even among leases of assets other than property.

This would reduce comparability of financial statements and make users of financial statements confused. If the boards were to adopt the principle to classify leases depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset, the current principle to classify leases based on whether a lessor transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee would more appropriately represent the economics of leases.

4.1 In principle, the boards decided to classify leases based on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. The decision's intent was that the lessee determined which presentation pattern of lease expense (i.e. a single lease expense or interest and depreciation of right-of-use asset) would be more appropriate to represent the economic nature of the lease. However, the boards also decided to adopt a practical expedient to classify leases based on the nature of underlying asset (i.e. whether the underlying asset is property or not.) The rationale of the proposal by the boards is that property typically has a relatively long life and a large proportion of the lease payments for property leases relates to the land element inherent in property leases, while the majority of assets other than property are depreciating assets and the lessee expects to consume more than an insignificant portion of the assets other than property.

4.2 However, it is irrational to classify leases and to differentiate leases of property from leases of assets other than property on the basis of whether the economic life of the underlying asset is long or not or whether a large proportion of the lease payments relates to the land element inherent in property leases or not. There are some leases of assets other than property where the underlying asset is leased to multiple lessees one after another over the economic life of the asset, which is similar to leases of property. In those leases, the lease payments are not priced as explained in BC45 in the re-ED. Furthermore, a lessor who is engaged in this kind of leases would be required to recognize unintentional incomes at the commencement of the lease under the proposal in the re-ED. Therefore, classifying leases on the basis of whether the underlying asset is property or not would not faithfully represent lessors' business models either.

4.3 According to the proposal by the boards, lessees would be required to present interest and depreciation for the majority of leases of assets other than property even though the lease term is much shorter than the economic life of the underlying asset, while lessees would present a single lease cost for leases of property, unless the lease term is a large portion of the remaining economic life of the property. In addition, there would be subjectivity in determining which expense recognition pattern (type A or type B) should be applied to even among leases of assets other than property because there is neither guidance nor numerical threshold to determine leases of assets other than property to which the type B lease expense recognition pattern is applicable. This would not faithfully represent the nature of each lease. The boards need to re-consider whether the proposal for classification of leases would be an improvement to financial statements and whether the proposal could reduce comparability of financial statements and make users of financial statements confused.

4.4 As explained above, the classification of leases on the basis of whether the underlying asset is property or not would not faithfully represent either the nature of leases or lessors' business models. In addition, there would be subjectivity in determining which expense recognition pattern should be applied to even among leases of assets other than property. This would reduce comparability of financial statements and make users of financial statements confused. If the boards were to adopt the principle to classify leases depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset, the current principle to classify leases based on whether a lessor transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee would more appropriately represent the economics of leases.

5. Lease term (JLA's answer to the Question 5)

If the boards provide a threshold that is similar to the concepts of 'reasonably assured' and 'reasonably certain' in existing US GAAP and IFRS, there is no need to change the current threshold. It is more appropriate to only list the contractual, asset, entity and market-based factors of "a significant economic incentive" as objective factors in the Basis for Conclusions more clearly. In addition, the boards should not require any reassessment of lease term where the costs outweigh benefits to users of financial statements and where the reassessment of the lease term would not represent the situation the entity is faced with in optional terms.

5.1 If a lessee has a significant economic incentive to exercise an option to extend the lease, or not to exercise an option to terminate, the lessee and the lessor are required to determine the lease term as the non-cancellable period plus periods covered by the options.

5.2 According to the survey conducted by JLA, the majority of companies disagree to the proposal for measuring a lease term. One of the reasons is the difficulty of determining whether the lessee has a significant economic incentive or not.

◆ **Summary of the survey (3) Measurement of a lease term**

(a)	Disagree to the proposal for measuring a lease term in the re-ED (89.3%).
(b)	Agree to the proposals for measuring a lease term in the re-ED (10.7%).

<The reasons for disagreeing to the proposal by the boards>

(a)	It is difficult to determine whether the lessee has a significant economic incentive or not (54.9%).
(b)	Comparability of financial statements would be reduced because some uncertain options

could be included in the lease term (22.9%).

(c) There is no any defect to the current standard (21.2%).

(d) Others (1.0%).

5.3 BC140 of the re-ED says, "the concept of 'significant economic incentive' would provide a threshold that is similar to the concepts of 'reasonably assured' and 'reasonably certain' in existing US GAAP and IFRS" and "Requiring an economic incentive provides a threshold that can be applied more easily because it is more objective than a threshold based solely on management's estimates or intent".

5.4 However, it seems that the description in the re-ED itself would be insufficient to interpret that the proposed threshold is similar to the current concepts of 'reasonably assured' and 'reasonably certain', which has been proved by the survey by the JLA. In addition, it is difficult to practically apply the factors specified in the re-ED to determine whether the lessee has a significant economic incentive or not. Consequently, there might be possibility that a preparer of financial statements determines the lease term that is different from the one in the current standard. This would reduce comparability and would be confusing to users of financial statements.

5.5 In addition, it is set out in BC298 (description for a short term lease) that if entities are required to consider whether the lessee has a significant economic incentive to extend the lease, that approach would require entities to apply more judgement and, thus, would be more complex to apply. Furthermore, BC140 sets out that the concepts of 'reasonably assured' and 'reasonably certain' in existing US GAAP and IFRS, which the boards understand work well in practice. If so, there would be no benefit arising from changing that current concept but there would be costs incurred by preparers of financial statements. Retaining the current concept would also address the concern that the definition of a short term lease should be defined consistently with that of a lease term.

5.6 If the boards provide a threshold that is similar to the concepts of 'reasonably assured' and 'reasonably certain' in existing US GAAP and IFRS, there is no need to change the current threshold. It is more appropriate to only list the contractual, asset, entity and market-based factors of "a significant economic incentive" as objective factors in the Basis for Conclusions more clearly.

5.7 In addition, an entity is required to reassess the lease term if the entity determines that it has a significant economic incentive later than the commencement date of the lease in spite that it determined that it had no significant economic incentive and vice versa.

5.8 However, it is meaningless and costly to require an entity to reassess the leases term when the entity determines whether to exercise an option to extend or exterminate the lease just before or at the end of the lease term. It would be more appropriate to account for an extended lease term as if it is a new lease, when the contractual conditions (such as lease payments) in the initial term are different from those in the optional term. Therefore, the proposed reassessment of lease term would not always provide useful information to users of financial statements.

5.9 As explained above, the boards should not require any reassessment of lease term where the costs outweigh the benefits to users of financial statements and where the reassessment of the lease term would not represent the situation the entity is faced with in optional terms.

6. Short term lease

A lease where the contractual lease term is one year and the amount of lease payments is immaterial would not be classified as a short term lease, if the lease includes an option to extend the lease. An entity is not able to adopt the proposed practical expedient and is required to apply the complex accounting proposed by the boards to the one year lease with an option, even if the entity determines that the lessee does not have a significant economic incentive. The proposed practical expedient for a short term lease would not work well for the purpose of mitigating the costs incurred by preparers of financial statements. There is no need to exterminate the usability of the practical expedient in order to prevent extremely and intentionally structured leases from being accounted as short term leases. In addition, it is unclear how often leases are intentionally structured.

6.1 According to the survey conducted by JLA, the majority of companies disagree to the proposal for the definition of a short term lease in the re-ED. If options to extend the lease are included in determining the lease term, the proposed accounting for a short term lease could not be applied. This is one of the main reasons why the costs associated with applying the proposal by the boards would increase.

◆ **Summary of the survey (4) Accounting for a short term lease**

(a)	Disagree to the proposed definition of a short term lease (78.5%).
(b)	Agree to the proposed definition of a short term lease (21.5%).

<The reasons to disagree to the proposal>

(a)	If options to extend the leases are included, there are few leases to which the proposed accounting for a short term lease could be applied, which would be burdensome (60.5%).
(b)	The proposed accounting for a short term lease could not be applied to many leases, because there are many leases where the non-cancelable lease term is more than one year, which would be burdensome (37.3%).
(c)	Others (2.2%).

6.2 For a lease of assets other than property where the non-cancelable lease term is 12 months or less, the amount of lease payments is generally immaterial and there is no any materiality on financial statements at all. However, for one year lease where the lessee has an option to extend the lease for another year in each year but has no significant economic incentive, the lessee would be required to account for that lease according to the complex accounting. On the other hand, a lessee would be able to adopt the practical expedient to a lease if the lease includes no option to extend the lease because the lease is classified as a short term lease.

6.3 A lease where there is no materiality and the lease term is one year or less would not be classified as a short term lease, if the lease includes an option to extend the lease. The lessee is not able to apply the practical expedient to the lease even though the lessee does not have a significant economic incentive. Therefore, the proposed practical expedient for a short term lease would not work well for the purpose of mitigating the costs incurred by preparers of financial statements.

6.4 JLA understands the boards' concern that short term leases might be intentionally structured. However, it is extremely unlikely to structure a short term lease for an underlying asset whose economic life is long, because of a lack of economic rationale (i.e. the lessor would be exposed to higher residual asset risks than has been anticipated when pricing the contract.). For example, a lessor prices a contract where the lessor assumes that the lessee will use the underlying asset for ten years but the non-cancelable lease term is one year. In this case, the lessor would be exposed to the residual asset risk for 9 years unless the lessee surely exercises an option to extend the lease (refer to BC110 in the re-ED.).

6.5 The concept of lease term (i.e. considering whether the lessee has a significant economic incentive) should be also applied to the definition of a short term lease, although JLA proposes that the concepts of 'reasonably assured' and 'reasonably certain' in existing standard should be applied to the definition of lease term. The concern related to "intentionally structured short term leases" would be solved by judgments made by preparers of financial statements and auditors. There is no need to exterminate the usability of the practical expedient in order to prevent extremely and intentionally structured leases from being accounted as short term leases. In addition, it is unclear how often leases are intentionally structured.

7. Lease of a non-core asset

It is necessary to clarify that an entity is able to apply the proposed practical expedient for a short term lease to a lease of a non-core asset from the standpoint of costs and benefits.

7.1 It is clear that costs incurred by preparers of financial statements would outweigh benefits to users of financial statements if the proposed right-of-use model is applied to leases that are immaterial to the operations of an entity.

7.2 The boards has concluded not to propose any distinction in accounting on the basis of whether the underlying asset is core to an entity's operations because of the difficulty to justify distinguishing a right-of-use asset relating to a core asset from one that relates to a non-core asset.

7.3 According to the survey conducted by JLA, the majority of companies disagree to the proposal that there is no any practical relief for a lease of a non-core asset because the current operating lease accounting would be appropriate to a lease of non-core asset or because it would be difficult to practically cope with the requirements unless there is any practical relief for a lease of a non-core asset in the lease accounting standard itself.

◆ **Summary of the survey (5) Accounting for a lease of a non-core asset**

(a)	Disagree to the proposal that there is no practical relief for a lease of a non-core asset (87.2%).
(b)	Agree to the proposal that there is no practical relief for a lease of a non-core asset (12.8%).

<The reasons for disagreeing to the proposal by the boards>

(a)	It is appropriate to apply the current operating lease accounting to a lease of a non-core asset (58.2%).
(b)	There would be practical difficulty without any practical relief for a lease of non-core asset in which an entity is able to determine whether the proposals should be applied to its leases based on the materiality threshold set by the entity (40.9%).
(c)	Others (0.8%)

7.4 On the other hand, BC405 says, “the IASB expects lessees to apply a similar materiality threshold to leases as it does to items of property, plant and equipment. This would result in a lessee not applying the proposals to leases considered to be immaterial on a basis similar to that applied to items of property, plant and equipment, whereby an entity does not capitalize the costs of purchasing items of property, plant and equipment when that cost is less than a particular amount.”

7.5 According to BC405, a lessee would not recognize immaterial leases on its balance sheet. However, the proposals by the boards will be applied to leases where the amount of lease payments excesses a certain materiality threshold, even though those leases are immaterial to the operations of the entity and to judgments made by users of financial statements. The costs incurred by the preparers would clearly excess the benefits to users of financial statements.

7.6 Therefore, for leases of assets that are immaterial to the operations of an entity (leases of non-core assets), it is appropriate to apply the proposed practical expedient for a short term lease from the standpoint of costs and benefits. If the boards would not distinguish leases of core assets from ones of non-core, the proposed right-of-use model would be applied to all the leases given no flexible adjustments made by accounting auditors.

<JLA’s view on other points in the re-ED>

8. Discount rate

8.1 It would be difficult for a lessee to use the rate the lessor charges the lessee, and the lessee would be likely to use lessee’s incremental borrowing rate. However, there is no incremental borrowing rate applicable to leases similar to the current operating leases, in which the lessee would secure a loan with not the underlying asset but the right-of-use asset. This would reduce the comparability of financial statements.

9. Residual value guarantees (RVGs)

9.1 There are many cases in which the lessee has little information about the amount payable under the

RVGs at the commencement of the lease. Therefore, a lessee should include the maximum amount payable under the RVGs in the lease payments when the lessee initially recognizes the right-of-use asset and lease liability as required in the current standard. This alternative would be the best solution in practice.

9.2 According to the proposal by the boards, lease payments structured as RVGs would be included in the lease receivable at the initial recognition from the standpoint of lessor accounting, while all the other RVGs would be recognized as residual assets. As noted above, JLA believes that it is meaningless, costly, and confusing to users of financial statements to account for a lease receivable separately from a residual asset. Therefore, JLA proposes that a lessor should include all the RVGs in lease payments at the maximum amount under the RVGs when the lessor initially recognizes a lease receivable as required in the current standard.

10. Sale and leaseback transaction

10.1 According to the proposal by the boards, a sale and leaseback transaction would be accounted for as a finance transaction if that sale and leaseback transaction was a lease classified as the current finance lease because the transfer of the underlying asset is not a sale. However, it is not appropriate to account for sales and leaseback transactions below, which are not finance transactions, as such.

a. A lessee purchases the underlying asset to be lease-backed in advance for reasons below.
   - When a lessee intends to lease many kinds of assets for its operation, the lessee purchases the assets from many dealers in advance because it is more reasonable and streamlined for not the lessor but the lessee to do so from the standpoint of purchase prices and procedures. In this case, the lessee does not recognize the purchased assets on its balance sheet.
   - It is more reasonable and streamlined for not the lessor but the lessee to import and purchase an underlying asset because the lessee has the know-how to import it.
   - When a lessee has an established relationship with a dealer, the lessee is able to purchase an underlying asset at lower price than the lessor does.

b. A lessee leasebacks its own assets such as cars in order to streamline administration costs and burdensomeness associated with owing assets.

11. Sub-lease

11.1 Under a sub-lease classified as the current finance lease, the contractual terms of the sub-lease are almost identical to those of the head lease. The inter-mediate lessor intends to earn some commission under the sub-lease. This kind of inter-mediate lessor works as an agent of the lessor of the head lease. It would be extremely costly for the inter-mediate lessor to account for the sub-lease both as a lessee and a lessor.

11.2 Therefore, this kind of inter-mediate lessor should recognize the difference between lease payments payable to the lessor of the head lease and lease payments receivable from the lessee as commission, recognizing both a lease receivable arising from the sub-lease and a lease liability arising from the head lease instead of recognizing interest expense as a lessee and interest income as lessor. JLA believes that this kind of practical relief should be applicable to that inter-mediate lessor, and that relief would better reflect the economic nature of sub-lease.

August 2013
Japan Leasing Association

Summary of survey conducted by JLA on the revised exposure draft *Leases*

Purpose

To broadly understand the views from preparers of financial statements on the revised exposure Draft (re-ED) issued by the IASB and the FASB.

Items

1. Lessee accounting
2. Straight-line lease expense recognition
3. Measurement of a lease term
4. Accounting for a short term lease
5. Accounting for a lease of a non-core asset

Companies surveyed & respondents

	Companies surveyed	Respondents	Respondents/companies surveyed
Public companies	3,538	514	14.5%
Non-public companies	5,688	737	13.0%
Total	9,226	1,251	13.6%

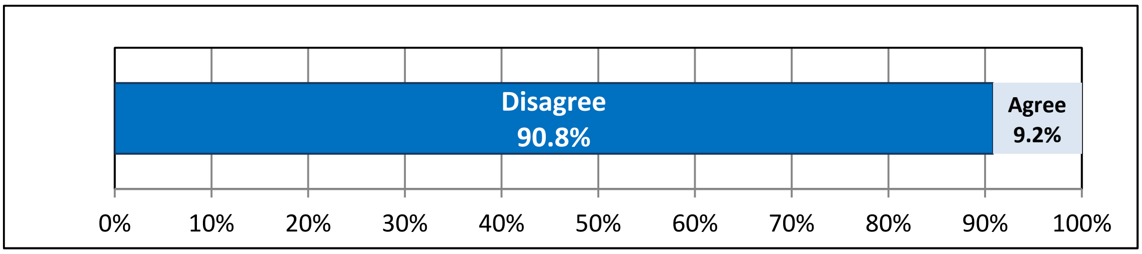
Summary

1. Lessee accounting

<Do you agree to the proposal for lessee accounting?>

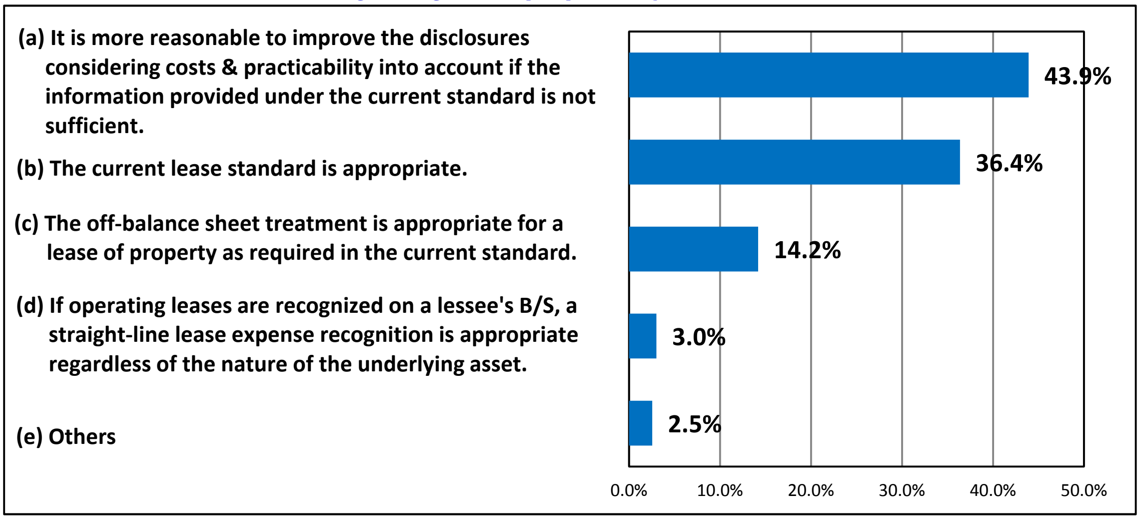
According to the result of the survey, the majority of the respondents disagree to the lessee accounting proposed in the re-ED, while the minority of the respondents agree.

