No : 0639/DSAK-IAI/IX/2013 

Jakarta, 13 September 2013 

Mr. Hans Hoogervorst 
Chairman 
International Accounting Standards Board 
30 Cannon Street 
London EC4M 6XH 
UNITED KINGDOM 

Dear Mr. Hoogervorst,

Invitation to Comment: IASB ED/2013/6 Leases 

The Indonesian Financial Accounting Standards Board (DSAK IAI) as part of the Indonesian Institute of Accountants is the national accounting standard-setter in Indonesia. DSAK IAI is a proud member of the Asian-Oceanian Standards-Setters Group (AOSSG), and an active contributor in among others the EEG, WSS, and IFASS forum. 

DSAK IAI welcomes and appreciates the opportunity to contribute to the discussion on the IASB ED/2013/6 Leases. 

In general, DSAK IAI supports IASB’s efforts in improving the current accounting for leases. However, we are concerned with the lack of thorough considerations in some of the concepts introduced in the ED. For your consideration, our detailed comments to the questions are set out in the Appendix. 

Thank you for your kind attention and consideration, and please do not hesitate to contact us should you have any queries. 

With best regards, 

Rosita Uli Sinaga 
Chairperson – The Indonesian Financial Accounting Standards Board
APPENDIX – COMMENTS TO THE IASB ED/2013/6 LEASES

GENERAL COMMENTS

1. We agree that there is a need to improve the current accounting for leases, particularly in addressing the failure to properly present lessee’s financial arrangements (financial liabilities) in the financial statement. This was and should continue to be the main objective of the improvement to the accounting for leases.

2. We acknowledge the introduction of the right-of-use model as a measure to respond to the off balance sheet financial arrangement. We however believe that more significant efforts are required to further discuss this new model, so that constituents will fully understand the intention of IASB in introducing it. IASB should definitely consider clarifying and further discussing this new model at the conceptual level (Conceptual Framework Project), also considering its relevancy to accounting for other than leases.

3. We are also concerned with the level of complexity introduced in the ED. We believe that concepts such as the asymmetrical accounting and dual measurement approach, and various optional requirements and exemptions are against the initial consideration in simplifying the current accounting model, without sacrificing the quality of the information resulted from it. Complexity could potentially lead to impracticality, diversities in practice, and higher cost of implementation. Moreover, it could make accounting for leases less readily understandable to users.

4. Based from our understanding of the new concept, we still see that there are possibilities of structuring leases to suit one’s interest through managing options in the arrangement. This potentially fails the objective of eliminating similar issue with the current accounting for leases (bright line between operating and finance leases).

5. From communication with our constituent, other general concerns lie with the interaction between this complex standard with other regulations, for example legal and tax. Financing industry in particular is quite regulated due to its importance to the economy.

Taking all into considerations, we believe that:

1. IASB should strongly consider further refining the right-of-use model, and to further discuss the new concepts such as the accounting for lessee and lessor, to ensure proper understanding of the concept by auditors, preparers, and users in general. By doing this we believe that IASB will benefit by having a much clearer new accounting
for leases, with clarified objectives, and better level of acceptance from auditors, preparers, and users in general.

2. For the time being, when the new accounting for leases is being further analysed, IASB should consider to immediately make a limited improvement to the current accounting for leases (IAS 17), to provide users with the information that they need. We believe that this could be achieved by requiring relevant disclosures, particularly for the currently off balance sheet financial arrangements.

3. As a compromise to these inputs, should IASB strongly decided to continue with the current proposition (ED), we believe IASB should consider improving and/or refocusing the fundamental concepts of the ED, by having a stronger definition of what constitutes as a lease.

Based on the compromise, below are our comments to the specific questions asked in the ED.

SCOPE

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) fulfilment 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.

1. We are strongly concerned with the proposed definition of a lease, as we believe the definition in paragraph 6 is very broad, and can potentially capture arrangements that are not essentially a lease. As one of the main objectives of the new accounting for leases is to take the leases into the balance sheet, it is important to make sure that the
definition will do just that, and nothing more. So that transactions, in particular such as, purchase or in substance purchase and service arrangements would not be unnecessarily, unintentionally and incorrectly taken as a lease.

2. We see potential implementation issues due to significant judgement used in identifying the leases. We believe implementation of right of control and identifying a lease from service arrangements will be a complicated procedure, for example when assets are used in the delivery of service, and when the leased asset is still with the lessor and/or not directly managed by the lessee.

