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COMMISSIONER OF INLAND REVENUE,
G.P.O. BOX 132, HONG KONG.

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IN ANY COMMUNICATION PLEASE QUOTE OUR FILE NO.

檔案號碼：

File No.:

HQ 502/141 Pt.21

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Dear Mr. Riley,

Re: Invitation to Comment on IABS Exposure Draft of Leases

I refer to your letter dated 8 July 2013 inviting for comment on the IASB Exposure Draft of Leases (ED/2013/6).

The Exposure Draft aims to improve existing lease accounting models which have been criticized for failing to meet the needs of users of financial statements because they do not always provide a faithful representation of leasing transactions.

A new classification system for leases is proposed which is based largely on the nature of the underlying assets (i.e. Type A leases for non-property and Type B leases for property). Both the lessees and lessors would adopt the same classification tests. A dual-model approach would govern the lessee and lessor accounting.

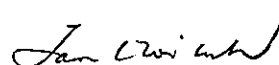
The core principle of the proposed requirements is that an entity should recognize assets and liabilities arising from a lease where the lease term is greater than 12 months. While the Type A and Type B leases are fundamentally similar to existing finance leases and operating leases, the proposed accounting models appear to be more complex in application. For example, the lessee will recognize asset and liability arising from all type of leases. The Type B lease payments though recognized in the lessee's income statement on a straight-line basis, will consist of two elements: the amortization of right-of-use asset and the periodic unwinding of the discount on the lease liability [i.e. clause 50 of the ED].

Extensive disclosure has been proposed. In general, I welcome the disclosure of quantitative and qualitative financial information to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases.

I have no specific comment on the questions posed in the Exposure Draft. In so far as tax administration is concerned, I must point out that irrespective of the development in accounting standards which try to reflect the economic substance of transactions, the amount of assessable income and deductible expenses, and the computation of assessable profits for tax purpose will be based on the legal substance of the transactions and will be governed by the provisions of the Inland Revenue Ordinance.

I appreciate the efforts of the Board in re-exposing proposed standard on leases to seek inputs for formulating a best accounting model. In all events, I would appreciate it very much if you could keep me informed of the development of the lease accounting.

Yours sincerely,



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