Table1-1 Lessee accounting



The respondents who disagreed to the proposal in the re-ED indicated the reasons as follows. Over 80% of respondents, who chose either (a) or (b) below, view that the current standard should be retained. This implies that the respondents have strong concerns associated with costs and burdensomeness if the proposed lessee accounting in the re-ED were implemented.

Table1-2 The reasons for disagreeing to the proposal by the boards

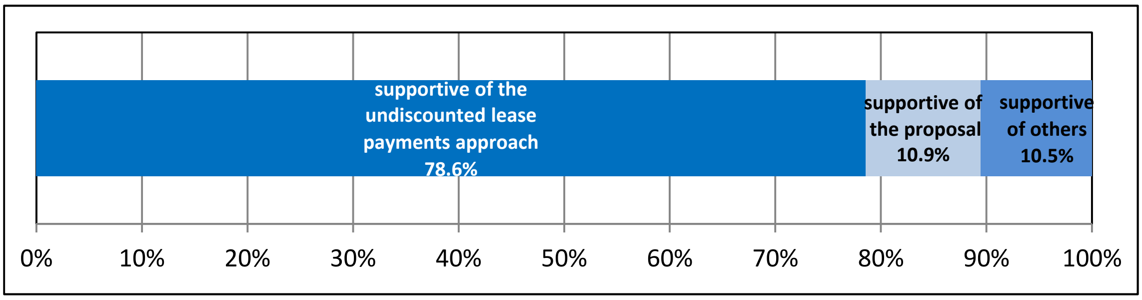


2. Straight-line lease expense recognition

<Which approach do you agree to, either the proposed lease expense recognition pattern in which the lessee recognizes lease expense on a straight-line basis or "undiscounted lease payments approach"?>

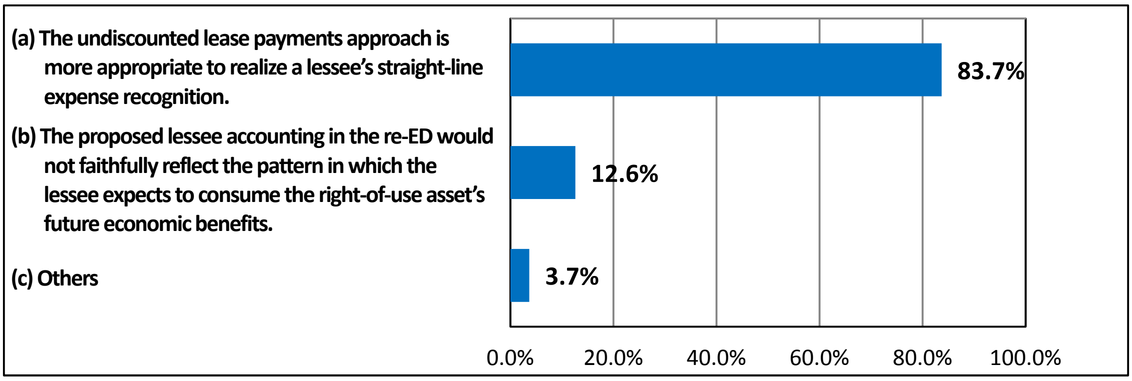
According to the survey, the majority of companies are much more supportive of the "undiscounted lease payments approach" rather than the proposal by the boards.

Table 2-1 Straight-line expense recognition



The reasons for being supportive of the "undiscounted lease payments approach" are as follows.
The undiscounted lease payments approach is more appropriate from the standpoint of costs, benefits and practicability. The "undiscounted lease payments approach" is superior to the proposal by the boards from the standpoint of the rationale of depreciation method. In addition to this, there are some companies which prefer to choose either the proposal in the re-ED or the "undiscounted lease payments approach", and there are some which prefer another approach where the lessee apportions interest component of lease payments over the lease term on a straight line basis.

Table 2-2 The reasons for being supportive of the undiscounted lease payments approach

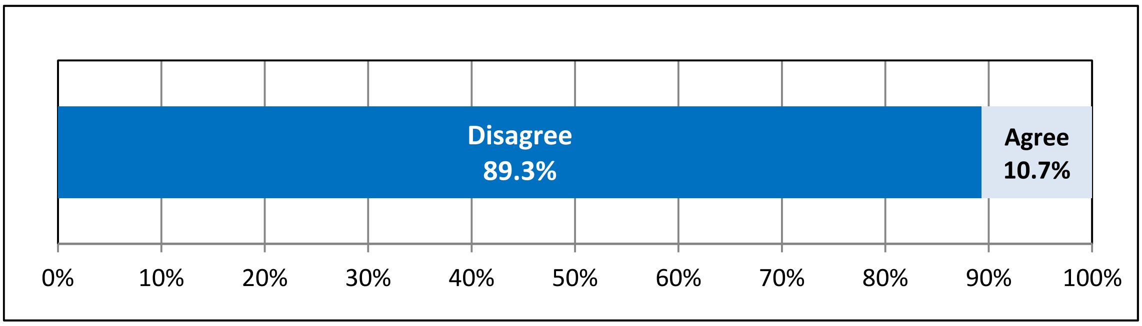


3. Measurement of a lease term

<Do you agree to the proposed measurement of a lease term in the re-ED?>

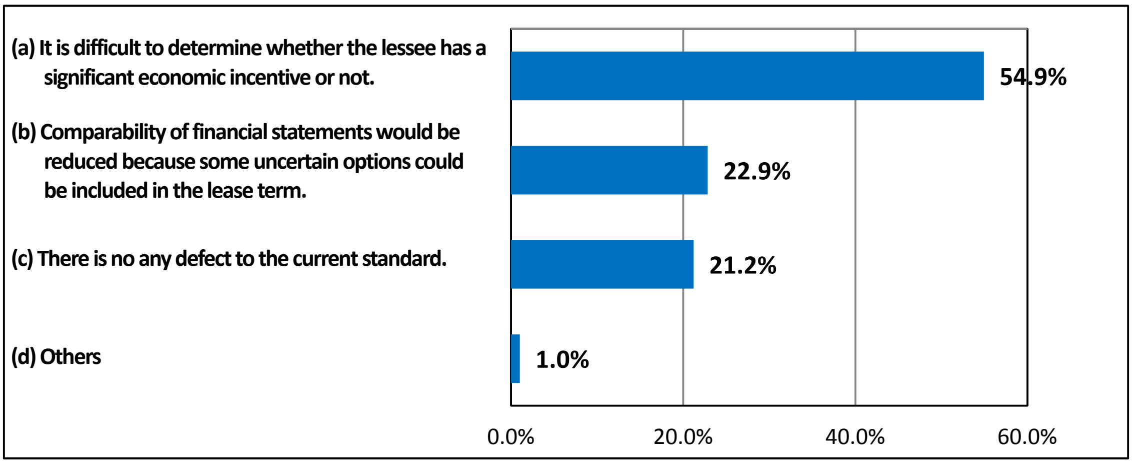
According to the survey, the majority of companies disagree to the proposal for measuring a lease term.

Table 3-1 Measurement of lease term



One of the reasons is the difficulty of determining whether the lessee has a significant economic incentive or not.

Table3-2 The reasons for disagreeing to the proposal by the boards

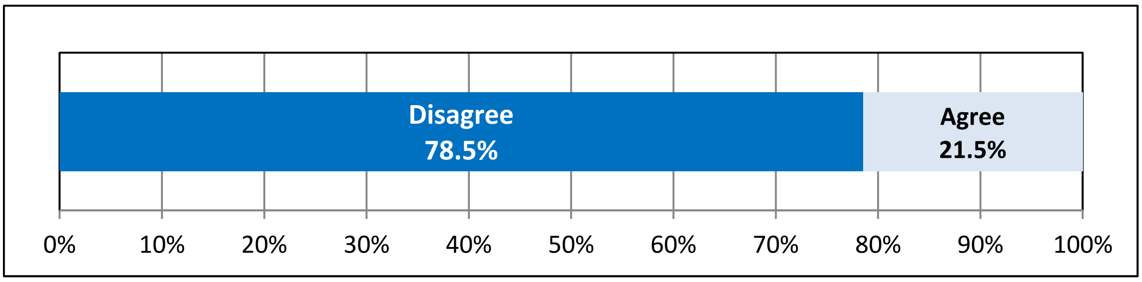


4. Accounting for a short term lease

<Do you agree to the proposed accounting for a short term lease?>

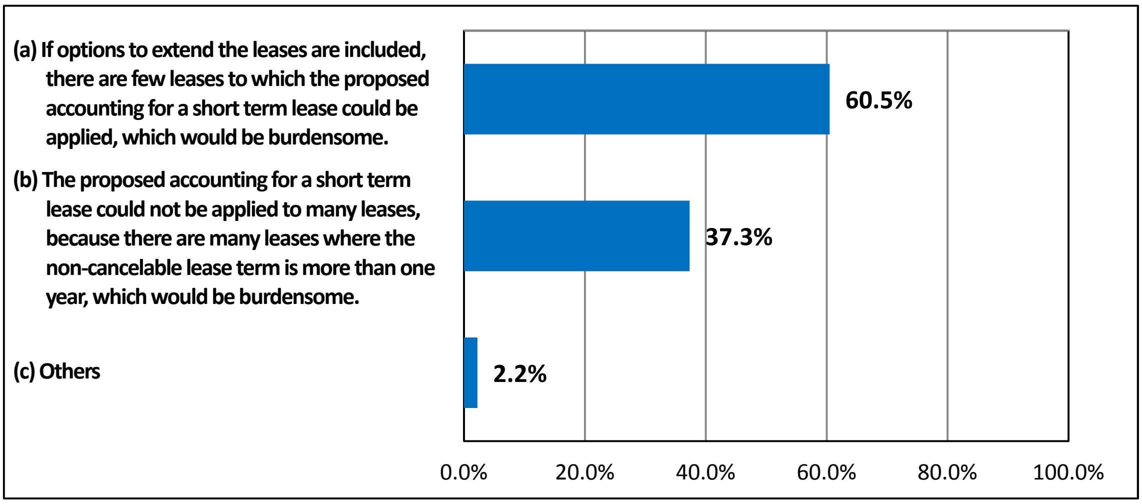
According to the survey, the majority of companies disagree to the proposal for the definition of a short term lease in the re-ED.

Table4-1 Accounting for a short term lease



One of the main reasons is as follows.
If options to extend the lease are included in determining the lease term, the proposed accounting for a short term lease could not be applied. This is one of the main reasons why the costs associated with applying the proposal by the boards would increase.

Table4-2 The reasons for disagreeing to the proposal by the boards

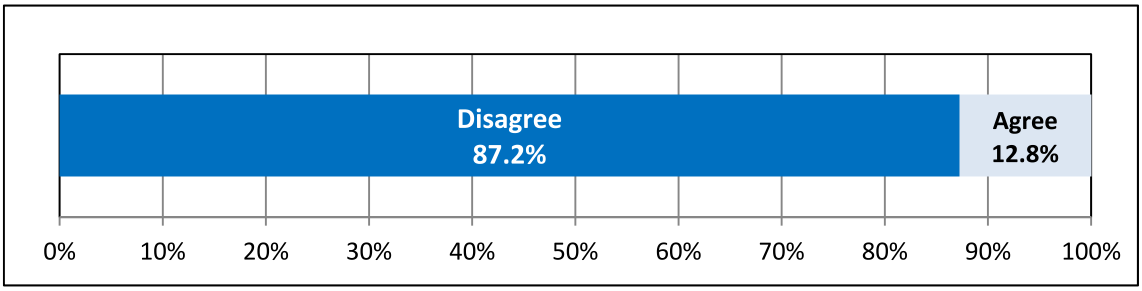


5. Accounting for a lease of a non-core asset

<Do you agree to the proposal that there is no any distinction in accounting on the basis of whether the underlying asset is core to an entity's operations?>

According to the survey, the majority of companies disagree to the proposal that there is no any practical relief for a lease of a non-core asset.

Table5-1 Accounting for a lease of a non-core asset

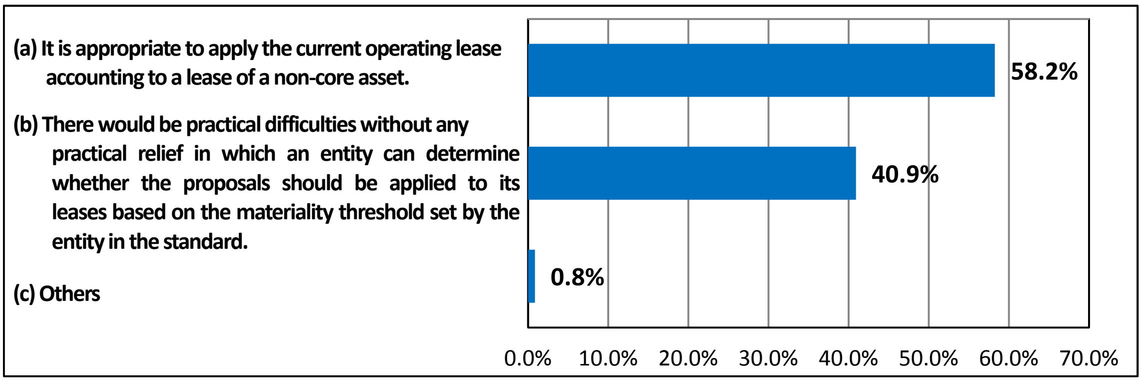


The reasons are as follows.

The current operating lease accounting would be appropriate to a lease of non-core asset.

It would be difficult to practically cope with the requirements without any practical relief for a lease of a non-core asset in the lease accounting standard itself.

Table5-2 The reasons for disagreeing to the proposal by the boards



Survey on the revised exposure draft Leases

August 2013

Japan Leasing Association

○ Japan Leasing Association (JLA) conducted a survey on the revised exposure draft leases (the re-ED) issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in May 2013. The purpose of the survey is to understand views on the re-ED from public companies and large companies in Japan from the standpoint of lessee accounting (the number of the companies which were surveyed is 9,226.).

○ **More than 90% of the respondents disagree to the proposals by the Boards in the re-ED.** More than 80%* of the respondents view that the current standard should be retained.

* The reasons to disagree to the proposals are as follows.
"It is more reasonable to improve the disclosures considering costs and practicability into account if the information provided under the current standard is not sufficient."
"The current standard is appropriate."

○ For the on-balance sheet treatment of leases, about 80% of the respondents agree to that treatment only if a lessee were allowed to recognize an asset and a liability at the undiscounted lease payments (undiscounted lease payments approach). For the proposal associated with measuring a lease term in the re-ED, about 90% of the respondents disagree to that proposal. For the proposed short term lease accounting, about 80% of the respondents disagree to that proposal. For a lease of a non-core asset, about 90% of the respondents disagree to the proposal that there is no any distinction in accounting on the basis of whether the underlying asset is core to an entity's operations. According to the result of the survey, **it has become clear that the majority of the respondents (companies) in Japan have concerns to the proposals in the re-ED.**

Ⅰ Summary

1. Aim

JLA conducted the survey on the re-ED issued by the IASB and the FASB in May 2013 for the purpose of

- understanding the views from preparers of financial statements (Japanese lessees) broadly,
- including the views in JLA's comment letter, and
- having the IASB and other standards setters understand the views.

2. Items

a. The proposed lessee accounting
b. Recognition of lease expenses on a straight line basis
c. Measurement of a lease term
d. Accounting for a short term lease
e. Accounting for a lease of a non-core asset

3. Method to conduct the survey

Questionnaires were sent to companies.

4. Scope of surveyed companies and respondents

The survey was conducted to all the public companies (3,538 companies) and large companies (5,688 companies). A large company is defined as a company whose capital is 500 million yen or more, or a company whose liability is 20 billion yen or more. The number of companies within the scope is 9,226. The respondents account for 13.6% of all the companies surveyed.

Table; The number of companies surveyed and that of respondents

	Companies surveyed	Respondents	Respondents/Companies surveyed
Public companies	3,538	514	14.5%
Non-public companies (Large companies)	5,688	737	13.0%
Total	9,226	1,251	13.6%

JLA's member companies are not included. The companies surveyed cover almost all the public companies and large companies in Japan.

5. Period

From June 14, 2013 to July 16, 2013

6. Aggregation method

The number of the respondents is not same with that of valid respondents in each question because all the respondents did not answer each of the questions.

