O/o Controller General of Accounts of India
Ministry of Finance
Government of India
E Block, INA
New Delhi

17th May 2021

Comments on Exposure Draft of IPSASB on Leases

The Exposure Draft for Accounting on Leases has been analyzed by the O/o Controller General of Accounts and the comments on specific questions are as under:

Specific Matter for Comment 1: The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21–BC36). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37– BC60)? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We agree with the broad provisions and the modifications made in the ED. IPSASB in ED has decided not to provide explicit scope exclusions to Concession Agreements.

IPSAS cater to sovereign governments as well. The concession agreements are quite common in the sovereign governments and therefore the exclusion from the standard would obviate the detailed accounting treatment of these agreements. In Government of India, concession agreements are entered in the form of formal contracts and terms and conditions of the contracts are clearly defined. There are variety of concession agreements in Government which forms the basis of Public-Private Partnership in the Government.

The recognition exemption has been given on the lines of IFRS considering the materiality limits. IFRS has single lease accounting model where all leases are considered as a financing arrangement. In IFRS, exception is available for low value leases (asset value less than $5000). For these low value leases, lessee may elect to recognize payments on a straight-line basis over the lease term whereby these leases will not be reflected in lessee's Balance Sheet.

We would agree with it. However, for the sake of completeness these transactions would need to be recorded in some specific item of expenditure as the total account bookings in Government needs to tally with the bank statements.

Specific Matter for Comment 2: The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, Leases, which differs from the definition proposed in ED 77, Measurement1 (see

paragraphs BC43– BC45). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We would suggest inclusion of Arms Length transactions in defining the Fair Value. This is important because the value may get distorted if the transactions are not made on Arms Length Basis. The ED 75 refers to ED 77 which deals with Measurement Bases defines Fair Value as "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between the market participants at the measurement date."

The definition given above is suitable in the context of private sector which is largely the domain of IFRS, but in the context of Public sector financial reporting unrelated parties in carrying out transaction is important.

The definition of "Fair Value" in the context of Government of India is that Fair Value of a transaction is the value at which goods are exchanged between willing buyer and willing seller in an Arms-Length transaction. The definition of Arms-Length transactions has also been specified as the buyer and seller should be unrelated. This inclusion of arms-length in definition of Fair Value may be considered by IPSASB.

Specific Matter for Comment 3: The IPSASB decided to propose to refer to both "economic benefits" and "service potential", where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46– BC48). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions

We agree with the contention of IPSASSB that while considering the identification of Leases both "Economic Benefit" ad Service Potential should be considered instead of considering just the Economic Benefits.

The logic given by IPSASB in this regard is "If the guidance referred only to "economic benefits", the IPSASB noted that an entity that intends to use the identified asset to provide services to the community might reach the conclusion that the transaction is not a lease because it does not derive economic benefits from the use of that asset, despite the fact that the transaction meets the definition of a lease in [draft] IPSAS [X] (ED 75).5. Therefore, the IPSASB decided to add the term "service potential" in the application guidance section on identifying a lease, where appropriate".

We would agree with this explanation. In the context of Public Sector Financial Reporting, "Service Potential" is an important aspect which would need to be considered. The Government has the objective to provide service to the public and therefore service potential of any asset has an important utility in the context of Public Sector. Government has expenditure in social sector wherein the Economic benefits are not very pronounced but service potential of the asset would be considered and therefore we would agree with the inclusion of service potential in the definition.

Nalin Kumar Srivastava
Deputy Controller General of Accounts
Office of Controller General of Accounts