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HQ 502/141 Pt.14

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30 November 2010

Dear Mr. Ong,

Re: Invitation to Comment on Exposure Drafts and Consultation Documents

I refer to your letters dated 16 September 2010 and 3 November 2010. Please find below the comments to the following exposure draft and discussion paper.

(I) IASB Exposure Draft of Leases (ED/2010/9)

The Exposure Draft aims at improving the financial reporting of lease contracts. The major proposals of the Exposure Draft includes the adoption of a 'right-of-use' model for the lease accounting of both lessees and lessors, the elimination of distinction between finance lease and operating lease, and for the accounting of lessors, the adoption of 'performance obligation' approach or 'derecognition' approach depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease.

In general, I support the consistent accounting for both lessees and lessors and the abolition of distinction between finance and operating leases. The proposed changes will improve consistency in lease accounting and enhance comparability of financial information between entities.

I also welcome the proposed disclosure of quantitative and qualitative financial information relating to leases. The extensive disclosure of relevant information will enable users of financial statements to better understand the leasing activities of the companies and the impact the leases have on the entities' cash flow position.

However, I do not support the adoption of different approaches for lessors' accounting. Whether a lessor retains exposure to significant risks or benefits associated with the underlying asset requires the exercise of judgment, which may result in possibilities of different conclusions and different accounting treatments by entities for similar leases.

In particular, I am not in favour of the 'derecognition' approach because of its complexity and its recognizing an upfront profit or loss at the commencement of the lease. The lease is yet to run and the profit or loss of the lease will be subject to contingencies like early termination or other non-compliance by the lessee.

On the other hand, under the 'performance obligation' approach, interest income and lease income are recognized as the lease liability is satisfied which more truly reflects the revenue generated by the lessor during the accounting period.

To avoid disparity in lease accounting, I suggest the 'performance obligation' approach be applied by the lessors to all leases.

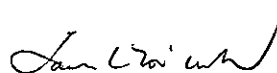
(II) IVSB Discussion Paper Valuation Uncertainty

In the Discussion Paper, the International Valuation Standards Board summarises its preliminary views on the nature and causes of valuation uncertainty and how this should be communicated to valuation users.

It is concluded in the Discussion Paper that uncertainty is inherent in any valuation, that adequate disclosure of material uncertainty should always include an explanation of the nature and causes of the uncertainty and its effect on the valuation process and valuation opinion, that attempts to rely solely on numeric expressions may be unhelpful and may be counterproductive if they imply a false precision.

Being not a valuation expert, I have no comment to make on the questions raised by the IVSB. In general, I welcome the more adequate disclosure of valuation uncertainty with relevant commentary to explain the nature and causes of that uncertainty.

Yours sincerely,



(Mrs WU LAM Choi-wah)
for Commissioner of Inland Revenue