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FINANCES PUBLIQUES

Paris, May 17, 2021

Mr Ross Smith
Technical director International Public Sector
Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
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Re: Response to Exposure Draft 75, Leases

Dear Mr. Smith,

The General Directorate of Public Finances (DGFIP) of the Ministry of the Economy, Finance and Recovery thanks the IPSAS Board for the opportunity to comment on Exposure Draft 75, *Leases* (ED75).

The DGFIP participated in the response made by the French Public Sector Accounting Standards Council (CNoCP). However, it would like to complete the response of the Council, in order to underline the difficulties raised by ED75 from the point of view of the preparers and the property manager.

First of all, while the DGFIP understands the IPSAS Board's concern to publish a standard in accordance with its general strategy of alignment with IFRSs, the scope of ED75 and, consequently, its implications for the public sector remain uncertain, as long as phase 2 of the project has not been completed. In those circumstances, the approval of ED75 seems premature.

Secondly, the DGFIP believes that the asymmetry between the lessor and the lessee with respect to the recognition of the underlying asset is a sensitive issue for the public sector, in general, and for the French public sector, in particular.

This is mainly because this asymmetry can destabilize the real estate policy of the French Central Government. Indeed, the accounting treatments under ED75 for the lessor and for the lessee can lead to situations in which the underlying asset would not be recognized by either the lessor or the lessee. Such a scenario would be challenging for the real estate strategy which is managed, in France, in a comprehensive and consolidated manner for the Central Government and the public entities it controls, based on the inventories of each of these entities.

Moreover, public entities at national level are all under one same controlling "sovereign power". Therefore, we believe that this asymmetry would hamper the ability to have a global vision for these entities, be it through Government Finance Statistics (GFS), through consolidated accounts, or through any other form of aggregated accounts. The asymmetry under ED75 would indeed lead to new major reprocessing, sometimes difficult to implement and necessarily expensive, to maintain a reliable consolidated vision going forward. This consolidated vision is, in our opinion, the only one capable of allowing comparability allegedly pursued by aligning with IFRS 16. In this regard, we observe that the consequential amendments that would have to be made, should ED75 be approved, do not cover IPSAS 22, *Disclosure of financial information on the General Government Sector*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, and IPSAS 38, *Disclosure of Interests in Other Entities*.

Thirdly, the DGFIP identifies another difficulty in the implementation of ED 75 linked to the determination of the deficit and debt of general government. For the Member States of the European Union, the methodology of the statistical compilation of public deficit and debt in GFS, issued from public accounts sources, is ruled in particular by ESA 2010. However, the provisions of ED75 diverge from the current rules of ESA 2010. The possible implementation of ED75 by EU MSs would then lead to significantly restate accounting sources currently carried out to calculate their public deficit and debt. These restatements would essentially lead to cancel all the transactions recognized under ED75. The quality of these restatements would then strongly depend on the ability to identify the transactions recognized under ED75.

Finally, the DGFIP regrets that the IPSAS Board did not perform an assessment of the implementation of IFRS 16 in the private sector in order to properly evaluate the difficulties and consequences of its application and to substantiate the assumed-added value of the standard.

Indeed, the implementation of ED 75 for the lessee would necessarily lead to the reprocessing of a significant number of transactions. As an illustration, in 2020, and only for those leases in which the French Central Government is a lessee, restatements would be necessary for:

- approximately 26,500 operating leases relating to over 44,300 properties, including more than 1,800 abroad, for annual rental expenses of €1,162 million;
- 20 finance leases relating to 20 properties recognized as tangible assets in Central Government's accounts for €1,370 million in consideration of financial liabilities for €1,178 million.

Though for French public entities that are dismemberments of the Central Government, the number of transactions in which these entities are lessees and the number of related properties are not available, the DGFIP believes that the cost of implementation would also be significant. Indeed, the annual expenses for those operations amount to an estimated €831 million in 2020.

