

By e-mail

30th November, 2010

Hong Kong Institute of Certified Public Accountants
Mr. Steve Ong
Director, Standard Setting

Dear Mr. Ong,

IASB Exposure Draft – Leases


I am writing to express my comments on the captioned.

Unlike finance lease which is a quasi acquisition of asset, recognition of asset and liability by a lessee for operating lease is not appropriate as:

- right to use may not be able to justify recognition of asset as the lessee's control over the asset is not flawless. Benchmarked by the control test prescribed in the ED – Revenue From Contracts with Customer, he cannot freely direct the use of the asset e.g. pledge etc, or receive all the benefit from the asset e.g. capital appreciation etc. Moreover, it may not be feasible or appropriate to revalue or perform impairment test on the asset arising from operating lease;
- recognition of all lease payments as liability at inception represents recognition of future commitments, which is not consistent with principles of liability recognition.

On the other hand, I believe the most appropriate accounting method for lease held by a lessor hinges on how he earns the revenue from the lease. The abovementioned control test should be applied symmetrically. As and when control is passed, revenue should be recognized by the lessor, and on the other hand, expense/asset should be recognized by the lessee.

Yours faithfully,


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