3. We acknowledge and support IASB introduction to use concept similar to what is used in the ED Revenue from Contracts from Customers in separating components of the contracts.

4. Referring to paragraph 11 of the ED, that capacity portion cannot be identified as an identified asset, we believe that the concept of control as explained in paragraph 12-19 can be used as the principle criterion in deciding whether a lease of a capacity portion of an asset can be identified as a lease. We disagree with IASB’s position that it would be unlikely that a customer would have the right to control the use of a capacity portion. For example, a lessee in a lease of telecommunication tower capacity could have the ability to direct the use of the leased capacity portion and obtain benefits from its use, including restricting access of others. In substance, there is no economic different between this type of lease to a lease of distinct physical asset.

5. Taking the above into considerations, we believe that IASB could consider improving the definition of a lease by expanding the exception to exclude arrangements with upfront payments. We believe that periodical payments represent the financing component of a lease which is the main characteristics of leases that should be brought up to the balance sheet.

Specific Issue

6. In its May 2012 meeting, the IFRS Interpretations Committee made the decision that a purchase of a right to use a land (based on fact pattern in Indonesia) has the characteristics of a lease, and thus should be treated as a lease under IAS 17. Currently, under a local interpretation in Indonesia, the purchase is being considered as a purchase under IAS 16.

7. Despite the Committee’s decision, we still strongly believe that the transaction is a purchase, both under the current accounting standards (IAS 16 and IAS 17) and the proposed ED for leases.
8. Taking into consideration the proposed definition and requirements (ED), although both will be generally met by the transaction, we believe that this is more due to the lack of focus in the definition of a lease as proposed in the ED (please refer to previous comment). Because we believe the proposed definition is too broad, any purchase transaction could incorrectly meet the definition, particularly if indefinite ownership of the asset (as in purchase transaction) is considered to fulfill the *period of time* definition.

9. Referring to the definition of a lease (paragraph 6), there are two issues that we think need to be addressed:
   
   a. “... *for a period of time*...” the issue in defining the period of time (lease term) is the difficulty in deciding what is the lease term in a continuous arrangement, where extension and renewal is virtually certain, and the cost is nominal (not a representation of the asset’s market value). Referring to paragraph 25 (a), the lease term includes periods covered by an option to extend the lease based on significant economic incentive to exercise option. In our circumstance, it is clear that lessee is virtually certain to exercise the option, as it only involves a nominal amount, and the asset can be transferred to other party at an agreed price (normally based on market value).
   
   b. “... *in exchange for consideration*...” the issue that we have with the consideration is that, in our case lessee in obtaining (purchasing) the right paid the market value price to the seller, and only pays nominal amount to the Government as the land administrator. As the seller will not have any further involvement with the land, and that in its discussion the Committee identifies Government as the lessor, could the nominal amount be treated as the consideration? The resulted information will be useless for the users, as the “consideration” paid to the Government is not a reflection of the actual price (consideration) paid for the right.

10. Also, in considering the control over the “leased asset”, in our circumstance, the “leased asset” can be used as collateral by “lessee”, showing a stronger degree of control resides with the lessee that we believe is substantially and economically the same with ownership.

11. We strongly support the use of IFRS as single globally accepted standards, thus we would like to ensure that this issue can be further clarified in the ED, as we believe it is not clearly discussed in the current accounting for leases (IAS 17) or even IAS 16.

12. Referring to our proposition to improve the definition by expanding the exception, we believe that this type of purchase arrangements could be scoped out since the payment...
made by the “lessee” has been paid upfront. There is no financing component calculated in the amount paid by the “lessee”/buyer to the seller.

13. Taking all of these into consideration, should IASB decide that this type of purchase is a lease, other than considering our consideration for the definition, we think that clarification and additional guidance to distinguish between a lease and an in substance purchase arrangements are necessary.

THE ACCOUNTING MODEL

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?

1. We generally agree that fundamentally, there are two types of leases, and agree with the use of the economic benefits consumption to classify the lease, to separate the two different arrangements exist in practice (leasing or financing), as it generally represents the different lease arrangements as intended to be differentiated by IASB. We believe that both are also generally portrayed differently in the lease price, as set by lessor (representation of ROI generation and/or recovery of expected portion of asset consumed).

