(NBAA)

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Our Ref: NBAA/ CF/TSC.1/VII/147 Date: 27th December, 2017

Chief Executive Officer,
International Federation of Accountants,
International Public Sector Accounting Standard Board,
529 5th Avenue
New York, New York 10017**.**

Dear Sir/Madam

RE: COMMENTS ON EXPOSURE DRAFT 64 - LEASES.

Refer to the heading above.

NBAA as the PAO responsible for the professional training, development and regulation of the accountancy profession in Tanzania and as the member board of the International Federation of Accountants welcomes the opportunity to provide you with our comments on the Exposure Draft no. 64 on Leases.

In principle, we are supportive of all the requirements in the Exposure Draft. However, after going through it we came up with the following critical insights which we think can add value and consequently ensure wider coverage when it comes to issues related to lease accounting in the public sector.

Concessionary leases issued at no consideration
Paragraph 20 of ED 64:
Agreeing with proposal regarding Paragraph 20 that "At the commencement date, a lessor shall not derecognize the existing underlying asset" **except for concessionary leases issued at no consideration.**

Rationale
Not derecognizing leases issued for no consideration in the books of a lessor is not in line with the conceptual framework. Under the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities para 5.6 an asset is defined as "a resource presently controlled by the entity as a result of a past event". Further, para 5.7 defines a resource as "**an item with service potential or the ability to generate economic benefits**. Physical form is

not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the **resource itself or from the rights to use the resource**".

The lessor under a concessionary lease issued for no consideration loses control of the underlying asset. Recognition of the underlying asset implies retention of only the physical form (which as indicated in the conceptual framework "is not a necessary condition of a resource"). In these cases the ability to use the asset to obtain service potential/economic benefits is transferred to the lessee. No service potential or ability to generate economic benefits is retained by the lessor.

The statement on the basis of conclusion BC9 (c) (ii) that ……"a lease conveys the right to use an underlying asset for a period of time and does not transfer control of the underlying asset to an entity" does not apply to leases issued at no consideration as no economic benefits or service potential are obtained by the lessor thus the underlying asset is in substance transferred to the lessee.

Suggestion: An exception to allow derecognition of the underlying asset in the books of accounts of the lessor should be introduced in Para 20 for leases issued at no consideration. The emphasis on recognition of assets should strictly follow the definition of control as defined in the conceptual framework.

We trust that our comments are of assistance to you. If you require any clarification on our comments, please contact the undersigned.

Thank you in advance for your cooperation.

Yours sincerely,

P. A. Maneno
EXECUTIVE DIRECTOR