1850-100 Comment Letter No. 11

To the International Accounting Standards Board (IASB)

Dear Sir,

Response to ED/2010/9 Leases

I welcome the opportunity to comment on the IASB's Exposure Draft on Leases.

Having five years experience as auditor and more than two years accounting

experience, I have interest in the new project for Lease accounting. I appreciate the

joint efforts of the IASB and FASB in coming together to develop and promulgate a

common accounting standard for leases. I therefore support the IASB's efforts to

revise the current IAS.

The comments that are expressed herein are solely my personal views and strictly do

not reflect those of any organisation to which I may be associated presently and/or

previously in various capacities.

I hope the comments below help the IASB in finalizing the assurance report.

Sincerely,

Rajnish Ramchurun ACCA,

B Sc (Hons) Management Studies,

Associate Member ACFE,

IFAC Online registered user,

IFRS Online registered user.

## Question 1: Lessees

(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?

It should be first mentioned that currently both GAAPs classify leases into finance leases and operating leases. In this context, lessees having a significant portfolio of assets held under operating leases, would be most affected. This is because, both IFRSs and US GAAP account for the lease payments arising from operating leases by recognising them in the period in which they occur. The proposals would require lessees to recognise the assets and liabilities arising from those leases.

Although the proposed changes may be less fundamental for leases currently classified as finance leases, they would result in significant changes in the measurement of the assets and liabilities arising from those leases because of the way the exposure draft proposes to account for options and contingent rentals. In addition, the pattern of income and expense recognition in profit or loss would change significantly.

What we now have in mind is to capitalize the asset with exceptions for "performance obligations" and short-term leases. I do agree with the proposal of the lessee to recognise a right-of-use asset and a liability to make lease payments because, basically this is what will make leases to be consistently treated in all financial statements and allow comparability for end users.

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

Yes. If the lessee is to capitalize the asset, the accounting treatment should be the same as a non current asset and should be depreciated or 'amortised' as you term it. Interest should also be recognized on the liability side.

## **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?

If we are proposing, again, alternative treatments about 'exposure to significant risks or benefits', which reminds us of the old phrase 'significant risks or rewards' used to distinguish between finance and operating lease, then we are not going towards a consistent framework – why are we going with a simplified approach for lessees but retaining risks and rewards approach for lessors. In my opinion only the derecognition approach should be adopted. In fact, how can we create two assets in two financial statements – of the lessor and lessee, with only one physical asset?

(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?

If both approaches will be adopted then I agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting for consistency with the IASB Framework and compatibility with other IAS/IFRS.

## Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).

(b)At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).

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?

The short term lease may be expensed in the Statement of Comprehensive Income. Moreover clients can elect to use it or not making comparability more opaque. In my opinion the same treatment as for long term leases are to be adopted.