2. Generally we don’t have any issue with accounting for Type A leases. For Type B leases however, assuming that IASB will go ahead with the proposed model:
   a. We have a concern with the asymmetrical accounting for Type B leases. The recognition of a lease liability by the lessee and no equal recognition by the lessor (lease receivable, representing the right to receive payments) would raise in particular a consolidation issue (lessee and lessor are members of the same group).
   b. Another issue with the asymmetrical accounting in Type B leases would be on how the one asset will be double counted (capitalised), where the lessee will capitalise a right-of-use (intangible asset) while lessor will continue to recognise the physical asset. This will result in double depreciation and amortisation, and also double investing activity without the divesting activity (derecognition) from lessor’s point of view. This will be further complicated when considering the concept of control as the key criterion in defining the

GRHA AKUNTAN, Jalan Sindanglaya No. 1, Menteng, Jakarta 12120 - INDONESIA
Phone: (62-21) 31904232, Fax.: (62-21) 3900016,
E-mail: dsak@iaiglobal.or.id, Home Page: http://www.iaiglobal.or.id
leased asset, where both lessee and lessor could claim to have control over the same asset. Also, in the context of consolidation reporting, this would result in the transaction being incorrectly depicted and resulted in inaccurate information for the users.

c. We believe that the introduction of the Single Lease Expense approach although might depicts the true illustration of the “operating lease” arrangement, is not consistent with the right-of-use model introduced as the basis concept for leasing arrangements. We are particularly concerned with the usefulness of the information on the right-of-use asset as it depends on the interest charge calculated on the lease liability, which in fact is a balancing figure. A potential practicality issue should also be considered, in assessing impairment of the right-of-use asset and in the case of reassessing the lease term.

3. Taking the above into consideration, we believe that IASB could consider keeping the current operating lease model for Type B 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?*

1. Please refer to our comments in **Question 2: Lessee accounting**.

2. With regard to accounting for Type A leases, although we can understand the concept behind it we think that it is unnecessarily too complicated, particularly on the measurement of residual asset. We also have a general concern with the proposed accretion of residual asset, which is a non-financial asset. This is not consistent with the measurement of other non-financial asset, such as PPE. The proposed measurement will result in a residual asset (carrying amount) that is neither at cost nor fair value.

3. Assuming that IASB will go ahead with the proposed model, the issue with Type B leases we believe is that when the lease is commenced, (portion of) the right to use (right-of-use) related to the leased asset will be transferred from lessor to lessee. This is because we believe that under the right-of-use model the unit of account is in fact the right-of-use of the underlying asset. Taking this into consideration, the transfer
should be properly reflected by the lessor by derecognising portion of the asset representing the right-of-use leased by the lessee.

4. Similar to our comment for accounting for lessee, we believe that IASB could consider keeping the current operating lease model for Type B leases.

5. On the presentation, we question whether it is appropriate to present the carrying amounts of lease receivables and residual assets as a single summed amount. The consideration for this would be the different nature of the two; the lease receivable is a financial asset and the residual asset is a tangible non-financial asset.

**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?*

1. Although we acknowledge and support different requirements for Type A and Type B leases, we believe that classification of a lease shouldn’t be based on the nature of the underlying assets (property and non-property). This approach we believe lacks conceptual basis and has the potential to result in inconsistent accounting for transactions that are economically similar.

2. We question the usefulness of differentiating accounting treatments based on the nature of the leased assets on transactions that are in substance are the same. For example, should a lease of property for ¾ of its useful life should be treated differently to a lease of non-property for the equal time, just because the underlying assets are different? Although we understand the objective of the ED, that is to capture the different lease arrangements, we believe that the ED should focus on the substance and principle of the arrangement rather than the nature of the underlying asset.

3. However, taking our two previous points into consideration, as a compromise, we can understand the practical expedient consideration in applying the underlying asset basis.

4. Another concern that we would like to raise is the use of the term *insignificant* and *substantially all* in the exceptions for the two types of leases. We think that IASB should provide guidance on how to define the two measuring terms, and why different terms are used in this particular circumstance. Should there is no significant
explanation on why it was differentiated we proposed to use consistent terms throughout the ED.

