

## **Comments on Exposure Draft – Ind AS 116 Leases**

### **Comment on Scope and Recognition Exemptions (Paragraphs 3 and 5):**

The objective of the ED – Ind AS 116 is to ensure that lessees and lessors provide relevant information that gives a basis for users of the financial statements to assess the effect that leases have on the financial position, financial performance and the cash flow of an entity.

Under the Indian Banking Regulation Act, 1949, a banking company is not permitted to engage in any form of business other than those referred to in section 6(1) of the said Act. Thus, the arrangement of a lease (primarily for premises) is merely incidental to its core business model of deposit taking and money lending, unlike some other capital intensive industries where lease of assets forms an integral part of operations. Leasing arrangements in such capital intensive entities comprise a significant portion of their financial position as compared to the lease of premises in a banking institution.

‘Preface to the Statements of Accounting Standards’ issued by the Institute of Chartered Accountants of India also states that the accounting standards are intended to apply only to items which are material.

However, the ED, in its current form, permits entities to elect the non-application of paragraphs 22-49 of the ED to short-term leases and leases for which the underlying asset is of low value. The ED may be amended to include recognition exemptions to entities, such as banks, where the business model of the entity is not significantly dependent on the existence of a leasing arrangement or where lease rentals do not comprise a significant portion of the entity’s total income (say less than 5%).

### **Comments on Effective Date (paragraph C1):**

Paragraph C1 of the ED states that an entity shall apply this standard for annual reporting periods beginning on or after April 1, 2019.

Many entities in India are on the cusp of transitioning to Ind AS from the extant accounting norms and practices. For instance, banks in India are required to comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning from April 1, 2018 onwards.

Ind AS 116, permits a retrospective application by applying to the periods presented Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. This would therefore entail, at least in the case of banks in India, restating the comparative information immediately upon transitioning to Ind ASs. It is therefore recommended, that the ED be amended to permit an early adoption of Ind AS 116 for entities transitioning to Ind AS before April 1, 2019.