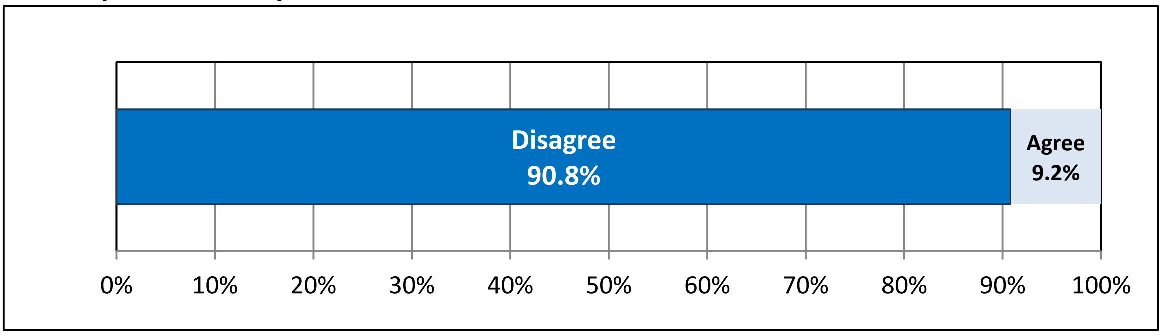
Ⅱ Result of the survey

1. Lessee Accounting

Do you agree to the proposal for lessee accounting?

For the proposed lessee accounting in the revised exposure draft (the re-ED), the majority (90.8%) of the respondents disagree to the proposal, while only 9.2% of the respondents agree (refer to Table 1-1).

Table1-1 Whether you agree to the proposed lessee accounting in the re-ED (the number of the valid respondents 1,232)



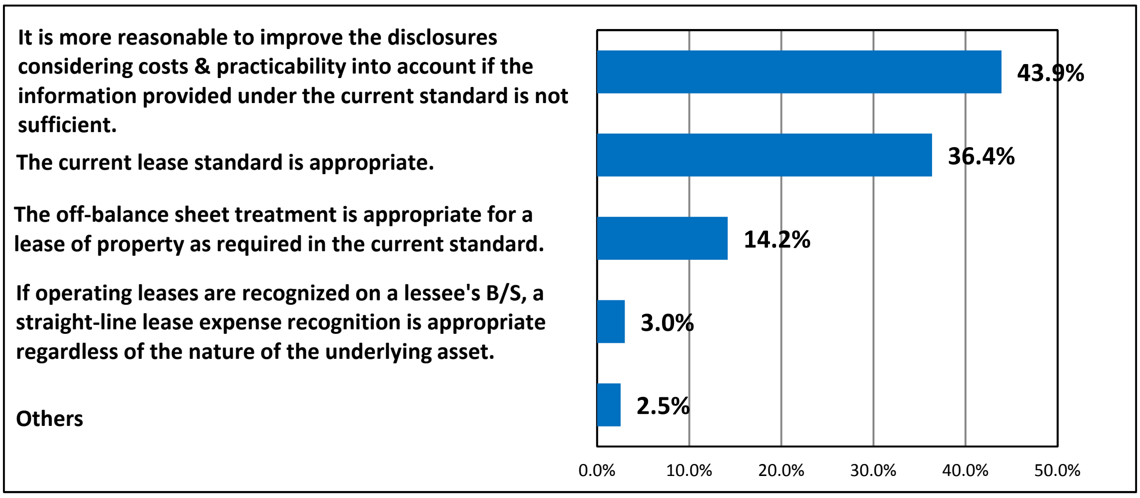
<The reasons for disagreeing to the proposal>

43.9% of the respondents who disagree to the proposal view that it is more reasonable to improve the disclosures considering costs and practicability into account if the information provided under the current standard is not sufficient. 36.4% of those respondents view that the current standard is appropriate." Consequently, more than 80% of those respondents view that the current standard should be retained.

14.2% of those respondents view that the off-balance sheet treatment is appropriate for a lease of property as required in the current standard. 3.0% of those respondents view that a straight-line lease expense recognition pattern is appropriate, regardless of whether the underlying asset is property or not (Refer to table 1-2).

Many of the respondents who answered "others (2.5%)" view that it is impossible to apply the proposal in practice. In addition, some respondents have a concern associated with costs and benefits, and other respondents view that comparability would be reduced because of arbitrariness associated with measuring a lease term.

Table1-2 The reasons for disagreeing to the proposal by the boards (The number of valid respondents; 1,100)

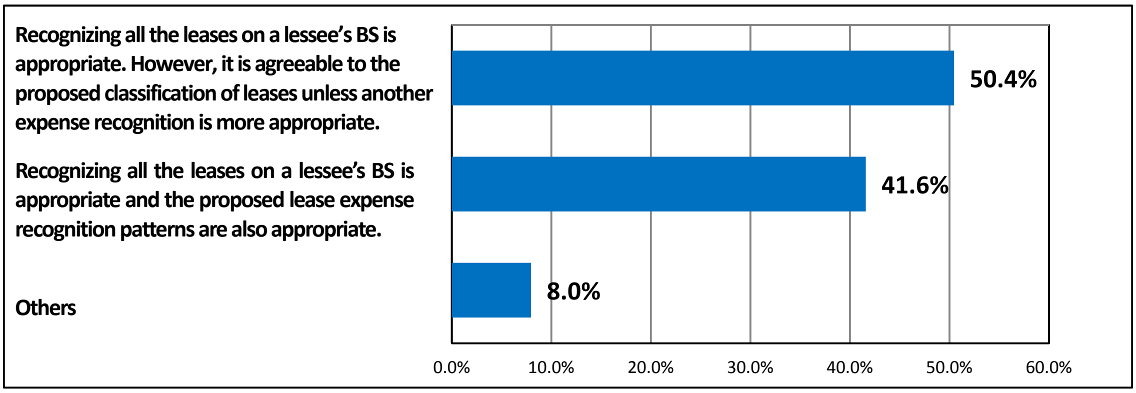


<The reasons for agreeing to the proposal>

The respondents who agree to the proposed lessee accounting account for only 9.2% (113 companies) of all the respondents. Some (50.4%) of those respondents view that it is appropriate to recognize all the leases in a lessee's balance sheet. However, it is agreeable to the proposed classification of leases for the purpose of lease expense recognition patterns unless there are any forms of appropriate approaches to classify leases. In addition, some (41.6%) of those respondents view that recognizing all the leases on a lessee's balance sheet is appropriate and the proposed classification of leases for the purpose of lease expense recognition patterns is also appropriate (Refer to Table 1-3.).

The respondents who answered "others (8.0%)" include respondents who are reluctantly supportive of the proposal. In addition, some required the boards to pay more attentions to practicability.

Table1-3 Reasons for agreeing to the proposal (the number of valid respondents; 113)



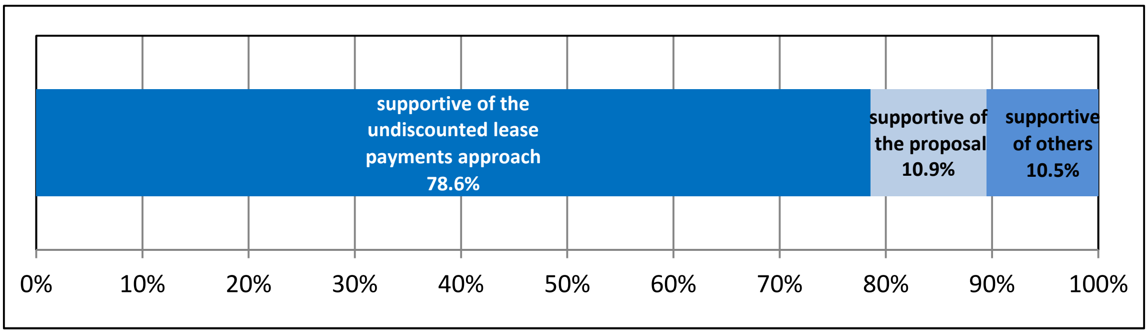
2. Straight-line lease expense recognition

<Which approach do you agree to, either the proposed lease expense recognition pattern in which the lessee recognizes lease expense on a straight-line basis or "undiscounted lease payments approach"?>

If the lessee's ROU model were adopted, the majority (78.6%) of the respondents are supportive of the "undiscounted lease payments approach[*2]", while the minority (10.9%) of the respondents are supportive of the proposal in the re-ED and the others (10.5%) are supportive of other approaches to recognize lease expense (Refer to Table2-1.).

*2 Under the undiscounted lease payments approach, the lessee recognizes a ROU asset and lease liability at the undiscounted lease payments. The lessee recognizes depreciation evenly over the lease term and amortizes lease liability at the amount of lease payments in each period.

Table2-1 Straight-line lease expense recognition pattern (the number of valid respondents; 1,217)

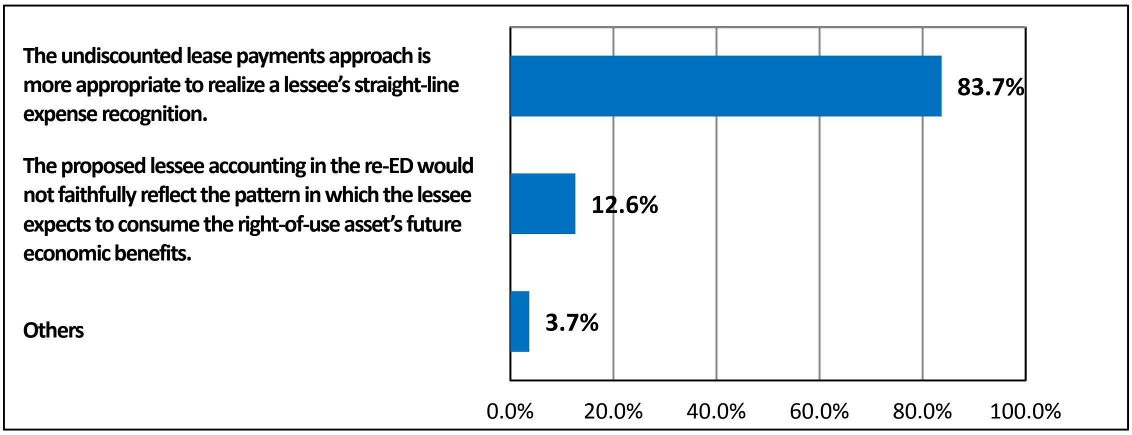


<The reasons for being supportive of the undiscounted lease payments approach>

The majority (83.7%) of the respondents who are supportive of the "undiscounted lease payments approach" view that that approach is more appropriate than the proposed lease expense recognition patterns to realize a lessee's straight-line expense recognition. 12.6% of those respondents view that the proposed accounting in the re-ED would not faithfully reflect the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits (Refer to Table2-2.).

Many of the respondents who answered "others (3.7%)" indicate that the proposed lessee accounting is more burdensome because it requires lessees to discount lease payments.

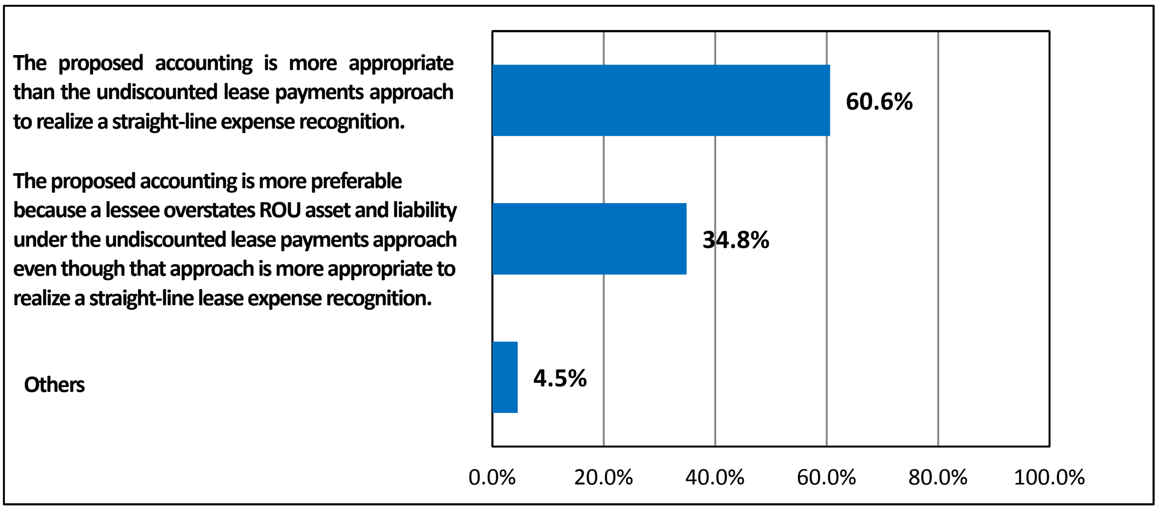
Table2-2 The reasons for being supportive of the undiscounted lease payments approach (the number of valid respondents; 951)



<The reasons for being supportive of the proposal in the re-ED>

The respondents who are supportive of the proposal in the re-ED account for only 10.3% (133 companies). 60.6% of the supportive view that the proposed lessee accounting is more appropriate than the undiscounted lease payments approach to realize a lessee's straight-line expense recognition. Some (34.8%)of the supportive view that the proposed lessee accounting is more preferable because a lessee overstates ROU asset and lease liability under the undiscounted lease payments approach even though that approach might be more appropriate to realize a lessee's straight-line lease expense recognition.

Table2-3 The reasons for being supportive of the proposal in the re-ED (the number of the valid respondents; 132)

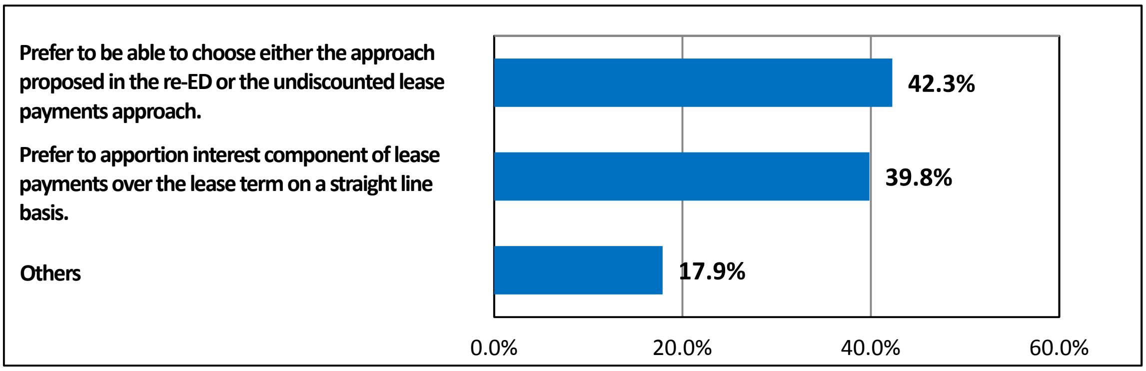


<The reasons for being supportive of other approaches>

The respondents who are supportive of other approaches account for only 10.5% (128 companies). 42.3% of the respondents who are supportive of others prefer to be able to choose either the approach proposed in the re-ED or the undiscounted lease payments approach. Some (39.8%) of those respondents prefer that a lessee apportions interest component of lease payments over the lease term on a straight line basis (refer to Table2-4.).

The respondents who answered "others" (17.9%) view that the current standard is more preferable.

Table2-4 The reasons for being supportive of others (the number of the valid respondents; 123)



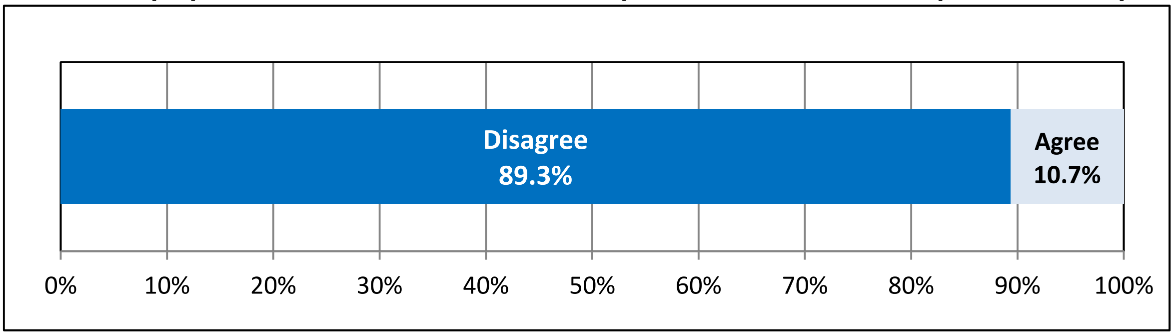
3. Measurement of a lease term

<Do you agree to the proposed measurement of a lease term in the re-ED?>

The majority (89.3%)of the respondents disagree to the proposed measurement of a lease term[*3] in the re-ED, while the minority (10.7%) of the respondents agree to the proposal (refer to Table3-1.).

[*3] The re-ED proposes that a lease term be determined as the non-cancellable period together with the periods covered by an option to extend or terminate the lease if the lessee has a significant economic incentive.

