



THE JAPANESE SHIPOWNERS' ASSOCIATION

Kaiun Building, 2-6-4, Hirakawa-cho
Chiyoda-ku, Tokyo 102-8603, Japan
Tel : +81-3-3264-7174
Fax : +81-3-5226-9166
E-mail: pln-div@jsanet.or.jp

Mr. Hans Hoogervorst
The Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London, EC4M 6XH

4 August 2014

Dear Sir,

Additional comments on the IASB's project on lease accounting

I am writing this on behalf of the Japanese Shipowners' Association (JSA), which has had a keen interest in the IASB's project on lease accounting and has repeatedly expressed its grave concerns about the project through various opportunities, including our comment letter submitted in September 2013. However, the IASB has not provided us with an adequate answer and explanation with a rationale for the issues we have pointed out before as follows:

- (a) Lack of sufficient consideration for an owner's (supplier's) obligation to operate an asset (i.e. a vessel), maintain an asset available for use, and the potential risks of possessing the asset when judging the transfer of the control of use, and
- (b) Inappropriateness of judging a contract to be a lease when the price of the contract is primarily determined by supply and demand and thus it is considered as a single package of services with no financing element, such as a time-charter contract in the shipping industry.

When determining whether a contract contains a lease or not, we strongly believe that the owner's (supplier's) obligation to operate the asset (a vessel) and maintain the asset available for use and the potential risks of possessing the asset should be considered. Whenever a vessel is operated, there are potential risks, such as mechanical troubles and marine accidents. Under time-charter contracts, the owner normally retains such risks and does not transfer them to the customer because, in

substance, the customer simply purchases a service; that is, an ability to operate the vessel safely. Therefore, it would be inappropriate, unnecessary and lack balance if the customer had to recognise a right-of-use of the asset on its balance sheet for the contract where the potential risks were not transferred from the owner to the customer, merely because the right to receive the economic benefits from the asset had been transferred to the customer.

In the IFRS 15 Revenue from Contract with Customers 38(d), the transfer of the significant risks and rewards of ownership of an asset to the customer is shown as an indicator of the transfer of control to the customer. It would be inconsistent not to consider the transfer of the risk when determining whether a contract contains a lease or not.

In addition, the IASB staff paper in the May 2014 IASB and FASB meeting included an example of a time-charter contract which gave the staff's view that a time-charter contract contains a lease. We believe that the example is inappropriate and should be revised because it may cause a misunderstanding that any kind of time-charter contract contains a lease regardless of nature and/or term of the contract. In the shipping industry, there are various types of time-charter contracts in practice that have a different nature and term.

Looking at the IASB's discussions to date, we understand that the IASB puts much emphasis on the view that every contract that has a financing element contains a lease and then seems to apply this view to all contracts even if the contract is substantially a service. However, we believe that a substantial service contract should not be accounted for as a lease because the economic substance between such a contract and the contract where a financing element is significant is fundamentally different. Ignoring such a difference and presenting assets and liabilities that have no substance on the balance sheet would not be a sensible approach to develop a high-quality accounting standard. Consequently, we believe that the IASB should explore how to make an appropriate distinction between a lease and a service more carefully based on economic substance.

We are profoundly disappointed that the leasing standard is being developed without sufficient discussion on the point described above and necessary dialogue with constituents. The IASB is urged to sufficiently consider the comments raised by the constituents and to develop an international standard that will be accepted globally.

It is sincerely hoped that the IASB will not finalise this project on lease accounting, which has been undertaken over a long period, without an understanding of the constituents and continue to deliberate with an appropriate due-process step to satisfy the constituents' needs.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Yoshikiyo Ono', written in a cursive style.

Yoshikiyo Ono

Director General

The Japanese Shipowners' Association