## Clarifications/Comments on ED on Leases released by IASB

- 1. At a very basic overview level, in the books of Lessee:
  - A separate asset called 'Right of use of asset' is being created
  - Which gets amortised
  - Notional interest is being expensed
  - Right is impaired if necessary

Thus, the basic assumption as given in the first sentence under 'introduction and invitation to comment' mentions that, leasing is an important source of finance.

This may not necessarily be true for a lease arrangement say for taking an office space for rental purposes say for 3 years, may clearly not be a financing arrangement as an entity may not take the office space on rentals as an alternative to financing.

In my view,

- the standard should clearly clarify the purpose and intent of the new concept
- The definition of short term leases should be amended accordingly and not be restricted to less than 12 months
- The standard should therefore bring criterion which will help conclude that the leasing arrangement has been taken by an entity as an alternative to financing. Eg.
  Telecom infrastructure lasting, 10-15 years etc.
- 2. In the books of lessee, per proposed ED, recognition of items of profit and loss like interest expense, amortisation etc is to be recognised in 'statement of comprehensive income' Para 11, while in the books of lessor per proposed ED, items of profit and loss like interest income, lease income etc is to be taken to 'profit and loss' Para 31. Specific clarifications in this regard are:
  - Why this distinction. What is the significance/ relevance
  - Operationally would these items be considered as being above Earnings before interest and depreciation.
  - What would be the exact nature/ classification
- 3. Para B 22-27 elaborate the concept of when significant risks and rewards are retained and not. This being a new concept, allowing this amount of subjectivity may only bring varying/divergent results. Is it possible to identify criterion in order or preference like already being done in some standards like IAS 21- for identifying the functional currency.
- 4. What are the situations envisaged by the board when in the case of a lessee, a right of use of asset is impaired other than in conditions of an onerous contract as mentioned in Para 5 under 'scope' of the proposed ED.

- 5. Could the standard setters elaborate on why in the case of a lessor under performance obligation approach, the assets and liabilities be increased by the same amount as this would change my net assets being carried as my rate of depreciation and timing of receipt may not match. This would artificially adjust the net carrying value of the true asset. What do the standard setters have in mind to propose this method.
- 6. In the case of a lessor under performance obligation condition where should the net lease asset be classified.
- 7. Since IFRIC 4 shall be superseded, is the new standard likely to cover all transactions where it is not directly a lease but indirectly a lease. Could we have specific illustrations on power and telecom industries. (reference existing Para 3 of IFRIC 4)
- 8. In my view, the ED may not be covering portion of an asset. Can the main standard elaborate on this in detail as the earlier IAS 17 did not and IFRIC 4 only had an indirect reference. How does this standard plan to address the issue of multiple lessees for a single lessor.
- 9. Transitioning provisions seem to indicate that, all existing arrangements when the new revised standard did not exist would now have to undergo separate treatment. Is it possible to have only prospective treatments.
- 10. The defined terms defines right of use asset as lessees right to use or control the use of. Whereas, Para B 4 discusses 'the right to control the use'. Is this likely to bring in divergent interpretations or bring about confusion. Should control he be defined in defined terms.
- 11. Para 16 on 'subsequent measurement' prescribes the liability be measured at 'amortised cost using effective interest method. The Defined terms section mentions/refers to IAS 39. However, amortised cost is not defined in this standard in the context of both the 'liability' as well as the right to use the asset.