Table3-1The proposed measurement of a lease term (the number of the valid respondents; 1,229)

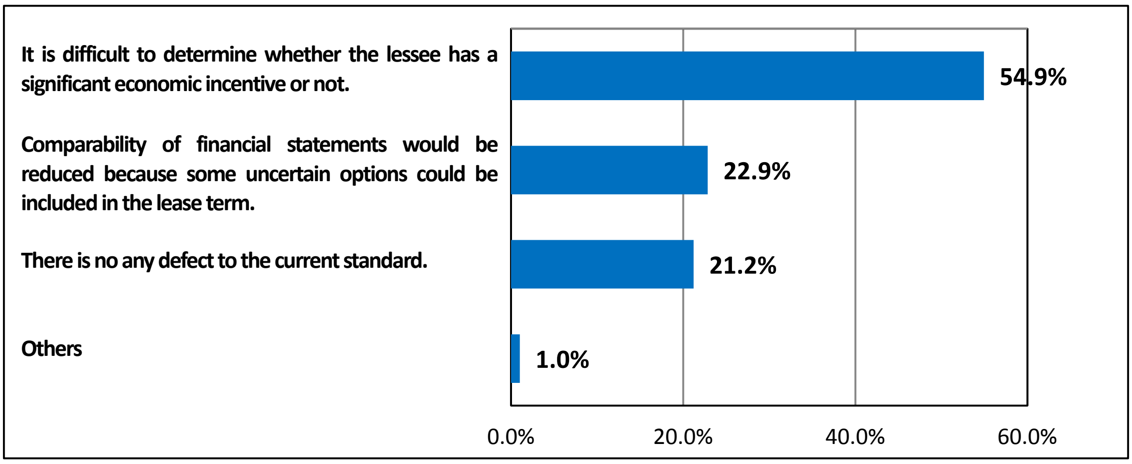


<The reasons for disagreeing to the proposal>

At first, 54.9% of the respondents who disagree to the proposal view that it is difficult to determine whether the lessee has a significant economic incentive or not. At second, 22.9% of those respondents view that comparability of financial statements would be reduced because some uncertain options could be included in the lease term (Refer to Table3-2.).

Some (1.0%) of the respondents who answered “others” view that the proposed measurement of a lease term is complex and others view that a lease term might be arbitrarily determined.

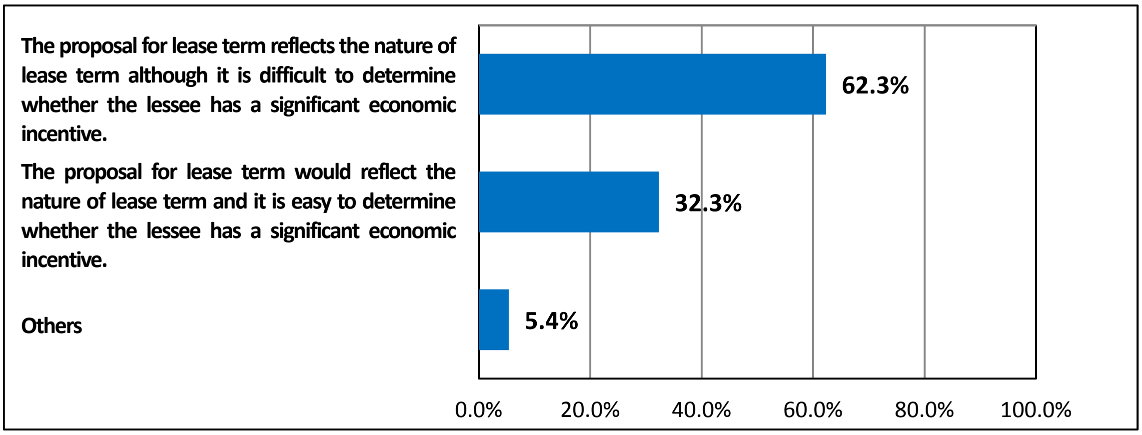
Table3-2 The reasons for disagreeing to the proposal (the number of the valid respondents; 1,094)



<The reasons for agreeing to the proposal>

The respondents who agree to the proposal in the re-ED account for only 10.7% (131 companies) of all the respondents. 62.3% of those respondents view that the proposed measurement of a lease term would reflect the nature of the lease term although it is difficult to determine whether the lessee has a significant economic incentive. 32.3% of those respondents view that the proposed measurement would reflect the nature of the lease term and it is easy to determine whether the lessee has a significant economic incentive (Refer to Table3-3.).

Table3-3 The reasons for agreeing to the proposal (the number of the valid respondents 130)



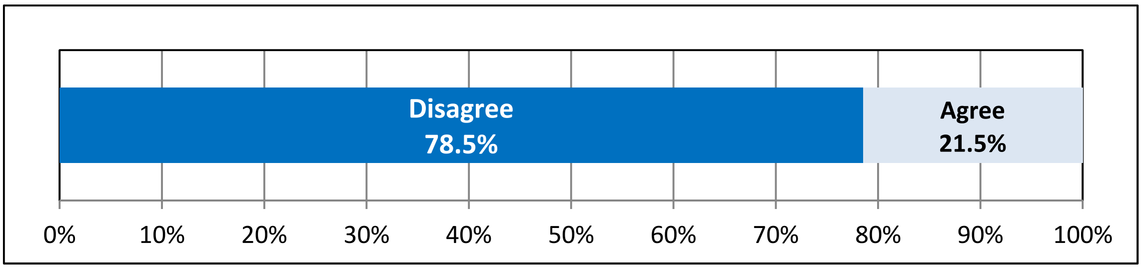
4. Accounting for a short term lease

<Do you agree to the proposed accounting for a short term lease?>

The majority (78.5%) of the respondents disagree to the proposed accounting for a short term lease[*4], while the minority (21.5%) of the respondents agree to the proposal (refer to Table4-1.).

*4 The re-ED proposes that an entity can choose to account for a short term lease under the off-balance sheet treatment. A short term lease is defined as "a lease that, at the commencement date, has a maximum possible term under the contract, including any options to extend, of 12 months or less."

Table4-1 Accounting for a short term lease (the number of the valid respondents; 1,220)

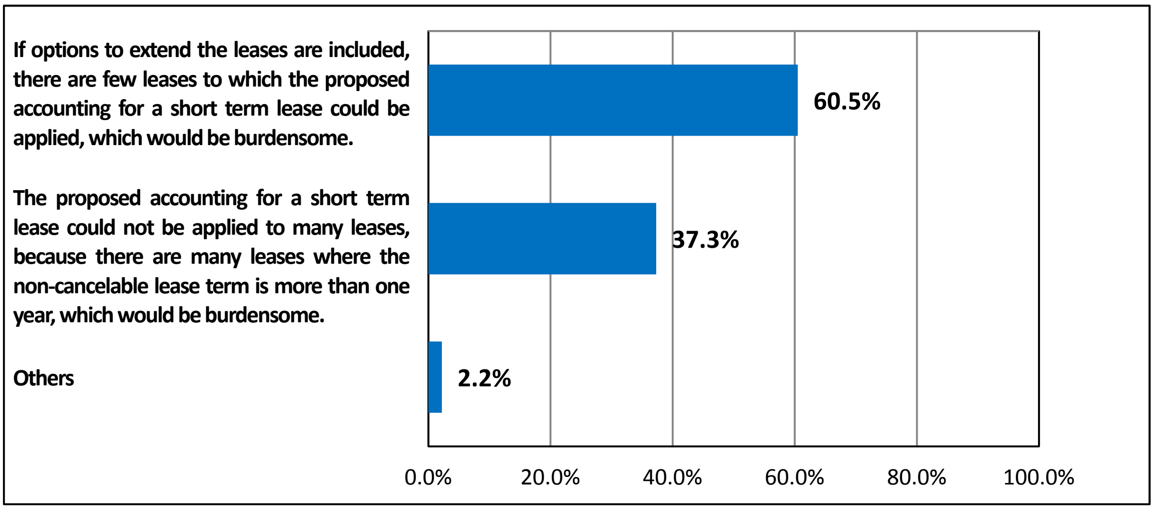


<The reasons for disagree to the proposal>

The majority (60.5%) of the respondents who disagree to the proposal view that if options to extend the leases are included, there are few leases to which the proposed accounting for a short term lease could be applied, which would be burdensome. 37.3% of those respondents view that the proposed accounting for a short term lease could not be applied to many leases, because there are many leases where the non-cancelable lease term is more than one year, which would be burdensome. (Refer to Table4-2.).

Some (2.2%) of the respondents who answered “others” view that it is difficult to determine options to extend the lease and others view that the definition of short term lease should be one year or less excluding options to extend the lease.

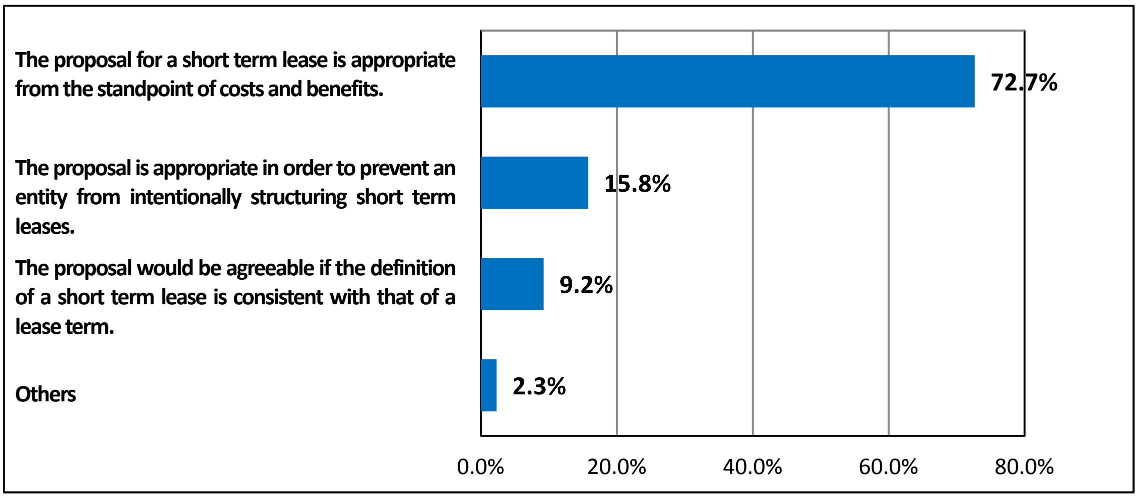
Table4-2 The reasons for disagreeing to the proposal (the number of the valid respondents; 954)



<The reasons for agreeing to the proposal>

The respondents who agree to the proposal account for only 21.5% (262 companies) of the all the respondents. At first, the majority (72.7%) of those respondents view that the proposal for a short term lease is appropriate from the standpoint of costs and benefits. At second, 15.8% of those respondents view that the proposal is appropriate in order to prevent an entity from intentionally structuring short term leases. 9.2% of those respondents view that the proposal would be agreeable if the definition of a short term lease is consistent with that of a lease term (i.e. options are included if the lessee has a significant economic incentive.) (Refer to Table4-3.).

Table4-3 The reasons for agreeing to the proposal (the number of the valid respondents; 260)

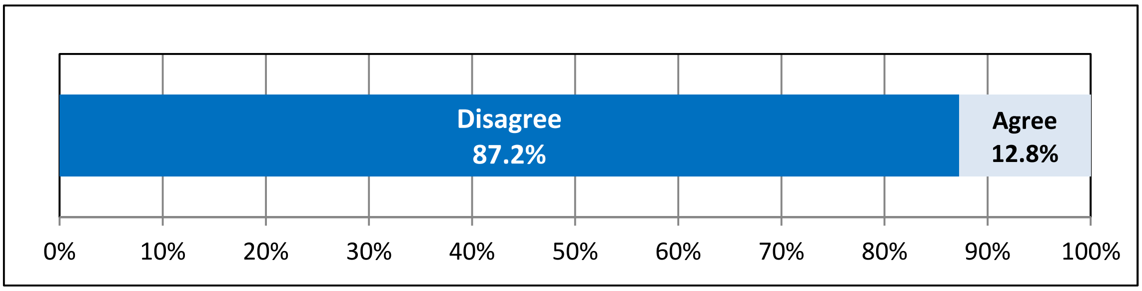


5. Accounting for a lease of a non-core asset

<Do you agree to the proposal that there is no any distinction in accounting on the basis of whether the underlying asset is core to an entity's operations?>

The majority (87.2%) of the respondents disagree to the proposal that there is no any distinction in accounting on the basis of whether the underlying asset is core to an entity's operations, while the respondents who agree account for only 12.8% of all the respondents (Refer to Table5-1.).

Table5-1 Accounting for a lease of a non-core asset (the number of the valid respondents; 1,061)

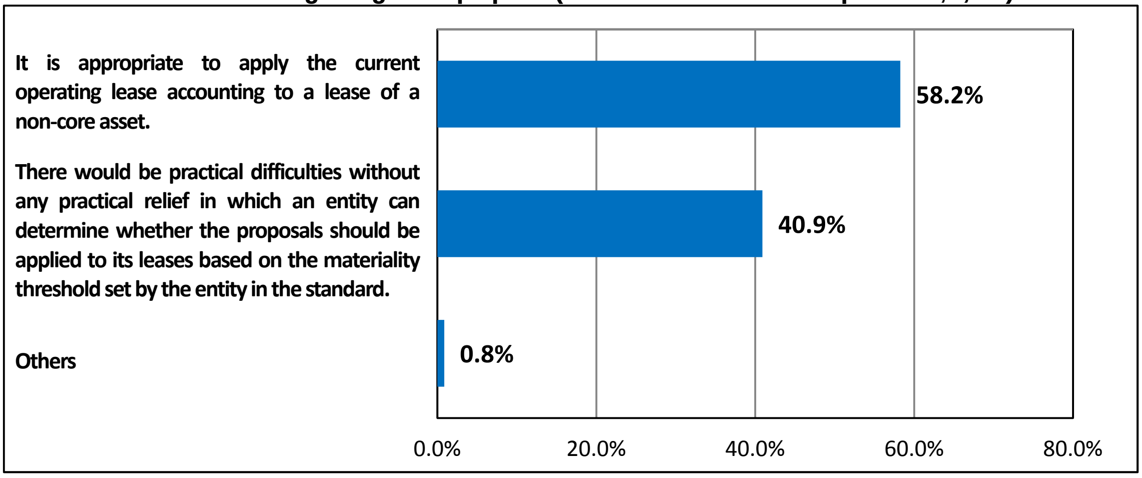


<The reasons for disagreeing to the proposal>

At first, 58.2% of the respondents who disagree to the proposal view that it is appropriate to apply the current operating lease accounting to a lease of a non-core asset. At second, 40.9% of those respondents view that there would be practical difficulties unless there is any practical relief in which an entity is able to determine whether the proposals in the re-ED should be applied to its leases based on the materiality threshold set by the entity in the lease accounting standard itself(Refer to Table 5-2.).

The respondents who answered "others" (0.8%) view that it is likely to be extremely costly and burdensome to recognize all the immaterial leases on a lessee's balance sheet.

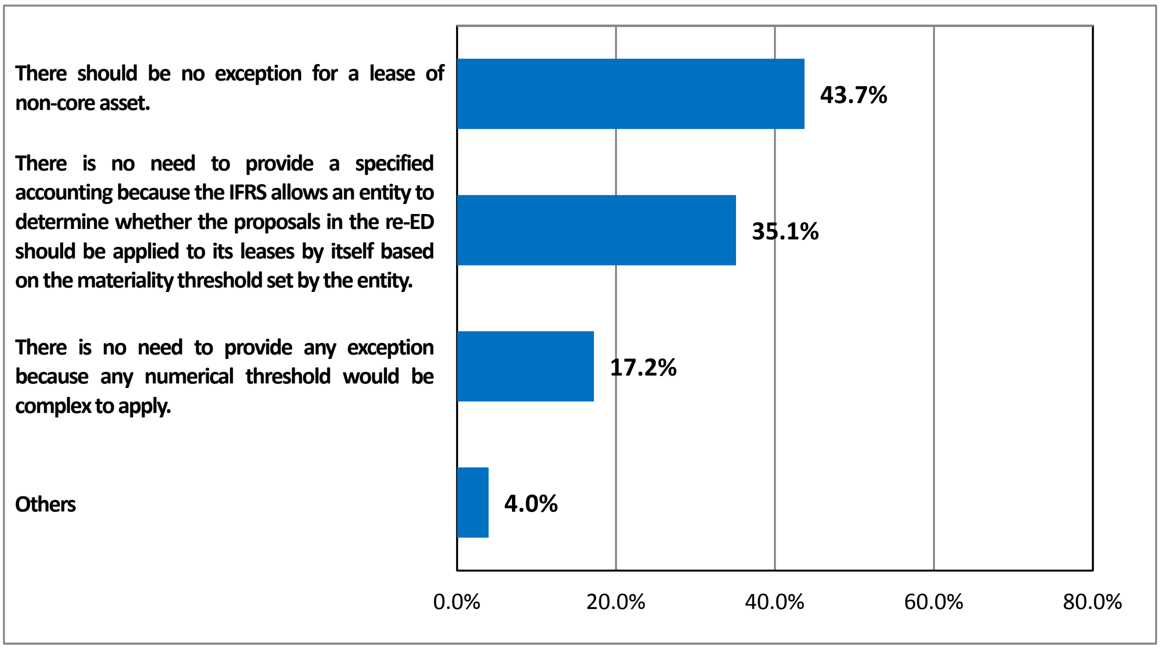
Table5-2 The reasons for disagreeing to the proposal (the number of the valid respondents; 1,061)



<The reasons for agreeing to the proposal>

The respondents who agree to the proposal (i.e. there is no any distinction in accounting on the basis of whether the underlying asset is core to an entity's operations.) account for only 12.8% (156 companies) of all the respondents. 43.7% of those respondents view that there should be no exception for a lease of non-core asset. 35.1% of those respondents view that there is no need to provide a specified accounting because the IFRS allows an entity to determine whether the proposals in the re-ED should be applied to its leases by itself based on the materiality threshold set by the entity. 17.2% of those respondents view that there is no need to provide any exception because any numerical threshold would be complex to apply.

Table5-3 The reasons for agreeing to the proposal (the number of the valid respondents; 151)



<Appendix 1> Attribution of respondents, Respondents who use leases and those who do not.

