

Date: 04.08.2017

The Secretary,
Accounting Standards Board,
The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No.7100
Indraprastha Marg,
New Delhi-110002.

Reg: Comments on Exposure Draft "Ind AS 116 Leases.

This is with reference to your email dated 27.07.2017 "CI/IND AS/53" on the captioned subject. We hereby submit our comments as under:

Impact on Banks/FIs as Lessee	Impact on Banks/FIs as Lenders
<p>a) Ind AS 116 includes a threshold for low value items. Entities need to consider how they will determine, in practice, whether a contract is of low- value. Applying this threshold to low-value items could result in excluding a significant number of leases from the Balance Sheet.</p> <p>b) Paragraph 47(a) of Exposure Draft states that Right-of-Use assets that meet the definition of Investment Property shall be presented in the Balance Sheet as Investment Property. However, it is not yet clear how the banking regulators will treat the Right-of-Use asset for regulatory capital purposes? In case, the same is considered for inclusion in regulatory capital requirements, the same will result in higher regulatory capital maintenance by the banks which may have negative impact on the liquidity available with it. Further, how much risk weight shall be considered for Right-of-Use asset is not yet clear.</p>	<p>a) The new standard, once notified, is expected to affect the entities with large lease portfolios. The larger the lease portfolio, the greater the impact on key reporting metrics and financial ratios. The Companies will need to identify whether existing debt covenants would need to be changed in light of the Exposure Draft, which may not be simple. For instance, companies may want to negotiate with their banks, either to allow for more headroom in the covenants or to allow for the continued use of current lease accounting in the covenant calculations. Addressal of such requests will be cumbersome or tedious process.</p> <p>b) Adverse impact on leverage ratios and other financial ratios will require modifications in existing bank guidelines w.r.t acceptable level of ratios while doing assessment of Working Capital/Term loan limits.</p>

[Handwritten Signature]

DY. GENERAL MANAGER

