

Nation's March towards Convergence with High Quality Financial Reporting Framework - IFRS Standards continues



ICAI, being a critical wheel in the Accounting Standard-setting framework of the Nation, always endeavours to ensure that Indian Accounting Standards (Ind AS) Framework remains substantially converged with International Financial Reporting Standards (IFRS) at all times. A recent major event has been notification of **Ind AS 116, Leases**, by the Ministry of Corporate Affairs (MCA) which is applicable for accounting periods beginning on or after April 1, 2019. Ind AS 116, *Leases*, is based on a path breaking highly reformative international standard, viz. IFRS 16, *Leases*, which is an outcome of the joint project of IASB of IFRS Foundation and FASB, US National Standard-setter. Ind AS 116, *Leases*, has replaced Ind AS 17, *Leases*, and interpretation/guidance contained in its appendices.

With the notification of Ind AS 116, a new era of Accounting for Lease Contracts by lessees now begins. The Standard requires lessee to account for all the leases 'on the balance sheet' by recognising a financial liability for lease payment obligations with a corresponding asset called Right of Use (RoU) asset. Thereby, it eliminated the classification of leases as either operating leases or finance leases for lessee. Ind AS 116 also changes the definition

of a lease which would include or exclude certain types of arrangements from the scope of lease accounting. This new definition eliminates the existing pronouncements relating to interpretations of Ind AS 17. On the measurement part, standard requires lessee to measure RoU asset similar to non-financial assets and lease liability similar to other financial liabilities. As a consequence, lessee recognises depreciation on the RoU asset and interest on lease liability. More importantly, Ind AS 116 also provides some operational reliefs, e.g., recognition exemption for leases of certain short-term leases and leases of low-value assets to provide benefit to many lessees in terms of cost and efforts in applying the requirements of standard to such lessees. Although Ind AS 116 carries forward the lessor accounting requirements similar to Ind AS 17, it does enhance the quality and contents of certain disclosures related aspects for lessor.

The background material of IFRS Standards comprising IFRS Part B (Illustrative Examples and Implementation Guidance) and IFRS Part C (Basis for Conclusions) provides robust comprehensive implementation guidance and examples on IFRS 16. Under IFRS Part B, first few examples extensively illustrate how to identify the leases under IFRS 16. Example 11 illustrates the concept of recognition exemption of leases of low value assets. Guidance on other important aspects, such as, sale and lease back transactions, separating the lease components and non-lease (service) component, modifications to lease, sub-lease etc, are also covered comprehensively in examples.

For the benefits of the Indian stakeholders at large, IFRS Part B and IFRS Part C for year 2019-20 have been hosted on the ICAI website on May 7, 2019, at https://www.icai.org/post.html?post_id=15367. The stakeholders can take the benefit of the implementation guidance in application of Ind AS 116.

Contributed by Accounting Standards Board of the ICAI. Comments can be sent to asb@icai.in. Refer https://www.icai.org/post.html?post_id=14058 for Ind AS –IFRS Standards Convergence Status

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Compendium of Indian Accounting Standards (Ind AS)

2nd edition of e-version of Compendium of Indian Accounting Standards (Ind AS) has been released on May 1, 2019. This updated compendium includes all standards/amendments effective for accounting period beginning on or after April 1, 2019

Developments at IFRS Foundation & IASB

Comments on Exposure Draft: IBOR - The IASB has issued an Exposure Draft on Interest Rate Benchmark Reform (Proposed amendments to IFRS 9 and IAS 39). The Exposure Draft modifies specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming as if the interest rate benchmark, on which the hedged cash flows and cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform. The Accounting Standards Board (ASB) with the aim to provide an opportunity to the various stakeholders in India to raise their concerns at the Exposure Draft stage itself so that these concerns are appropriately addressed, hosted the Exposure Drafts on the ICAI website with the last date of comments being June 10, 2019.

Initiatives of Ind AS Implementation Group Webcast on Ind AS 116, Leases:

In order to widen our reach in spreading awareness amongst the members for smooth implementation of Ind AS, webcasts on Ind AS are being organised from time to time. Recently, Ind AS 116, *Leases* corresponding to IFRS 16, *Leases* has been notified by the MCA, which is applicable from accounting periods beginning from 1st April, 2019. In order to educate the members about the principles enunciated under the new standard, the Ind AS Implementation Group organised two webcasts on the new leases standard Ind AS 116, *Leases*.

Viewers from around the country attended the said webcast and queries raised by them were addressed

appropriately by the speakers. The recorded webcasts are readily available at icaity.com.

Ind AS Technical Facilitation Group Clarification Bulletins:

As the implementation of Ind AS began in the country, a number of issues were being raised by the members, preparers and other stakeholders with regard to applicability/implementation of Ind AS. For addressing transition related queries in a timely and speedy manner, an Ind AS Technical Facilitation Group (ITFG) (formerly known as Ind AS Transition Facilitation Group) was constituted in the year 2016 which issues clarification bulletins addressing implementation issues from time to time. The Group has recently brought out ITFG Clarification bulletin 19 covering six issues. So far, the Group has brought out 19 bulletins covering 143 issues. The same are available at the website of ICAI.

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ITFG invites suggestions regarding possible responses to various issues on applicability/implementation of Ind AS:

With a view to making the process of issuing the clarifications more participative and effective, it has been decided to invite the stakeholders to make suggestions as to possible responses on the various queries received by the Group.

Members of the Institute as well as other stakeholders are invited to send their suggested responses (or any other comments) on the queries. These suggestions will be considered by the Group at its meeting. After due discussions, clarifications will be issued wherever considered appropriate. The suggested responses should be supported by appropriate reasoning and reference to specific paragraph number(s) of the relevant Standard(s) or other basis for the suggested response. The suggested responses or any other comments should be submitted through e-mail at indas@icai.in.

Queries on which the Group invites suggestions can be accessed on the below mentioned links: https://www.icaai.org/new_post.html?post_id=15594&c_id=240. ■