(1) Area (The number of the valid respondents; 1,233)

Area	Public companies	Non-public companies	Total
Hokkaido	6 (1.2%)	23 (3.2%)	29 (2.4%)
Tohoku area (Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima)	10 (2.0%)	38 (5.2%)	48 (3.9%)
Kanto-Koshinetsu (Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Niigata, Yamanashi, Nagano, Shizuoka)	297 (58.7%)	415 (57.1%)	712 (57.7%)
Tokyo only	221 (43.7%)	290 (39.9%)	511 (41.4%)
Chubu area (Toyama, Ishikawa, Gifu, Aichi, Mie)	55 (10.9%)	62 (8.5%)	117 (9.5%)
Kinki area (Fukui, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama)	92 (18.2%)	102 (14.0%)	194 (15.7%)
Chugoku area (Tottori, Shimane, Okayama, Hiroshima, Yamaguchi)	17 (3.4%)	24 (3.3%)	41 (3.3%)
Shikoku area (Tokushima, Kagawa, Ehime, Kochi)	7 (1.4%)	18 (2.5%)	25 (2.0%)
Kyushu area (Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa)	22 (4.3%)	45 (6.2%)	67 (5.4%)
Total	506 (100.0%)	727 (100.0%)	1,233 (100.0%)

(2) Capital stock (the number of the valid respondents; 1,244)

Capital stock	Public companies	Non-public companies	Total
Less than 1,000 million yen	136 (26.7%)	301 (41.0%)	437 (35.1%)
1,000 million yen – less 5,000 million yen	177 (34.7%)	330 (45.0%)	507 (40.8%)
5,000 million yen – less 10,000 million yen	65 (12.7%)	45 (6.1%)	110 (8.8%)
10,000 million yen – less 50,000 million yen	87 (17.1%)	42 (5.7%)	129 (10.4%)
50,000 million yen –less 100,000 million yen	18 (3.5%)	9 (1.2%)	27 (2.2%)
100,000 million yen -	27 (5.3%)	7 (1.0%)	34 (2.7%)
Total	510 (100.0%)	734 (100.0%)	1,244 (100.0%)

(3) Type of business (The number of the valid respondents; 1,241)

Type of business	Public companies	Non-public companies	Total
Construction	34 (6.7%)	39 (5.3%)	73 (5.9%)
Manufacturing	212 (41.5%)	211 (28.9%)	423 (34.1%)
Information and Communication	34 (6.7%)	55 (7.5%)	89 (7.2%)
Transport	20 (3.9%)	34 (4.7%)	54 (4.4%)
Wholesale and retail trade	101 (19.8%)	112 (15.3%)	213 (17.2%)
Finance and Insurance	19 (3.7%)	74 (10.1%)	93 (7.5%)
Real estate	18 (3.5%)	56 (7.7%)	74 (6.0%)
Others	73 (14.3%)	149 (20.4%)	222 (17.9%)
Total	511 (100.0%)	730 (100.0%)	1,241 (100.0%)

(4) Type of underlying assets (The number of the valid respondents; 1,218)

Type of underlying asset under leases		Public companies	Non-public companies	Total
Respondents who have lease contracts		481 (96.0%)	657 (91.6%)	1,138 (93.4%)
	Property	291 (58.1%)	371 (51.7%)	662 (54.4%)
	Equipment(assets other than property	446 (89.0%)	596 (83.1%)	1,042 (85.6%)
Respondents who have no lease contracts (owned assets only)		20 (4.0%)	60 (8.4%)	80 (6.6%)
Total		501 (100.0%)	717 (100.0%)	1,218 (100.0%)

* The respondents multiply answer to “Property” and “Equipment (assets other than property)”. If a respondent answers either “Property” or “Equipment”, the respondent is included in “Respondents who have lease contracts”.

(5) Type of property leases (the number of the valid respondents; 653)

Type of property leases	Public companies	Non-public companies	Total
Finance lease	38 (13.2%)	33 (9.0%)	71 (10.9%)
Operating lease	275 (95.5%)	350 (95.9%)	625 (95.7%)
Total	288 (100.0%)	365 (100.0%)	653 (100.0%)

(6) Type of equipment leases (leases of assets other than property)

Type of equipment	Finance lease	Operating lease	No leases
Information & communication equipment (the valid respondents; 925)	698(75.5%)	371(40.1%)	26 (2.8%)
Manufacturing equipment & construction equipment (the valid respondents; 755)	346(45.8%)	158(20.9%)	329(43.6%)
Commercial & service equipment (the valid respondents; 670)	261(39.0%)	127(19.0%)	332(49.6%)
Cars (the valid respondents; 846)	382(45.2%)	448(53.0%)	118(13.9%)
Others (the valid respondents; 357)	64(17.9%)	34(9.5%)	273(76.5%)

*1 The respondents multiply answer to "finance lease" and "operating lease".

*2 "Others" includes software, office equipment, transport equipment other than cars, and medical equipment.

<Public companies>

Type of equipment	Finance lease	Operating lease	No leases
Information & communication equipment (the valid respondents; 400)	304(76.0%)	161(40.3%)	12(3.0%)
Manufacturing equipment & construction equipment (the valid respondents; 357)	191(53.5%)	76(21.3%)	134(37.5%)
Commercial & service equipment (the valid respondents; 322)	141(43.8%)	64(19.9%)	147(45.7%)
Cars (the valid respondents; 382)	177(46.3%)	214(56.0%)	44(11.5%)
Others (the valid respondents; 157)	33(21.0%)	11(7.0%)	121(77.1%)

<Non-public companies>

Type of equipment	Finance lease	Operating lease	No leases
Information & communication equipment (the valid respondents; 525)	394(75.0%)	210(40.0%)	14(2.7%)
Manufacturing equipment & construction equipment (the valid respondents; 398)	155(38.9%)	82(20.6%)	195(49.0%)
Commercial & service equipment (the valid respondents; 348)	120(34.5%)	63(18.1%)	185(53.2%)
Cars (the valid respondents; 464)	205(44.2%)	234(50.4%)	74(15.9%)
Others (the valid respondents; 200)	31(15.5%)	23(11.5%)	152(76.0%)

(7) Share of property leases in operating leases (the valid respondents; 623)

Share	Public companies	Non-public companies	Total
Less than 10%	44 (16.4%)	71 (20.0%)	115 (18.5%)
10%- 50%	53 (19.8%)	65 (18.3%)	118 (18.9%)
More than 50-70%	25 (9.3%)	28 (7.9%)	53 (8.5%)
More than 70%	146 (54.5%)	191 (53.8%)	337 (54.1%)
Total	268 (100.0%)	355 (100.0%)	623 (100.0%)

<Appendix 2> Details of the results from the survey

1. The proposed lessee accounting in the re-ED

(1) The proposed lessee accounting in the re-ED (the valid respondents; 1,232)

	Respondents	Share
Disagree to the proposal.	1,119	90.8%
Agree to the proposal.	113	9.2%
Total	1,232	100.0%

a. Public/Non-public ones (the valid respondents; 1,232)

	Public companies	Non-public companies
Disagree to the proposal.	453(89.7%)	666(91.6%)
Agree to the proposal.	52(10.3%)	61(9.2%)
Total	505(100.0%)	727(100.0%)

b. Respondents who use leases/respondents who do not. (the valid respondents; 1,200)

	Companies using leases	Companies using no leases
Disagree to the proposal.	1,024(91.1%)	64(84.2%)
Agree to the proposal.	100(8.9%)	12(15.8%)
Total	1,124(100.0%)	76(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,124)

	both property & others	only property
Disagree to the proposal.	942(91.5%)	82(87.2%)
Agree to the proposal.	88(8.5%)	12(12.8%)
Total	1,030(100.0%)	94(100.0%)

(2)The reasons for disagreeing to the proposal (the valid respondents; 1,100)

	Respondents	Share
It is reasonable to improve the disclosures considering costs & practicability into account if the information provided under the current standard is not sufficient.	483	43.9%
The current lease standard is appropriate.	400	36.4%
The off-balance sheet treatment is appropriate for a lease of property as required in the current standard.	156	14.2%
If operating leases are recognized on a lessee's B/S, a straight-line lease expense recognition is appropriate regardless of the nature of the underlying asset.	33	3.0%
Others	28	2.5%
Total	1,100	100.0%

a. Public/Non-public companies (the valid respondents; 1,100)

	Public companies	Non-public companies
It is reasonable to improve the disclosures considering costs & practicability into account if the information provided under the current standard is not sufficient.	188(42.4%)	295(44.9%)
The current lease standard is appropriate.	153(34.5%)	247(37.6%)
The off-balance sheet treatment is appropriate for a lease of property as required in the current standard.	69(15.6%)	87(13.2%)
If operating leases are recognized on a lessee's B/S, a straight-line lease expense recognition is appropriate regardless of the nature of the underlying asset.	14(3.2%)	19(2.9%)
Others	19(4.3%)	9(1.4%)
Total	443(100.0%)	657(100.0%)

b. Companies using leases/companies using no leases(the valid respondents; 1,070)

	Using leases	Using no leases
It is reasonable to improve the disclosures considering costs & practicability into account if the information provided under the current standard is not sufficient.	449(44.6%)	27(42.9%)
The current lease standard is appropriate.	359(35.7%)	28(44.4%)
The off-balance sheet treatment is appropriate for a lease of property as required in the current standard.	142(14.1%)	5(7.9%)
If operating leases are recognized on a lessee's B/S, a straight-line lease expense recognition is appropriate regardless of the nature of the underlying asset.	31(3.1%)	2(3.2%)
Others	26(2.6%)	1(1.6%)
Total	1,007(100.0%)	63(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,007)

	Both property & others	Only property
It is reasonable to improve the disclosures considering costs & practicability into account if the information provided under the current standard is not sufficient.	421(45.5%)	28(34.6%)
The current lease standard is appropriate.	331(35.7%)	28(34.6%)
The off-balance sheet treatment is appropriate for a lease of property as required in the current standard.	120(13.0%)	22(27.2%)
If operating leases are recognized on a lessee's B/S, a straight-line lease expense recognition is appropriate regardless of the nature of the underlying asset.	30(3.2%)	1(1.2%)
Others	24(2.6%)	2(2.5%)
Total	926(100.0%)	81(100.0%)

(3) The reasons for agreeing to the proposal (the valid respondents; 113)

	Respondents	Share
Recognizing all the leases on a lessee's BS is appropriate. However, it is agreeable to the proposed classification of leases unless another expense recognition is more appropriate.	57	50.4%
Recognizing all the leases on a lessee's BS is appropriate and the proposed lease expense recognition patterns are also appropriate.	47	41.6%
Others	9	8.0%
Total	113	100.0%

a. Public/Non-public companies (the valid respondents; 113)

	Public companies	Non-public companies
Recognizing all the leases on a lessee's BS is appropriate. However, it is agreeable to the proposed classification of leases unless another expense recognition is more appropriate.	25 (48.1%)	22(36.1%)
Recognizing all the leases on a lessee's BS is appropriate and the proposed lease expense recognition patterns are also appropriate.	23(44.2%)	34(55.7%)
Others	4(7.7%)	5(8.2%)
Total	52(100.0%)	61(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 112)

	Using leases	Using no leases
Recognizing all the leases on a lessee's BS is appropriate. However, it is agreeable to the proposed classification of leases unless another expense recognition is more appropriate.	51(51.0%)	6(50.0%)
Recognizing all the leases on a lessee's BS is appropriate and the proposed lease expense recognition patterns are also appropriate.	43(43.0%)	4(33.3%)
Others	6(6.0%)	2(16.7%)
Total	100(100.0%)	12(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 100)

	Both property & others	Only property
Recognizing all the leases on a lessee's BS is appropriate. However, it is agreeable to the proposed classification of leases unless another expense recognition is more appropriate.	44(50.0%)	7(58.3%)
Recognizing all the leases on a lessee's BS is appropriate and the proposed lease expense recognition patterns are also appropriate.	39(44.3%)	4(33.3%)
Others	5(5.7%)	1(8.3%)
Total	88(100.0%)	12(100.0%)

2. Straight-line lease expense recognition

(1) Straight-line lease expense recognition (the valid respondents; 1,217)

	Respondents	Share
Supportive of the "undiscounted lease payments approach".	956	78.6%
Supportive of the proposal in the re-ED.	133	10.9%
Supportive of other approaches.	128	10.5%
Total	1,217	100.0%

a. Public/Non-public companies (the valid respondents; 1,217)

	Public companies	Non-public companies
Supportive of the "undiscounted lease payments approach".	385(77.2%)	571(79.5%)
Supportive of the proposal in the re-ED.	63(12.6%)	70(9.7%)
Supportive of other approaches.	51(10.2%)	77(10.7%)
Total	499(100.0%)	718(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 1,187)

	Using leases	Using no leases
Supportive of the "undiscounted lease payments approach".	877(78.8%)	58(78.4%)
Supportive of the proposal in the re-ED.	120(10.8%)	9(12.2%)
Supportive of other approaches.	116(10.4%)	7(9.5%)
Total	1,113(100.0%)	74(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,113)

	Both property & others	Only property
Supportive of the "undiscounted lease payments approach".	809(79.3%)	68(73.1%)
Supportive of the proposal in the re-ED.	105(10.3%)	15(16.1%)
Supportive of other approaches.	106(10.4%)	10(10.8%)
Total	1,020(100.0%)	93(100.0%)

(2) The reasons for being supportive of the undiscounted lease payments approach (the valid respondents; 951)

	Respondents	Share
The undiscounted lease payments approach is more appropriate to realize a lessee's straight-line expense recognition.	796	83.7%
The proposed lessee accounting in the re-ED would not faithfully reflect the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits.	120	12.6%
Others	35	3.7%
Total	951	100.0%

a. Public/Non-public companies (the valid respondents; 951)

	Public companies	Non-public companies
The undiscounted lease payments approach is more appropriate to realize a lessee's straight-line expense recognition.	308(80.2%)	488(86.1%)
The proposed lessee accounting in the re-ED would not faithfully reflect the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits.	58(15.1%)	62(10.9%)
Others	18(4.7%)	17(3.0%)
Total	384(100.0%)	567(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 930)

	Using leases	Using no leases
The undiscounted lease payments approach is more appropriate to realize a lessee's straight-line expense recognition.	735(84.1%)	46(82.1%)
The proposed lessee accounting in the re-ED would not faithfully reflect the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits.	107(12.2%)	9(16.1%)
Others	32(3.7%)	1(1.8%)
Total	874(100.0%)	56(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 874)

	Both property & others	Only property
The undiscounted lease payments approach is more appropriate to realize a lessee's straight-line expense recognition.	676(83.9%)	59(86.8%)
The proposed lessee accounting in the re-ED would not faithfully reflect the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits.	98(12.2%)	9(13.2%)
Others	32(4.0%)	0(0.0%)
Total	806(100.0%)	68(100.0%)

(3) The reasons for being supportive of the proposal in the re-ED (the number of the valid respondents; 132)

	Respondents	Share
The proposed accounting is more appropriate than the undiscounted lease payments approach to realize a straight-line expense recognition.	80	60.6%
The proposed accounting is more preferable because a lessee overstates ROU and liability under the undiscounted lease payments approach even though that approach is more appropriate to realize a straight-line lease expense recognition.	46	34.8%
Others	6	4.5%
Total	132	100.0%

a. Public/Non-public companies (the valid respondents; 132)

	Public companies	Non-public companies
The proposed accounting is more appropriate than the undiscounted lease payments approach to realize a straight-line expense recognition.	34(54.8%)	46(65.7%)
The proposed accounting is more preferable because a lessee overstates ROU and liability under the undiscounted lease payments approach even though that approach is more appropriate to realize a straight-line lease expense recognition.	24(38.7%)	22(31.4%)
Others	4(6.5%)	17 2.9%)
Total	62(100.0%)	70(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 128)

	Using leases	Using no leases
The proposed accounting is more appropriate than the undiscounted lease payments approach to realize a straight-line expense recognition.	71(59.7%)	6(66.7%)
The proposed accounting is more preferable because a lessee overstates ROU and liability under the undiscounted lease payments approach even though that approach is more appropriate to realize a straight-line lease expense recognition.	43(36.1%)	2(22.2%)
Others	5(4.2%)	1(11.1%)
Total	119(100.0%)	9(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 119)

	Both property & others	Only property
The proposed accounting is more appropriate than the undiscounted lease payments approach to realize a straight-line expense recognition.	62(59.6%)	9(60.0%)
The proposed accounting is more preferable because a lessee overstates ROU and liability under the undiscounted lease payments approach even though that approach is more appropriate to realize a straight-line lease expense recognition.	37(35.6%)	6(40.0%)
Others	5(4.8%)	0(0.0%)
Total	104(100.0%)	15(100.0%)

(4) The reasons for being supportive of others (the number of the valid respondents; 123)

	Respondents	Share
Prefer to be able to choose either the approach proposed in the re-ED or the undiscounted lease payments approach.	52	42.3%
Prefer to apportion interest component of lease payments over the lease term on a straight line basis.	49	39.8%
Others	22	17.9%
total	123	100.0%

a. Public/Non-public companies (the valid respondents; 123)

	Public companies	Non-public companies
Prefer to be able to choose either the approach proposed in the re-ED or the undiscounted lease payments approach.	17(35.4%)	35(46.7%)
Prefer to apportion interest component of lease payments over the lease term on a straight line basis.	21(43.8%)	28(37.3%)
Others	10(20.8%)	12(16.0%)
total	48(100.0%)	75(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 118)

	Using leases	Using no leases
Prefer to be able to choose either the approach proposed in the re-ED or the undiscounted lease payments approach.	49(44.1%)	1(14.3%)
Prefer to apportion interest component of lease payments over the lease term on a straight line basis.	44(39.6%)	3(42.9%)
Others	18(16.2%)	3(42.9%)
total	111(100.0%)	7(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 111)

