



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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CASLB/G/10

June 29, 2018

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on 'IPSAS Exposure Draft 64, 'Leases''

We are pleased to provide comments on the Exposure Draft 64, 'Leases' issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our views on the each of the specific questions for comments are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

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Encl.: As above



Comments on Exposure Draft 64, 'Leases'

Specific Matters for Comment 1

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6 - BC8 for IPSASB's reasons). Do you agree with the IPSASB's decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

ICAI's View:

We agree with the approach of IPSASB to adopt IFRS 16 right-of-use model for lessee accounting.

It is understood that the lease contracts, whether classified as operating leases or as financing leases, always create rights and obligations for lessee that meets the definitions of assets and liabilities. However, existing IPSAS 13 does not provide to recognize the assets and liabilities in the books of lessee in case of operating lease. In reality, the operating lease also gives rise to assets and liabilities that are not being recorded on the face of the financial statements of lessee under the "Risk and Reward Model". In other words, the said assets and liabilities remain off-balance sheet in the books of lessee under operating leases which provide incomplete financial information to the users (investors and other stakeholders) and also provide opportunities to structure transactions to achieve a particular accounting outcome.

Under the new proposed model, i.e., right-of-use model, ED 64 proposes to recognize the right-of-use the asset (as lessee controls the right to use the underlying asset for the lease term) and a lease liability (as lessee has a present obligation to pay lease rentals over the lease term) in the books of lessee that would significantly increase the transparency and the comparability of the financial statement and would better address the needs of users of financial statements.

Specific Matters for Comment 2

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this Exposure Draft (see paragraphs BC9 - BC13 for IPSASB's reasons). Do you agree with the IPSASB's decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.



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ICAI's View:

We do not agree with the IPSASB's proposal to depart from IFRS 16 "Risks and Rewards" model for lessor accounting for reasons stated in our response to the SMC 3.

Specific Matters for Comment 3

The IPSASB decided to propose a single right-of-use model for lessor accounting consistent with lessee accounting (see paragraphs BC34 - BC40 for IPSASB's reasons). Do you agree with the requirements for lessor accounting proposed in this Exposure Draft? If not, what changes would you make to those requirements?

ICAI's View:

We are not in favor of IPSASB's decision to propose a single right-of-use model for lessor accounting due to following reasons:

ED 64 prescribes that the underlying asset and the right-of-use asset are separate economic phenomena. Accordingly, ED 64 prescribes to recognise in the books of lessor, the underlying asset as well as a lease receivable and a liability (unearned revenue) at the commencement date. In our view, this would artificially inflate a lessor's assets and liabilities since both the underlying asset as well as the right-to-use asset would get reflected in the lessor's balance sheet.

It is not understood, how the two separate assets, i.e., underlying asset and right to use the same can be recorded/recognized in lessor's financial statements when lessor has already given up the right of use of that asset to the lessee. In other words, future economic benefits associated with the asset being leased out would flow to the lessor in the form of lease receivables and retained interest in the underlying asset (residual value), therefore, it does not seem appropriate to recognize the underlying asset in the financial statements of the lessor in its entirety (at the carrying amount of the commencement date) in addition to the right-to-use (lease receivables) from that underlying asset.

In view of the above, it is mentioned that the model proposed in the ED does not seem appropriate to be applied to at least to those assets with limited useful life. Though, in case of assets with unlimited useful life such as land, the aforesaid model can be applied but still it is felt that some more research is required for applying this model appropriately to all types of assets in financial statements of lessor.



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It may be mentioned that IASB had also considered a similar model for lessor accounting while developing IFRS 16. However, the IASB decided not to pursue it for various reasons. The IPSASB should discuss in its Basis for Conclusions why it feels that the reasons of IASB abandoning that model are not sufficient for IPSASB to desist it from following an approach that is abandoned by IASB even though IASB's Conceptual Framework follows the control model similar to that of IPSASB.

We are further of the view that "risks and rewards" approach is a sub-set of control model. Accordingly, we are of the view that the two approaches do not necessarily result in different consequences in all cases, e.g., in transfer of control of a right-to-use asset. In our view, therefore, the application of control model being the difference in IASB's approach and the IPSASB's approach does not seem to be sufficient reason for departure from IFRS 16.

Further, we are of the view that the information provided in financial statements should meet the needs of the users and should be transparent. However, to achieve this objective it is not an emphasizing consideration to have a symmetrical model of accounting for both lessor and lessee. Accordingly, we are of the view that either the lessor's accounting model should be retained on the same lines as that in IFRS 16 or the IPSASB develops a model that is appropriate for all types of assets.

Specific Matters for Comment 4

For lessors, the IPSASB proposes to measure concessionary leases at fair value and recognize the subsidy granted to lessees as a day-one expense and revenue over the lease term consistent with concessionary loans (see paragraphs BC77 - BC96 for IPSASB's reasons). For lessees, the IPSASB proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23 (see paragraphs BC112 - BC114 for IPSASB's reasons). Do you agree with the requirements to account for concessionary leases for lessors and lessees proposed in this Exposure Draft? If not, what changes would you make to those requirements?

ICAI's View:

While we agree with the proposed requirements prescribed by the IPSASB to account for concessionary lease, we have one observation that this ED has prescribed to measure these concessionary leases at 'fair value'. However, it is felt that prescribing fair value is not in concordance with the IPSASB's Conceptual



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Framework which explains the term “market value” as one of the measurement base for assets/liabilities.

Though BC 26 of this ED while recognizing the above fact explains the reason of using the term “fair value” in line with other existing IPSASs, we feel that prescribing “market value” would be more appropriate as “market value” is considered to be entity specific and, therefore, may be more appropriate as compared to “fair value” which is market specific.

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