**Specific Issue**

5. In its September 2012 meeting, the IFRS Interpretations Committee requested its staff to further analyse the issue regarding the (lack of) definition of building – property. In the meeting the Committee acknowledged that there is lack of guidance on defining building, especially in the context of investment property. Also, it was acknowledged that this is relevant not just to the lease of telecommunication tower space (case in discussion) but also other assets. We believe that the result of this discussion will affect the use of the concept of property in classifying a lease, as introduced in the ED.

6. The Committee’s acknowledgment that this issue is relevant to a number of assets show the need for IASB to haste the process of discussing and clarifying whether these type of assets can be considered to be property (or equipment). This is important to avoid unnecessary differences in accounting (divergence in practice) for this type of assets, due to different judgements applied by the preparers.

7. We strongly believe that IASB should consider providing more clarification and guidance for this particular issue. We believe that it should however be clarified in the appropriate standard (IAS 40), and not in the new standard for leases.

**MEASUREMENT**

**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?

1. Please refer to our comments in Question 1: Identifying a lease – Specific Issue.

2. Although lessor does not have the ability to control (and predict reliably) lessee’s future decision on whether to exercise certain extension option, and this being the obligating event key to the determination of the lease term, we believe that at the commencement of the lease options that are most likely will be exercised due to significant economic incentive should be considered in establishing the lease term.

3. In our opinion, generally speaking, economic incentive to the lessee to exercise the option normally will be considered by lessor when pricing the initial term of the lease.
Thus, not recognising the options will not properly depict lessor’s performance in the lease arrangement, nor the economic behind the lease arrangement.

4. Referring to IASB’s discussion in the Basis for Conclusions that the term *significant economic incentive* used in the ED is similar to the term *reasonably certain* in IAS 17, we question the decision to introduce the new term which might potentially complicate preparers and users understanding of the new standard. As a threshold, both terms are at the same level.

5. On short-term leases, we believe that there might be potential concern in circumstances where a lease arrangement for less than 12 months is attached with option to extend (either single or multiple extensions). Under a situation where it is argued at the commencement of the lease that there is no significant economic incentive to exercise the option, lessee could structure the arrangement so that it will stay off the balance sheet. This is a possibility that surely need to be better regulated in the ED.

**Question 6: Variable lease payment**

*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?*

1. We generally agree with the proposal for variable lease payments and acknowledge the introduction of the use of index and rate as the basis for the payments, and to exclude all other basis that are not relevant to the lease arrangement. As IASB did not provide definitive basis on what constitutes as index or rate (principle-based), our only note for now would be on the interpretation and implementation of this concept and how preparers will “choose” the index or rate that will be used to justify the variable lease payments.

2. We would suggest IASB to provide more guidance on *in-substance fixed payments*, preferably the principles that can be used to identify them. We believe that the example given (Illustrative Examples) is not sufficient in providing clear guidance, and might potentially result in misinterpretations by preparers and users. Also, it might be limitative to other examples of the payments that might qualify as *in-substance fixed payments*. 
TRANSITION

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?

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

1. Although we acknowledge the benefit of a full retrospective transition, we appreciate IASB’s effort in introducing transitional relief in the form of the modified retrospective transition. The main consideration would be the complexity of the new concepts introduced in the ED and difficulties in applying the new concept retrospectively to particularly lease arrangements with long term duration. This we believe will also reduce the implementation costs and potential of undesired resistance from especially preparers.

DISCLOSURE

Question 8: Disclosure

Paragraphs 58–67 and 98–109 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses 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?

1. Our general observation with regard to disclosure is whether the extensive disclosure will improve the quality of the information presented in the report. Although we acknowledge that the extensive disclosure should not be treated as a checklist, IASB needs to be clear to preparers especially that not all of them are relevant in every situation. Most certainly, cost for both preparers and users (in extracting the information that they need) will be an important factor that need to be considered (cost benefit). In our constituent, most of the concerns are with the lessees who generally do not have the sophisticated system to support the disclosure requirements.

2. Our only concern for now would be on the necessity of the reconciliations; that is reconciliation of balances for Type B leases, and separate liabilities reconciliations for
Type A and Type B although the measurement are the same. Are both of these really necessary or should it be considered to be excessive.

Questions 9 to 11 are FASB only

**IAS 40 INVESTMENT PROPERTY**

**Question 12: Consequential amendments to IAS 40**

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

1. Taking into consideration the right-of-use asset model, we support this amendment. We believe that this will provide more useful information for the users.

***** END OF APPENDIX *****