	Both property & others	Only property
Prefer to be able to choose either the approach proposed in the re-ED or the undiscounted lease payments approach.	44(43.6%)	5(50.0%)
Prefer to apportion interest component of lease payments over the lease term on a straight line basis.	42(41.6%)	2(20.0%)
Others	15(14.3%)	3(30.0%)
total	101(100.0%)	10(100.0%)

3. Measurement of a lease term

(1) Measurement of a lease term (the valid respondents; 1,229)

	Respondents	Share
Disagree to the proposal in the re-ED.	1,098	89.3%
Agree to the proposal in the re-ED.	131	10.7%
Total	1,229	100.0%

a. Public/Non-public companies (the valid respondents; 1,229)

	Public companies	Non-public companies
Disagree to the proposal in the re-ED.	444(88.1%)	654(90.2%)
Agree to the proposal in the re-ED.	60(11.9%)	71(9.8%)
Total	504(100.0%)	725(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 1,200)

	Using leases	Using no leases
Disagree to the proposal in the re-ED.	1,009(89.8%)	62(81.6%)
Agree to the proposal in the re-ED.	115(10.2%)	14(18.4%)
Total	1,124(100.0%)	76(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,124)

	Both property & others	Only property
Disagree to the proposal in the re-ED.	936(90.9%)	73(77.7%)
Agree to the proposal in the re-ED.	94(9.1%)	21(22.3%)
Total	1,030(100.0%)	94(100.0%)

(2) The reasons for disagreeing to the proposal (the number of the valid respondents; 1,094)

	Respondents	Share
It is difficult to determine whether the lessee has a significant economic incentive or not.	601	54.9%
Comparability of financial statements would be reduced because some uncertain options could be included in the lease term.	250	22.9%
There is no any defect to the current standard.	232	21.2%
Others	11	1.0%
Total	1,094	100.0%

a. Public/Non-public companies (the valid respondents; 1,094)

	Public companies	Non-public companies
It is difficult to determine whether the lessee has a significant economic incentive or not.	242(54.9%)	359(55.0%)
Comparability of financial statements would be reduced because some uncertain options could be included in the lease term.	111(25.2%)	139(21.3%)
There is no any defect to the current standard.	83(18.8%)	149(22.8%)
Others	5(1.1%)	6(0.9%)
Total	441(100.0%)	653(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 1,067)

	Using leases	Using no leases
It is difficult to determine whether the lessee has a significant economic incentive or not.	557(55.4%)	29(46.8%)
Comparability of financial statements would be reduced because some uncertain options could be included in the lease term.	231(23.0%)	15(24.2%)
There is no any defect to the current standard.	209(20.8%)	16(25.8%)
Others	8(0.8%)	2(3.2%)
Total	1,005(100.0%)	62(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,005)

	Both property & others	Only property
It is difficult to determine whether the lessee has a significant economic incentive or not.	521(55.8%)	36(50.0%)
Comparability of financial statements would be reduced because some uncertain options could be included in the lease term.	215(23.0%)	16(22.2%)
There is no any defect to the current standard.	189(20.3%)	20(27.8%)
Others	8(0.9%)	0(0.0%)
Total	933(100.0%)	72(100.0%)

(3) The reasons for agreeing to the proposal (the number of the valid respondents 130)

	Respondents	Share
The proposal for lease term reflects the nature of lease term although it is difficult to determine whether the lessee has a significant economic incentive.	81	62.3%
The proposal for lease term would reflect the nature of lease term and it is easy to determine whether the lessee has a significant economic incentive.	42	32.3%
Others	7	5.4%
Total	130	100.0%

a. Public/Non-public companies (the valid respondents; 130)

	Public companies	Non-public companies
The proposal for lease term reflects the nature of lease term although it is difficult to determine whether the lessee has a significant economic incentive.	39(65.0%)	42(60.0%)
The proposal for lease term would reflect the nature of lease term and it is easy to determine whether the lessee has a significant economic incentive.	17(28.3%)	25(35.7%)
Others	4(6.7%)	3(4.3%)
Total	60(100.0%)	70(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 128)

	Using leases	Using no leases
The proposal for lease term reflects the nature of lease term although it is difficult to determine whether the lessee has a significant economic incentive.	75(65.2%)	5(38.5%)
The proposal for lease term would reflect the nature of lease term and it is easy to determine whether the lessee has a significant economic incentive.	35(30.4%)	6(46.2%)
Others	5(4.3%)	2(15.4%)
Total	115(100.0%)	13(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 115)

	Both property & others	Only property
The proposal for lease term reflects the nature of lease term although it is difficult to determine whether the lessee has a significant economic incentive.	57(60.6%)	18(85.7%)
The proposal for lease term would reflect the nature of lease term and it is easy to determine whether the lessee has a significant economic incentive.	32(34.0%)	3(14.3%)
Others	5(5.3%)	0(0.0%)
Total	94(100.0%)	21(100.0%)

4. Accounting for a short term lease

(1) Accounting for a short term lease (the valid respondents; 1,220)

	Respondents	Share
Disagree to the proposal in the re-ED.	958	78.5%
Agree to the proposal in the re-ED.	262	21.5%
Total	1,220	100.0%

a. Public/Non-public companies (the valid respondents; 1,220)

	Public companies	Non-public companies
Disagree to the proposal in the re-ED.	372(74.3%)	586(81.5%)
Agree to the proposal in the re-ED.	129(25.7%)	133(18.5%)
Total	501(100.0%)	719(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 1,192)

	Using leases	Using no leases
Disagree to the proposal in the re-ED.	880(78.9%)	57(75.0%)
Agree to the proposal in the re-ED.	236(21.1%)	19(25.0%)
Total	1,116(100.0%)	76(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,116)

	Both property & others	Only property
Disagree to the proposal in the re-ED.	811(79.4%)	69(73.4%)
Agree to the proposal in the re-ED.	211(20.6%)	25(26.6%)
Total	1,022(100.0%)	94(100.0%)

(2) The reasons for disagree to the proposal (the number of the valid respondents; 954)

	Respondents	Share
If options to extend the leases are included, there are few leases to which the proposed accounting for a short term lease could be applied, which would be burdensome.	577	60.5%
The proposed accounting for a short term lease could not be applied to many leases, because there are many leases where the non-cancelable lease term is more than one year, which would be burdensome.	356	37.3%
Others	21	2.2%
total	954	100.0%

a. Public/Non-public companies (the valid respondents; 954)

	Public companies	Non-public companies
If options to extend the leases are included, there are few leases to which the proposed accounting for a short term lease could be applied, which would be burdensome.	235(63.5%)	342(58.6%)
The proposed accounting for a short term lease could not be applied to many leases, because there are many leases where the non-cancelable lease term is more than one year, which would be burdensome.	125(33.8%)	231(39.6%)
Others	10(2.7%)	11(1.9%)
total	370(100.0%)	584(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 933)

	Using leases	Using no leases
If options to extend the leases are included, there are few leases to which the proposed accounting for a short term lease could be applied, which would be burdensome.	534(61.0%)	29(50.9%)
The proposed accounting for a short term lease could not be applied to many leases, because there are many leases where the non-cancelable lease term is more than one year, which would be burdensome.	326(37.2%)	26(45.6%)
Others	16(1.8%)	2(3.5%)
total	876(100.0%)	57(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 865)

	Both property & others	Only property
If options to extend the leases are included, there are few leases to which the proposed accounting for a short term lease could be applied, which would be burdensome.	492(61.7%)	42(61.8%)
The proposed accounting for a short term lease could not be applied to many leases, because there are many leases where the non-cancelable lease term is more than one year, which would be burdensome.	302(37.9%)	24(35.3%)
Others	3(0.4%)	2(2.9%)
total	797(100.0%)	68(100.0%)

(3) The reasons for agreeing to the proposal (the number of the valid respondents; 260)

	Respondents	Share
The proposal for a short term lease is appropriate from the standpoint of costs and benefits.	189	72.7%
The proposal is appropriate in order to prevent an entity from intentionally structuring short term leases.	41	15.8%
The proposal would be agreeable if the definition of a short term lease is consistent with that of a lease term (i.e. options are included if the lessee has a significant economic incentive.).	24	9.2%
Others	6	2.3%
	260	100.0%

a. Public/Non-public companies (the valid respondents; 260)

	Public companies	Non-public companies
The proposal for a short term lease is appropriate from the standpoint of costs and benefits.	88(68.2%)	101(77.1%)
The proposal is appropriate in order to prevent an entity from intentionally structuring short term leases.	26(20.2%)	15(11.5%)
The proposal would be agreeable if the definition of a short term lease is consistent with that of a lease term (i.e. options are included if the lessee has a significant economic incentive.).	12(9.3%)	12(9.2%)
Others	3(2.3%)	3(2.3%)
Total	129(100.0%)	131(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 253)

	Using leases	Using no leases
The proposal for a short term lease is appropriate from the standpoint of costs and benefits.	172(73.2%)	15(83.3%)
The proposal is appropriate in order to prevent an entity from intentionally structuring short term leases.	37(15.7%)	1(5.6%)
The proposal would be agreeable if the definition of a short term lease is consistent with that of a lease term (i.e. options are included if the lessee has a significant economic incentive.).	22(9.4%)	0(0.0%)
Others	4(1.7%)	2(11.1%)
Total	235(100.0%)	18(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 235)

	Both property & others	Only property
The proposal for a short term lease is appropriate from the standpoint of costs and benefits.	152(72.4%)	20(80.0%)
The proposal is appropriate in order to prevent an entity from intentionally structuring short term leases.	33(15.7%)	4(16.0%)
The proposal would be agreeable if the definition of a short term lease is consistent with that of a lease term (i.e. options are included if the lessee has a significant economic incentive.).	21(10.0%)	1(4.0%)
Others	4(1.9%)	0(0.0%)
Total	210(100.0%)	25(100.0%)

5. Accounting for a lease of a non-core asset

(1) Accounting for a lease of a non-core asset (the valid respondents; 1,223)

	Respondents	Share
Disagree to the proposal in the re-ED.	1,067	87.2%
Agree to the proposal in the re-ED.	156	12.8%
Total	1,223	100.0%

a. Public/Non-public companies (the valid respondents; 1,223)

	Public companies	Non-public companies
Disagree to the proposal in the re-ED.	430(84.8%)	637(89.0%)
Agree to the proposal in the re-ED.	77(15.2%)	79(11.0%)
Total	507(100.0%)	716(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 1,194)

	Using leases	Using no leases
Disagree to the proposal in the re-ED.	979(87.6%)	64(84.2%)
Agree to the proposal in the re-ED.	139(12.4%)	12(15.8%)
Total	1,118(100.0%)	76(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 1,118)

	Both property & others	Only property
Disagree to the proposal in the re-ED.	900(87.9%)	79(84.0%)
Agree to the proposal in the re-ED.	124(12.1%)	15(16.0%)
Total	1,024(100.0%)	94(100.0%)

(2) The reasons for disagreeing to the proposal (the number of the valid respondents; 1,061)

	Respondents	Share
It is appropriate to apply the current operating lease accounting to a lease of a non-core asset.	618	58.2%
There would be practical difficulties without any practical relief in which an entity is able to determine whether the proposals should be applied to its leases based on the materiality threshold set by the entity.	434	40.9%
Others	9	0.8%
Total	1,061	100.0%

a. Public/Non-public companies (the valid respondents; 1,061)

	Public companies	Non-public companies
It is appropriate to apply the current operating lease accounting to a lease of a non-core asset.	223(52.2%)	395(62.3%)
There would be practical difficulties without any practical relief in which an entity is able to determine whether the proposals should be applied to its leases based on the materiality threshold set by the entity.	200(46.8%)	234(36.9%)
Others	4(0.9%)	5(0.8%)
Total	427(100.0%)	634(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 1,037)

	Using leases	Using no leases
It is appropriate to apply the current operating lease accounting to a lease of a non-core asset.	563(57.9%)	37(57.8%)
There would be practical difficulties without any practical relief in which an entity is able to determine whether the proposals should be applied to its leases based on the materiality threshold set by the entity.	404(41.5%)	25(39.1%)
Others	6(0.6%)	2(3.1%)
Total	973(100.0%)	64(100.0%)

c. Type of underlying assets used by respondents who use leases (the valid respondents; 969)

	Both property & others	Only property
It is appropriate to apply the current operating lease accounting to a lease of a non-core asset.	522(58.6%)	41(52.6%)
There would be practical difficulties without any practical relief in which an entity is able to determine whether the proposals should be applied to its leases based on the materiality threshold set by the entity.	367(41.2%)	37(47.4%)
Others	2(0.2%)	0(0.0%)
Total	891(100.0%)	78(100.0%)

(3) The reasons for agreeing to the proposal (the number of the valid respondents; 151)

	Respondents	Share
There should be no exception for a lease of non-core asset.	66	43.7%
There is no need to provide a specified accounting because the IFRS allows an entity to determine whether the proposals in the re-ED should be applied to its leases by itself based on the materiality threshold set by the entity.	53	35.1%
There is no need to provide any exception because any numerical threshold would be complex to apply.	26	17.2%
Others	6	4.0%
Total	151	100.0%

a. Public/Non-public companies (the valid respondents; 151)

	Public companies	Non-public companies
There should be no exception for a lease of non-core asset.	34(45.3%)	32(42.1%)
There is no need to provide a specified accounting because the IFRS allows an entity to determine whether the proposals in the re-ED should be applied to its leases by itself based on the materiality threshold set by the entity.	32(42.7%)	21(27.6%)
There is no need to provide any exception because any numerical threshold would be complex to apply.	5(6.7%)	21(27.6%)
Others	4(5.3%)	2(2.6%)
Total	75(100.0%)	76(100.0%)

b. Companies using leases/companies using no leases (the valid respondents; 146)

	Using leases	Using no leases
There should be no exception for a lease of non-core asset.	59(43.4%)	5(50.0%)
There is no need to provide a specified accounting because the IFRS allows an entity to determine whether the proposals in the re-ED should be applied to its leases by itself based on the materiality threshold set by the entity.	51(37.5%)	2(20.0%
There is no need to provide any exception because any numerical threshold would be complex to apply.	21(15.4%)	3(30.0%)
Others	5(3.7%)	0(0.0%)
Total	136	10

c. Type of underlying assets used by respondents who use leases (the valid respondents; 136)

	Both property & others	Only property
There should be no exception for a lease of non-core asset.	53(43.8%)	6(40.0%)
There is no need to provide a specified accounting because the IFRS allows an entity to determine whether the proposals in the re-ED should be applied to its leases by itself based on the materiality threshold set by the entity.	44(36.4%)	7(46.7%)
There is no need to provide any exception because any numerical threshold would be complex to apply.	19(15.7%)	2(13.3%)
Others	5(4.1%)	0(0.0%)
Total	121(100.0%)	25(100.0%)

Survey Results regarding Lease Accounting

Japan Leasing Association (JLA)

September, 2013

Background

- ✓ IASB (International Accounting Standards Board) and FASB (Financial Accounting Standards Board) are promoting improvement of lease accounting as joint project.

- ✓ They issued the exposure draft Leases (“ED”) on August in 2010. However the ED was met with the strong criticism and, after re-deliberation they decided to issue the second exposure draft on Leases on May in 2013 and invited comments until September.

- ✓ The second ED explains meaning of the project as that ,based on IASB’s hearing from financial statement users, most of lease transactions have been occupied by operating leases, and almost all users adjust the amount presented in the statement of financial position to reflect the assets and liabilities arising from operating leases.

- ✓ In US and Europe, on the other hand, there is a variety of needs of financial statement users and perspectives on leases. Therefore, there is another argument that disclosed items should be expanded so that lease transactions can be easily adjusted to meet the financial statement users’ needs, rather than forcing uniform on balance accounting.

- ✓ In Japan, under existing Leases accounting standards, off-balance-sheet transaction on operating leases is composed predominantly of the property leases, however they account for only small portion of total assets in many companies. Therefore, there are opinions that the balance of companies’ implementation/maintenance cost and users’ benefits should be weighed against revised ED requiring the change of accounting treatment for all lease contracts including financing lease.

- ✓ Responding to this situation, JLA decided to conduct this survey to invite comments of analysts as main financial statement users.

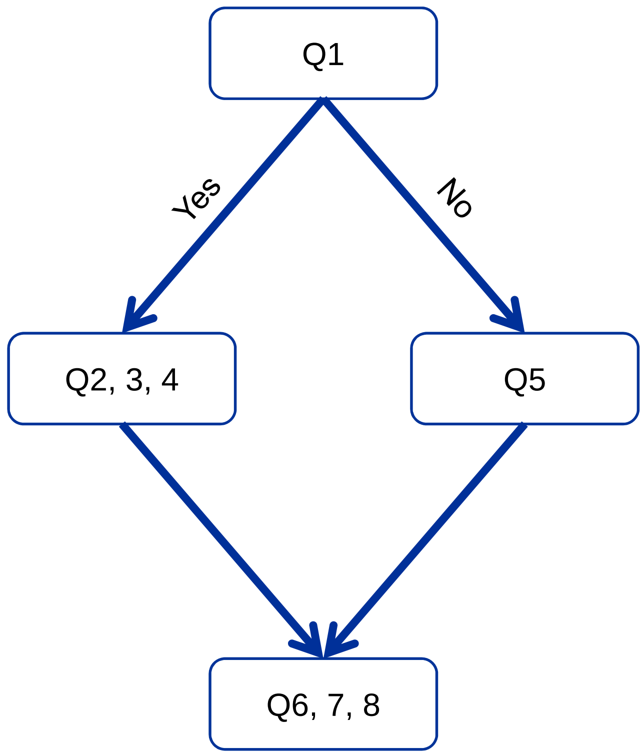
- ✓ JLA ordered Deloitte Tohmatsu Consulting(DTC) to conduct this survey. This report was made by JLA based on the result of the survey.

