



Бухгалтерский методологический центр

Dear Sirs!



We would like to offer comments to Exposure Draft “Leases” ED 2013/6.

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Question 1: identifying a lease

This revised Exposure Draft defines a lease as “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. An entity would determine whether a contract contains a lease by assessing whether:

- (a) fulfillment of the contract depends on the use of an identified asset; and
- (b) the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset.

Do you agree with the definition of a lease and the proposed requirements in paragraphs 6–19 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

Answer NO

The definition of a lease and proposed requirements in paragraphs 6-19 do not give rise to any unfavourable criticism in terms of aspects covered by the ED. However, the meaning of the phrase “to use for a period of time” is not clear from the definition. In particular, it is not clear whether contracts envisaging the transfer of title to the subject of the lease to the lessee at the end of the lease term are treated as leases. Such contracts are quite a common practice (99 out of 100 contracts signed by leasing companies in Russia contain a clause about transferring the title to the subject of the lease to the lessee at the end of the lease term). The standard does not provide the answer to the primary question related to such contracts – whether the ED applies to them. Meanwhile, the wording of the Exposure Draft indicates that the standard does not apply to such contracts.

We believe that the text of the standard should provide a clear answer to this question. In particular, we suggest changing the wording of paragraph 4 to state that the scope of the standard excludes a contract, which envisages transferring the title to the subject of the lease to the lessee at the end of the lease term for a certain fee or free of charge, or a contract, under which the lessee has an option to purchase the subject of the lease at a price which is significantly lower than the market value . and that such contracts should be accounted for as a purchase on a deferred terms.

Question 2: lessee accounting

Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an

insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Answer NO

It is hard to find a distinct answer to the question why lessee's expenses for leases of equipment (Type A) are allocated on a regressive basis whereas lessee's expenses for leases of property (Type B) are allocated on a straight-line basis. The only argument in favour of this logic is that for Type A leases a lessee has an alternative to purchase the equipment using borrowed funds and does not have such alternative for Type B leases. However, this argument can hardly be considered sufficient for differentiating the accounting principles.

Apart from that, in the case of leases of property (Type B) the right of use will have to be amortized progressively (the amortization charge will gradually increase by the end of the lease term). This pattern of amortization of the asset's value seems inadequate because in most cases benefits from the leased asset are expected to be derived on a straight-line basis. Moreover, progressive amortization can become an artificial factor leading to the asset's impairment.

Apart from the above mentioned facts, the differentiated approach makes lessee accounting unreasonably complicated – lessees need to analyze criteria to determine the type of lease, make complex calculations related to the asset's amortization which are not similar to the calculations related to the lessee's own assets, conduct additional impairment review and recognize impairment because of inadequate asset's amortization.

We suggest lessees use a single approach prescribed for Type A leases. In the last resort (if there are strong arguments in favour of Type B approach for property leases), lessees can be given an accounting policy choice of whether to amortize the right to use asset so that the total amount of amortization charge (amortization plus interest) would remain constant and to present this amount in the income statement as one line item, or to amortize it on a straight-line basis (as it is now prescribed for Type A leases).

Question 3: lessor accounting

Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

Answer YES

Alongside with that, Performance obligation approach proposed in ED 2010 seems more adequate for Type B leases. Failure to recognize lease receivable seems a serious disadvantage of the new proposed approach if the lease term exceeds one year. Though the new approach is easier, in this case the simplicity damages the quality of financial statements. If presenting the performance obligation as a separate balance sheet line item is seen as unreasonable "blowing" of the balance sheet, this amount can be subtracted from the asset's value. However, such options should be considered consistently. The current version of IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires separate presentation of a decommissioning liability for assets recognized in the balance sheet. In our view the situations have analogous features. There is an encumbered asset. In some cases the encumbrance can be represented by the decommissioning liability. In other cases the encumbrance can be represented by the liability to lease out the asset. IFRS should be consistent about gross or net presentation of assets and their encumbrance in the statement of financial position. If IAS 37 requires gross presentation, IAS 17 should have similar requirements. If IAS 17 requires net presentation, similar amendments have to be made to IAS 37.

Question 4: classification of leases

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 28–34, which differ

depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Answer YES

Question 5: lease term

Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease term and why?

Answer YES

Question 6: variable lease payments

Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

Answer YES

Question 7: transition

Paragraphs C2–C22 state that a lessee and a lessor would recognise and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?

Answer YES

Are there any additional transition issues the boards should consider? If yes, what are they and why?

Answer NO

Question 8: disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analysis of undiscounted lease payments; reconciliations of amounts recognised in the statement of financial position; and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

Answer NO

We consider the proposed disclosure requirements inadequate in terms of significant accounting policy issues which are not covered by the standard.

1) In particular, the ED does not contain any guidance in respect of the issues related to the value-added tax (VAT). This tax is paid by lessees to lessors and is included in the total amount of lease payments. Depending on jurisdictions and situations, lessors may incur the obligation to pay the VAT to the budget either before or after the receipt of corresponding amounts from lessees. Similarly, the right of lessees to deduct VAT can arise either before or after the payment of corresponding amounts to lessors.

In practice, the treatment of such facts is diverse. Most entities prefer not to recognize VAT until the very last moment, as long as double entry accounting permits this. As a result, in the income statement of one company, payables to suppliers for goods and services include VAT, whereas lease payables do not. Similarly, receivables from customers for goods and services include VAT, whereas lease receivables do not. In this case the statement of financial position is hard to understand and analyze.

Moreover, the sources mentioned in paragraph 11 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors provide controversial answers to this question. In particular, if a “similar and related” IAS 39 or IFRS 9 standards on financial instruments are applied to the VAT included in the lessee’s payable

(lessor's receivable), the amount of VAT has to be discounted together with the principal amount. If a "similar and related" IAS 12 standard on income taxes is applied to this VAT, the VAT is not discounted.

Certainly, it would be better if IAS 17 contained explicit VAT requirements. If the development of corresponding provisions requires a significant delay in the standard's publication, the standard should at least include disclosure requirements for VAT accounting policy. Currently, entities do not disclose this information; however, the amounts of lease receivable and lease payable do not provide sufficient information without it.

2) In the case of Type B leases according to paragraph 94 of the Exposure Draft a lessor shall recognize initial direct costs as an expense over the lease term on the same basis as lease income (as described in paragraph 93). As far as income is concerned, it is clear that it is allocated to profit or loss with corresponding increase of receivables or payables. As far as costs are concerned, there is no such clarity. A special line item in the statement of financial position is needed for these purposes. To defer costs, one has to recognize an asset. However, the standard does not stipulate the recognition of any assets for Type B leases for a lessor. Inclusion of such costs in the value of the leased asset which is subject to recognition seems disputable even when the cost model is used in terms of consistency with IAS 16 and IAS 40. In the case of investment property accounted at fair value (which happens in most cases), inclusion of initial lease costs into the value of such assets is inappropriate.

Again, in practice, the treatment of such issues is diverse. To allocate costs, entities often invent such nonsense items as "deferred expenses". We do not believe that the new standard should encourage such practice.

It would be better if the standard explicitly indicated the line item used to defer costs. If this line item is not mentioned in the standard, the standard should require disclosing at least lessor's accounting policy in this context.

Best regards,

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