



22 May 2013

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF *LEASES*

Comments to be received by 15 August 2013

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2013/ed_leases.pdf

As stated in the joint press release issued by the IASB and the US Financial Accounting Standards Board, accompanying the Exposure Draft, the proposal aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organisation uses in its operations, and the risks to which it is exposed from entering into leasing transactions.

The existing standards on leases have been criticised for failing to meet the needs of users of financial statements because they do not always provide a faithful representation of leasing transactions. In response to this criticism, in 2006 the IASB and the FASB initiated a joint project to improve the financial reporting of leasing activities under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP).

The Boards have developed an approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases. A lessee would recognise assets and liabilities for leases of more than 12 months.

Stakeholders have informed the Boards that there are a wide variety of lease transactions involving different economics. To better reflect those differing economics, the revised Exposure Draft proposes a dual approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease. For most real estate leases, a lessee would report a straight-line lease expense in its income statement. For most other leases, such as equipment or vehicles, a lessee would report amortisation of the asset separately from interest on the lease liability. The Boards are also proposing disclosures that should enable investors and other users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

The leases project is a converged effort between the IASB and the FASB. The revised Exposure Drafts for both organisations are nearly identical. The differences between the two proposals are primarily related to existing differences between IFRS and US GAAP and decisions the FASB made related to non-public entities.

The FRSC invites your comments on the proposals. Comments should be supported by specific reasoning and should be submitted in written form. To allow your comments to be considered, in developing its response to the IASB, the FRSC requests your comments to be received by the Institute on or before **15 August 2013**.



Hong Kong Institute of
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.