



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

30 June 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

EXPOSURE DRAFT 64 LEASES

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 64 *Leases* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Specific Matter for Comment**Specific Matter 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.

We agree with the decision of IPSASB in adopting the right-of-use model for lessee accounting for reasons provided in BC6-BC8.

Specific Matter 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.

We agree with IPSASB’s decision to depart from the application of risks and rewards model for lessor accounting for reasons described in paragraphs BC9-BC13.

Specific Matter 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?

We agree with the proposed single right-of-use model for lessor accounting for reasons stated in paragraphs BC34-BC40. However, we noted that the initial and subsequent measurement of the unearned revenue for lessors and the right-of-use asset for lessees would result in different carrying amounts in lessors’ and lessees’ books. We are not sure how these will be dealt with during a consolidation exercise.

Specific Matter for Comment 4

For lessors, the IPSASB proposes to measure concessionary leases at fair value and recognise 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 recognise 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?Fair value measurement of concessionary leases

For lessors, paragraph 32 of the ED states that “the fair value of the right-of-use asset transferred to the lessee shall be measured by discounting market lease payments using a market interest rate”. While for lessees, paragraph 78 of the ED provides that if the lessee’s incremental borrowing rate cannot be readily determined, the lessee shall use market interest rates. Generally, in the public sector, the right-of-use asset being transferred to the lessee is unique to the public sector where it will be difficult to obtain the market interest rate to finance such an asset. We believe that guidance on how a market interest rate or an incremental borrowing rate can be determined in practice should be provided.

Recognition of subsidy granted to lessees as a day-one expense

The IPSASB Consultation Paper on *Accounting for Revenue and Non-Exchange Transactions*, among others, addresses non-exchange expenses comprising grants, contributions and other transfers. In the Consultation Paper, the IPSASB proposes that where grants, contributions and other transfers contain either performance obligations or stipulations, they should be accounted for using the Public Sector Performance Obligation Approach (PSPOA).

We believe the subsidy granted to lessees falls under grants, contributions and other transfers that were addressed in the Consultation Paper. Accordingly, we propose for the IPSASB to consider PSPOA in determining the accounting for the subsidy.