Questionnaire and its relationship

Questionnaire

Number	Questionnaire
1	In corporate financial analysis, for operating lease that are off-balance-sheet transactions, do you adjust the financial statements based on notes to the financial statements?
2	If answer to Q1 is Yes, please specify frequency of adjustment.
3	If answer to Q1 is Yes, please specify method of adjustment.
4	If answer to Q1 is Yes, and proposals in the revised exposure draft *Leases* ("ED") of IASB・FASB would be applied, does current adjustment become unnecessary?
5	If answer to Q1 is No, please specify why adjustment is not carried out.
6	If the proposal in ED would be applied, do you think expected accounting outcome for property lease contract under Japanese common practice would be appropriate?
7	Under existing Leases accounting standards, there are off-balance-sheet concerns on operating lease. What do you think should be done to address the matter?
8	Upon setting of accounting standards, there are opinions that the balance of companies' implementation/maintenance cost and users' benefits should be weighed. As users of financial statements, what is your opinion on the matter?

Relationship



Summary Results

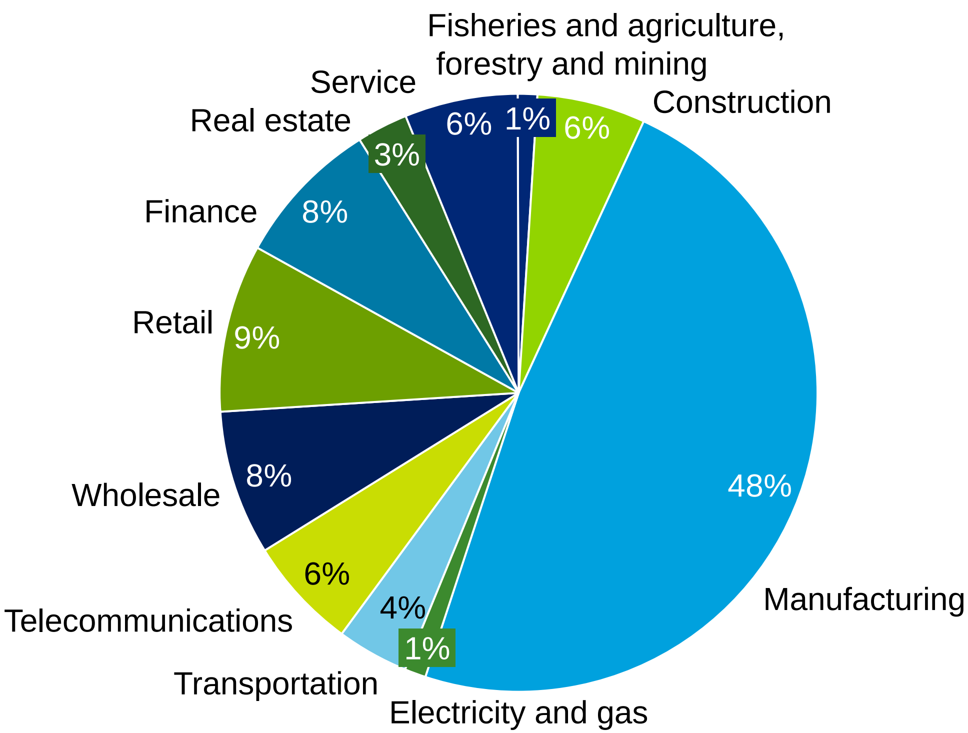
- ✓ Regarding operating lease transactions, respondents who carry out adjustment based on notes to the financial statements is around 30%. From this finding, we concluded that around 70% users do not carry out adjustment.
- ✓ 90% of respondents replied who carry out adjustment do not always do so, but only when there is an significance. Also, regarding adjustment method, around 90% users adjust balance sheet to make operating lease on balance using information in notes to the financial statements, not making complex adjustment.
- ✓ When the proposals of the ED would be applied, response that current adjustment becomes unnecessary and unsure is around 40/60.
- ✓ Only 6% of financial statement users responded that proposed accounting for leases on the proposals in the ED is appropriate, and over half of users responded that it is inappropriate and excessive.
- ✓ Only around 10% of financial statement users responded that all lease should be on-balance-sheet as the proposals of the ED. There is no need to account for all lease on on-balance-sheet, but responses that believe notes information must be enhanced in order to facilitate company's financial analysis makes up 70%. Also, around 20% of respondents replied that there is no problem currently.
- ✓ Around 70% of respondents believe that when enforcing accounting standards, it is necessary to weigh the company's implementation and management cost and users' benefit.

As a result, JLA views that benefits to users of financial statements arising from the proposals by the boards are limited. JLA's also views that the boards should focus on only improving disclosures with the current standard retained given costs incurred by preparers. This view is justified by the views from users of financial statements.

Survey Respondents' representative industries

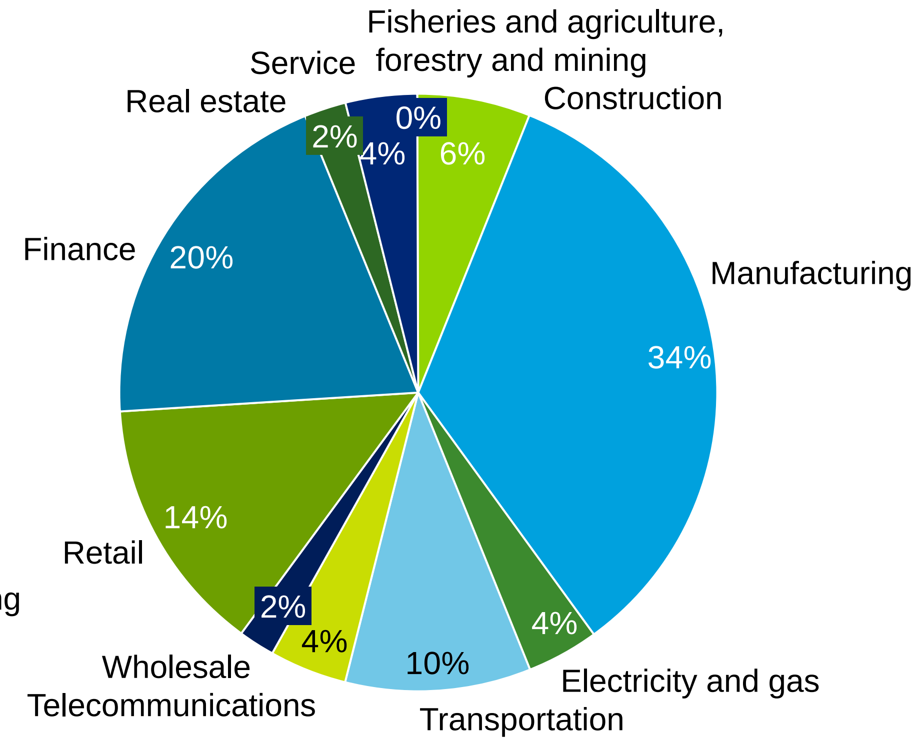
Taking into account the composition ratio of listed companies' industries, survey was conducted so that the balance of the survey respondents' industries is well spread.

– Industry Composition Ratio of listed companies –



N = 1,752

— Industry Composition Ratio of respondents —



N = 50

Surveyed Industries List

Industry trend was analyzed by the category of industries with high and low volume of operating lease as below.

Industries with high volume of operating lease

Industry Classification
Construction
Transportation
Wholesale
Retail
Real Estate
Service

Industries with low volume of operating lease

Industry Classification
Fisheries and agriculture, forestry and mining
Manufacturing
Electricity and gas
Telecommunications
Finance

Question 1.
Regarding Operating Lease adjustment status

For operating lease transactions, response that adjustment is carried out based on notes to the financial statements is around 30%.

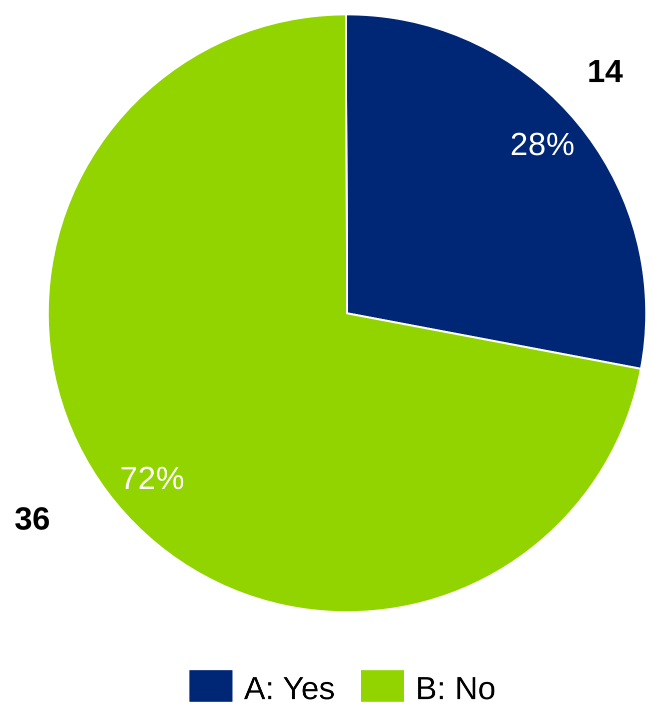
Question

Q1 In corporate financial analysis, for operating lease that are off-balance-sheet transactions, do you adjust the financial statements based on notes to the financial statements?

A: Yes

B: No

Response Results

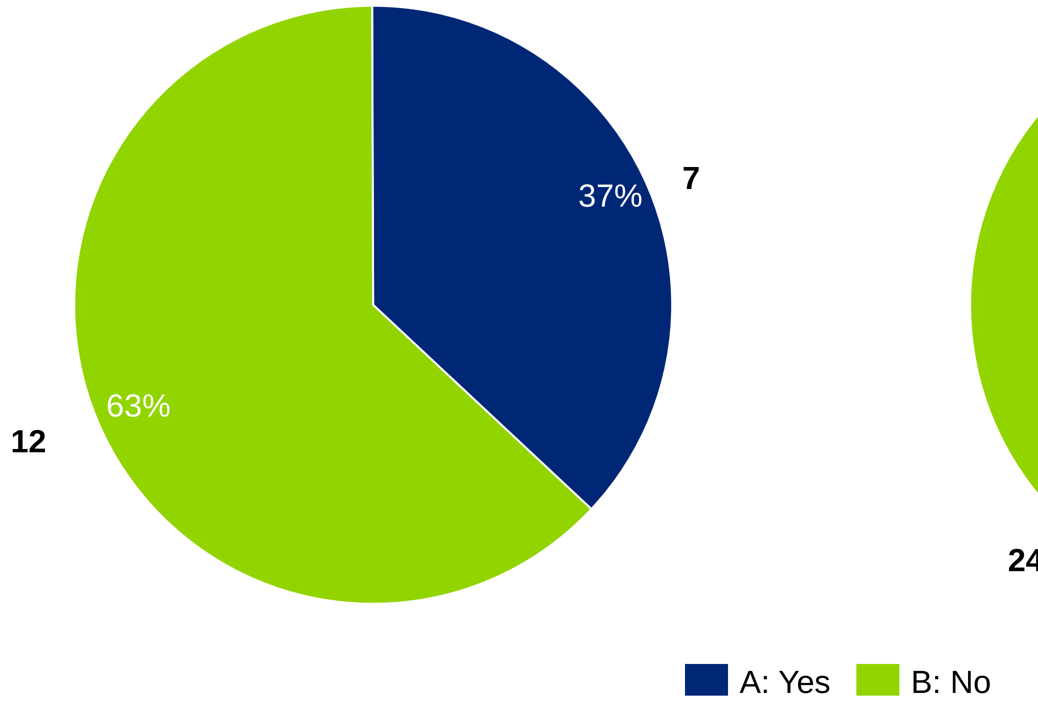


N = 50

Question 1.
Regarding Operating Lease adjustment status (Industry trend)

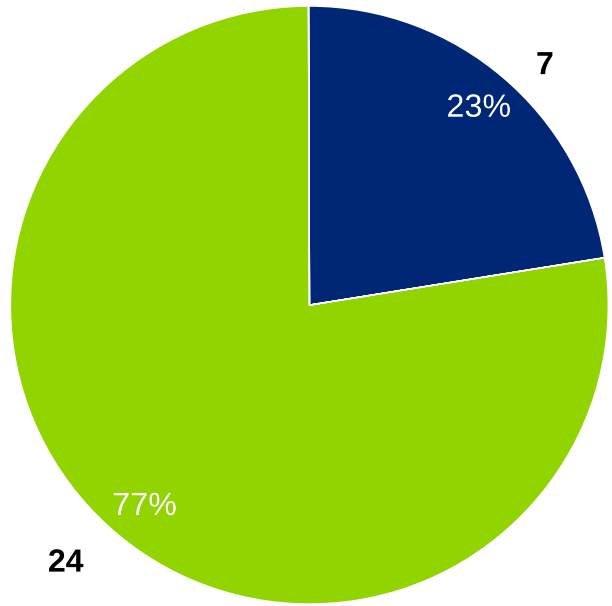
When looking at the results after dividing the industries into high and low volume operating lease, high volume operating lease industries has more respondents who replied yes to adjustment

— Industries with high volume of operating lease —



N = 19

— Industries with low volume of operating lease —



N = 31

Question 2.
Adjustment frequency

Respondents who do not adjust when there is not significance to operating lease makes up around 90%. Among those, respondents who has no particular numerical threshold as to whether adjust or not make up around 90%.

Question

Q2 If answer to Q1 is Yes, please specify frequency of adjustment.

A: If there is significance to operating lease transaction, adjustment is carried out, but if considered no importance, there is no adjustment.

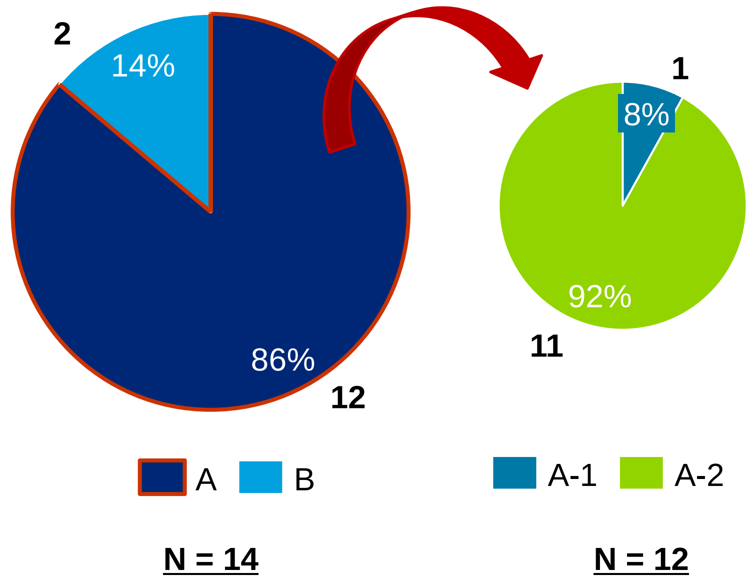
B: Always adjusted.

Q2-1 If answer to Q2 is A, please specify whether or not there is a numeric threshold as to whether adjust or not .

A-1: with numerical threshold. (If possible, please specify the criteria. Ex: Total Asset %

A-2: No particular numerical threshold when decides whether adjust or not.

Response Results



Question 3.
Adjustment Methods

Respondents who capitalize the amount of the minimum lease payment of non-cancellable operating leases in notes to the financial statements as liability make up around 90% of responses.

Question

Q3 Please specify the adjustment methods.

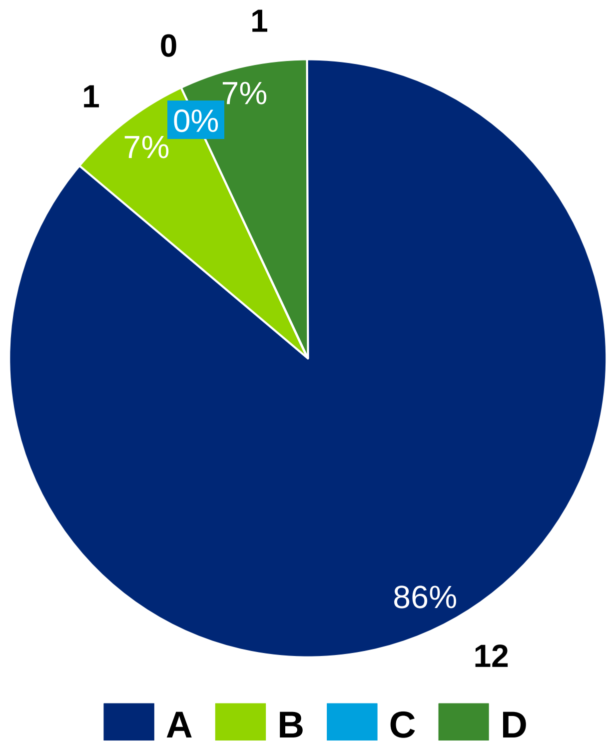
A: Capitalize the amount of the minimum lease payment of non-cancellable operating leases in notes to the financial statements as liability .

B: Divide the amount of the minimum lease payment of non-cancellable operating leases in notes to the financial statements into principal and interest, and adjust the principal portion to capitalize as liability.

C: In addition to B's adjustment, divide each lease payments into interest and repayment of principal, and adjust the interest portion to charge to income statement.

D: Adjustment is carried out in another way (If possible, please specify the adjustment method).

Response Results



N = 14

Question 4.
Regarding application of the proposals in the ED of IASB/FASB

Regarding application of the proposals in the ED of IASB/FASB, response that current adjustment becomes unnecessary and unsure is around 40/60.

