14th December ‘10

International Accounting Standard Board
First Floor,
30, Cannon Street
London,
EC4M6XH
United Kingdom.

Dear Board Members,

Invitation to Comment – Exposure Draft Leases

The organisation ‘AIISAA-Promoting Global Reach’ is pleased to respond to the International Accounting Standard Board (IASB)’s Exposure Draft Leases.

AIISAA is an organisation having the network of 74 professionals in India and growing rapidly. In AIISAA, we have separate group of professionals who specialized in particular area. IFRS Advisors of AIISAA have provided the comments, which are set out as Appendix to this letter.

We would be pleased to discuss our comments further with the Boards or their respective staffs at your convenience. Please contact either Manish Iyer at +91-9825286903 or Chintan Patel at +91-9099921163.

Yours Faithfully,

AIISAA – Promoting Global Reach

Question 1: Leases
(a) Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?
(b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Reply to Question 1

(a) Yes, we agree that a lessee should recognise a right-of-use asset and a liability to make lease payments because all the characterstics of an asset and a liability, as defined in conceptual framework are satisfied.
(b) Yes, we agree that a lessee should recognise amortisation of the right-of-use asset as it is consistent with the accounting principles of intangible assets.
We also agree with recognition of interest on the liability to make lease payment as it is consistent with recognition of financial liability.

Question 2: Lessors
(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?
(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

Reply to Question 2

No, we do not agree with ED proposing two different approaches for Lessor Accounting. As per para 29 of ED, the application of performance obligation approach or derecognition approach depends upon transfer of risk and rewards rather than control. This is not in line with the current developments in IFRS (for example ED on Revenue from Contracts with Customers) which emphasis more on transfer of control for recognition/de-recognition.
We propose that lessor shall apply partial de-recognition approach as proposed by ED [para 46 (a) & (b)] for all cases irrespective of transfer of risk and rewards. As proposed by ED, the lessee creates right to use the asset, on the same manner; in our view the lessor shall de-recognise the asset to the extent of right to use the asset forgiven by the lessor to the lessee. Paragraph B30 of Application Guidance of ED explains this concept with the example. To substantiate our proposal of partial de-recognition in all leases, we provide the following reasons:

1. There is transfer of control when the right to use the asset is given by lessor to lessee to the extent of lease period. As we are moving towards transfer of control

approach with the transfer of risk and rewards taking backseat, the asset shall be de-recognised by the lessor to the extent of the transfer of control.

In Performance Obligation approach, the lessor continues to recognise depreciation and the lessee also recognise the amortisation charge on right to use the asset.

2. Para 56 of IAS 16 states that 'The future economic benefits embodied in an asset are consumed by an entity principally through its use.' Also, Para 60 of IAS 16 states that 'The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.'
   As the asset is controlled by the lessee, the pattern of consumption of asset does not depend upon the lessor hence the lessor can not recognise the depreciation charge. Hence, the lessor shall not recognise the depreciation charge to the extent of transfer of right to use the asset, which is consistent with our recommended approach of partial de-recognition.

Question 3: Short-term leases
Do you agree that a lessee or a lessor should account for short-term leases in this way?
Why or why not? If not, what alternative approach would you propose and why?

Reply to Question 3

We do agree with the accounting approach proposed by ED for short term leases but do not agree with the option ('elect on lease by lease basis'). The short tem leases should be accounted by undiscounted basis to avoid practical difficulties but recognition in the financials statement is important for users decision making. Giving options to the entity and that by lease by lease basis will increasing manipulation at the whims and fancies of the management, thereby reducing comparability and reliability of financial statements.

Question 4
(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?
(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?
(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

Reply to Question 4

We agree with the definition of lease, criteria in paragraphs B9 and B10 and B1-B4, but we propose to include more examples in application guidance (like IFRIC-4) for practical application.

Question 5: Scope exclusions
Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

Reply to Question 5

We broadly agree with the proposed scope of the proposed IFRS except scope exclusion in para 5(a) leases of intangible assets. There is no conceptual basis of separating the accounting leases of intangible assets from the leases of tangible assets. Also the lease standard provides the detailed guidelines for contingent rent, term options, penalties etc. which is not available in IAS 38.

Question 14: Statement of Cash Flows
Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

Reply to Question 14

We do not support the view to disclose the cash flows arising from leases to be shown separately on the face of statement of cash flow. Instead we propose to show as part of notes as in many cases, the information may not be so material for users to present on the face of the statement of cash flows.

Question 18
Do you have any other comments on the proposals?

Reply to Question 18
We do not agree with the estimate of contingent rent payable to be included as part of present value of lease payments as per paragraph 14 of the measurement principles. The contingent rent by nature is difficult to estimate and the accounting shall not be made based on uncertain element.