Question

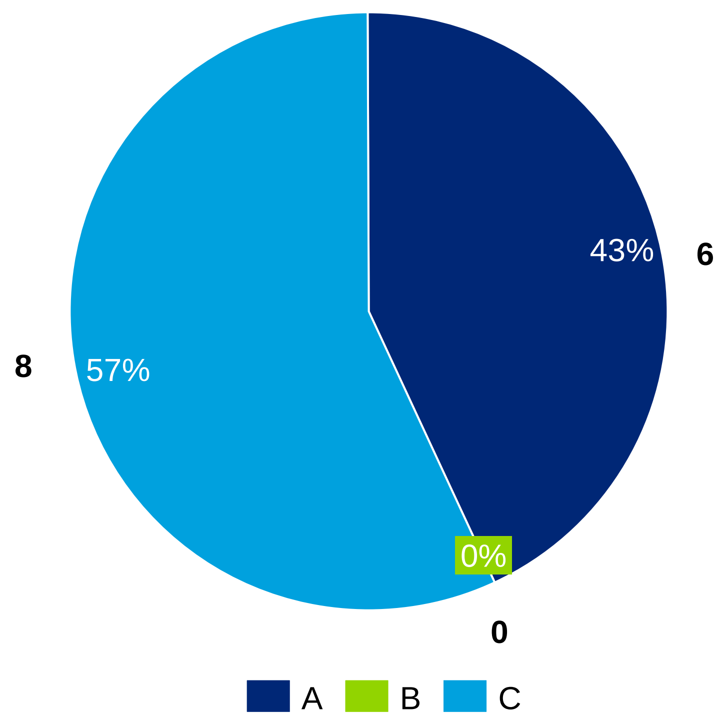
Q4 If proposals in the revised exposure draft *Leases* ("ED") of IASB/FASB would be applied, does current adjustment become unnecessary?

A: Becomes unnecessary

B: Does not become unnecessary (If possible, specify why it does not become unnecessary).

C: Unsure.

Response Results



N = 14

Question 5.
Reason why adjustment is not carried out

As a reason not to make adjustment, response that there is not enough significance to affect the financial analysis of company makes up around 60%.

Question

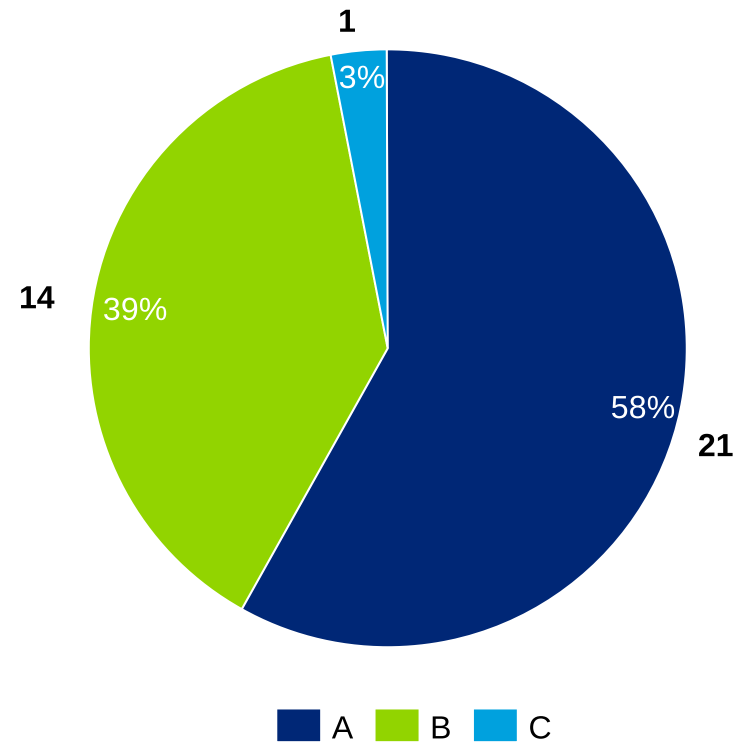
Q5 Please specify why adjustment is not carried out.

A: There is not enough significance to affect the financial analysis of company

B: Accurate data needed for adjustment is not ensured

C: Neither

Response Results



N = 36

Question 6.
Accounting outcome for leases proposed by the ED of IASB/FASB

Response stating that expected accounting outcome for property lease is inappropriate or excessive makes up over half of responses.

Question

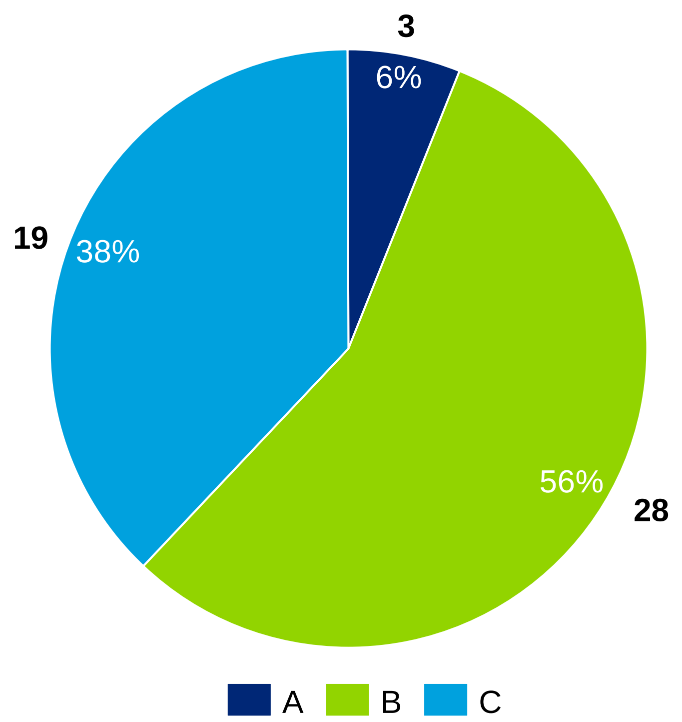
Q6 If the proposal in ED would be applied, do you think expected accounting outcome for property lease contract under Japanese common practice would be appropriate?

A: Above accounting outcome for leases is appropriate.

B: Above accounting outcome for leases is inappropriate or excessive. Regarding these lease transactions are cancellable any time, it is acceptable to allow off-balance-sheet treatment.

C: Unsure.

Response Results

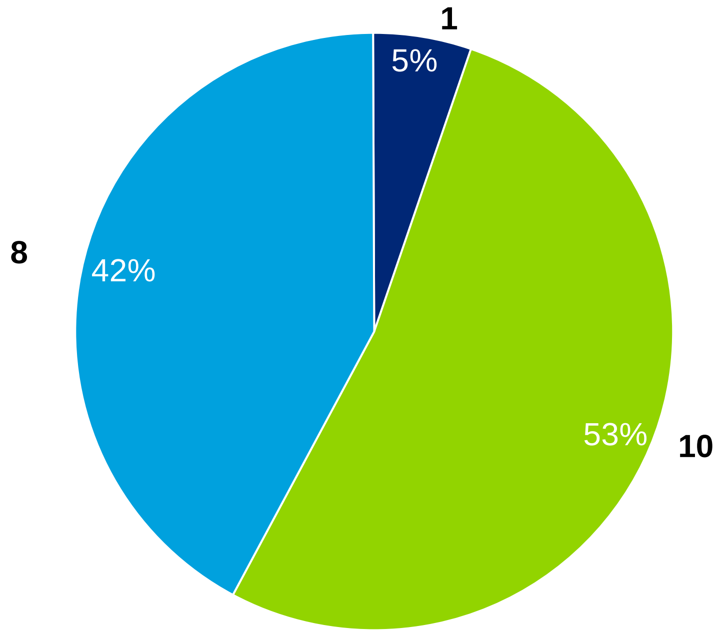


N = 50

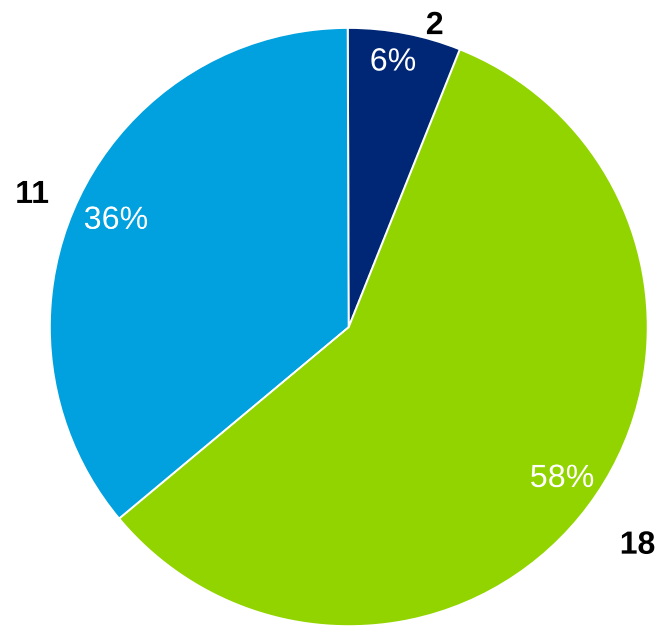
Question 6. Accounting outcome for leases proposed by the ED of IASB/FASB (Industry Trend)

When looking at the results after dividing the industries into high and low volume operating lease, there was not a big different between high and low volume industries.

— Industries with high volume of operating lease —



— Industries with low volume of operating lease —



- A: Above accounting for leases is appropriate
- B: Above accounting for leases is inappropriate and excessive
- C: Unsure

N = 19 **N = 31**

Question 7.
Regarding Off-balance-sheet Treatment

There is no need to account for all lease on on-balance-sheet, but responses that believe notes information must be enhanced in order to facilitate company's financial analysis makes up 70%.

Question

Q7 Under existing Leases accounting standards, there are off-balance-sheet concerns on operating lease. What do you think should be done to address the matter?

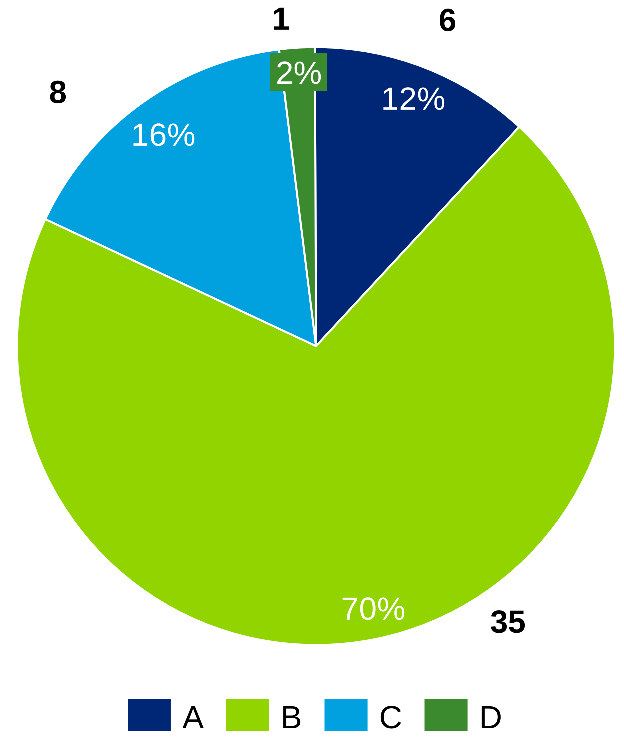
A: All lease should be on-balance-sheet.

B: There is no need to book all lease on-balance-sheet but notes information must be expanded.

C: No problem with current status.

D: Unsure.

Response Results

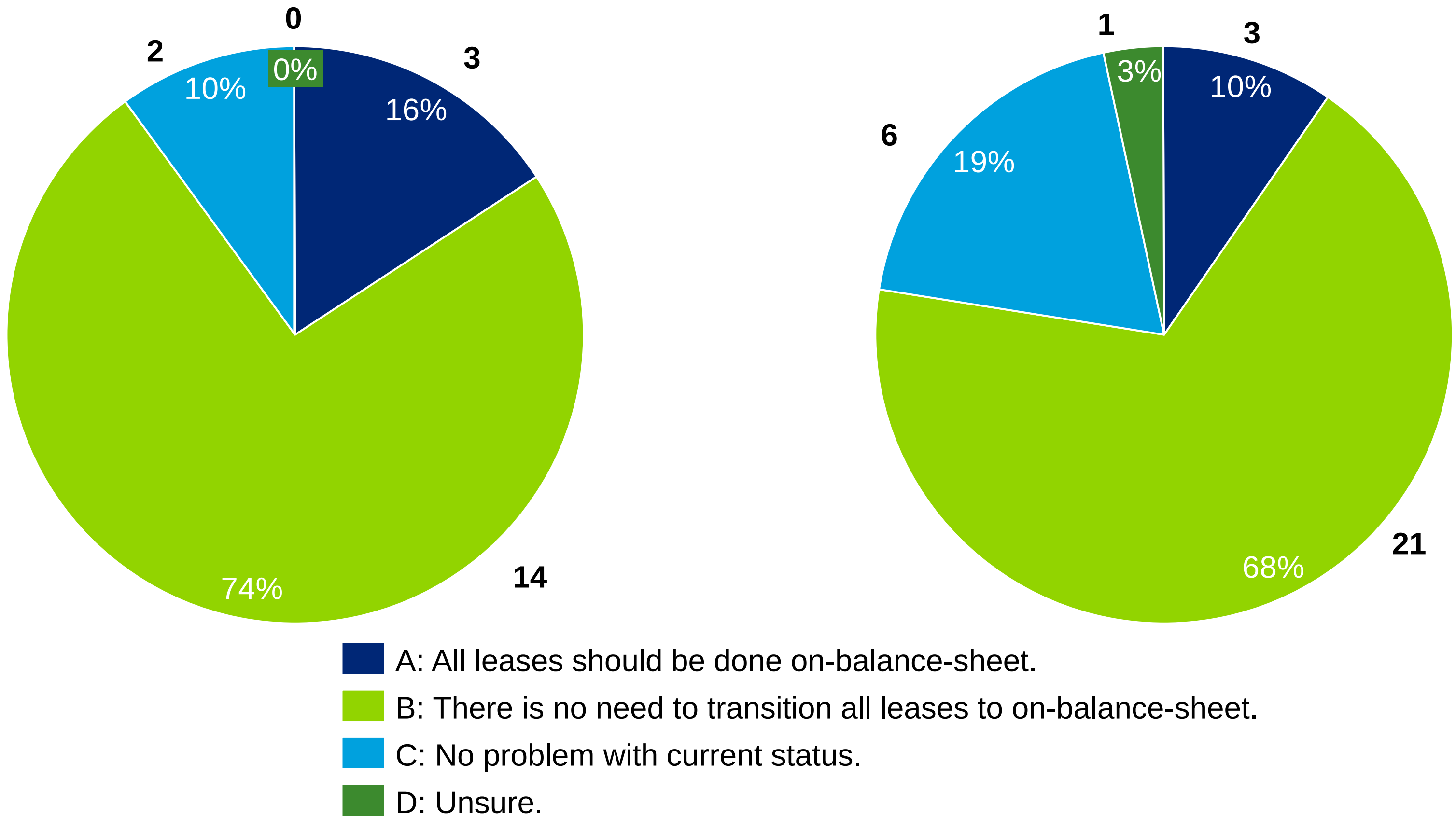


N = 50

Question 7.
Regarding Off-balance-sheet Treatment (Industry Trend)

When looking at the results after dividing the industries into high and low volume operating lease, high volume industries' respondents have a higher percentage who agree with notes information expansion.

— Industries with high volume of operating lease — — Industries with low volume of operating lease —



N = 19 **N = 31**

Question 8.
Weighing Cost and Benefit

Around 70% of respondents believe that when setting accounting standards, it is necessary to weigh the company's implementation and management cost and users' benefit.

Question

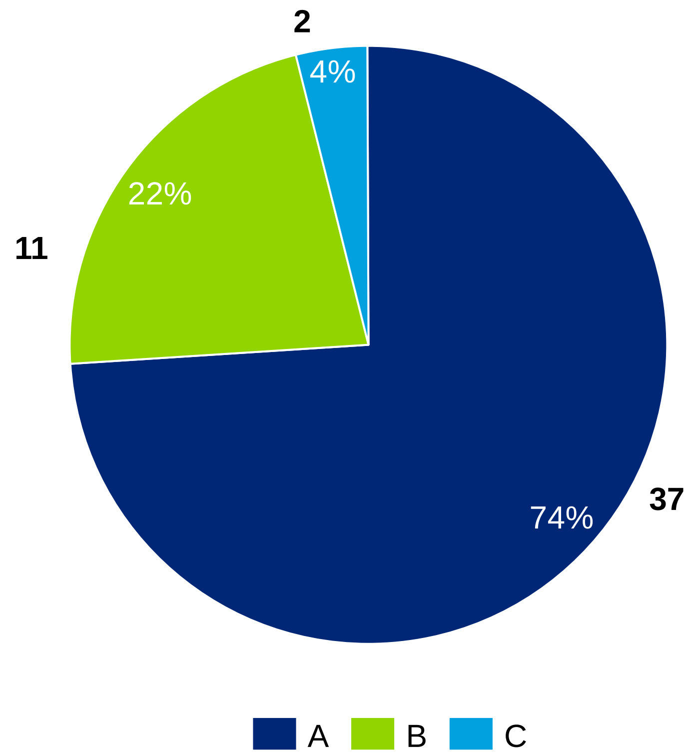
Q8 Upon setting of accounting standards, there are opinions that the balance of companies' implementation/maintenance cost and users' benefits should be weighed. As users of financial statements, what is your opinion on the matter?

A: Weighing of cost and benefit is necessary.

B: As users of income statement, even with high cost, would like more information.

C: Unsure.

Response Results



N = 50

Question 8.
Weighing Cost and Benefit (Industry Trend)

When looking at the results after dividing the industries into high and low volume operating lease, around 80% of industries with high volume operating lease respondents agree for cost benefit weighing.