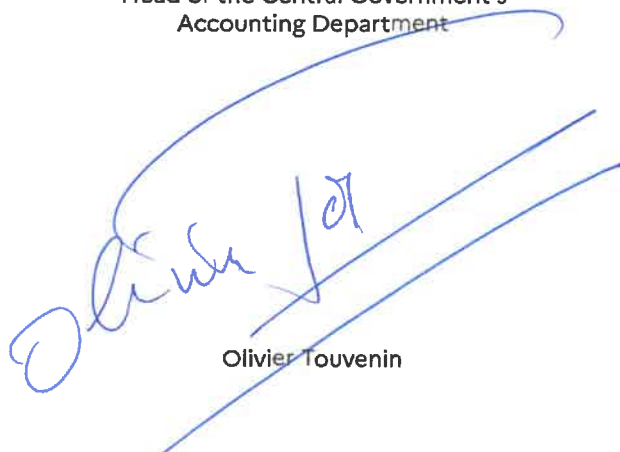
In addition, we understand that IT developments would also be necessary, since the implementation of IFRS 16 has led most companies in the private sector to review their information systems.

At the same time, we are not convinced that the overall cost of the transition would be offset by the gain in financial reporting quality expected from the implementation of ED75. In fact, in France mechanisms are in place that allow for the verification of the relevance and sustainability of rental operations over other forms of operations, especially for the Central Governments and its public sector entities.

The CNoCP letter is attached as an appendix to this letter, as we share the responses of the Council with respect to the specific matters for comment.

Yours sincerely,

Head of the Central Government's
Accounting Department



Olivier Touvenin

APPENDIX


**MINISTÈRE
DE L'ÉCONOMIE
DES FINANCES
ET DE LA RELANCE**

Économie
Finances
Relance

Le Président

**Conseil de normalisation
des comptes publics**

Paris, April 13, 2021

Mr Ross Smith
Technical director
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Re: Response to Exposure Draft 75, Leases

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft 75, Leases published in January 2021 (ED75).

The CNOCP understands that the IFRS alignment process prevailed in the Leases project as compared to the former proposals in ED64. That being said, we are partial to the second phase of the project and to the Request For Information to gain insights into operations similar to leases that are specific to the public sector. We expect that this should help solving some implementation difficulties.

In 2018, upon commenting on ED64, we commended the IPSASB for the efforts put in setting requirements that would enhance symmetry between the lessor and the lessee on the recognition of the underlying asset. Unfortunately with the new proposals in ED75, users of financial statements cannot figure out how an underlying asset is recognised neither in the lessor's nor in the lessee's financial statements as currently proposed in the case of a finance lease from the lessor's perspective. Symmetry is actually critical to monitor the use of public resources and promote transparency in public finance management. Additionally, symmetry would allow for swift reporting under the national systems of accounts. As a last comment with respect to the comparison with ED64, we also welcomed efforts made in elaborating proposals for concessionary leases.

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We therefore deeply regret that the proposals in ED64 for lessor accounting were fundamentally modified and that the standard-setting process did not allow for further public consultation on the consequences of that change of direction.

We are also concerned that the classification of the liability as financial or non-financial is not explicitly addressed in ED75.

As we originally proposed in 2018, we would appreciate if the Board could consider exempting public sector entities from applying the proposed accounting requirements for leases between entities of the public sector. The standard would then only apply mandatorily to lease arrangements between private and public entities. We believe that such an exemption would fit the cost-benefit constraint.

We would also recommend that the Board should underline in the core text that arrangements that transfer control of the underlying asset are out of scope in the future standard. Additional guidance on when arrangements transfer control of the underlying asset would also be welcome.

Eventually, we thought we would share the actual position in the French Central Government accounting standards: in the face of the complexity of the right of use model, and also because it may affect the scope of the public debt, we do not intend to change our current requirements based on IPSAS 13's distinction between operating and finance leases for both the lessor and the lessee.

We address each Specific Matter for Comment in the attached appendix.

Yours sincerely,

Michel Prada

APPENDIX

Specific Matter for Comment 1

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21–BC26). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC27–BC50)? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

As an overall comment, we strongly believe that the requirements in IFRS 16 with respect to lessee accounting are overly complex for public sector entities and that the costs of reporting financial information on that basis outweigh the benefits of such information.

Therefore, and as already stated in our comment letter to ED64 Leases in 2018, we would recommend that the Board should consider exempting public sector entities from applying the accounting requirements of the future standard for leases between entities of the public sector. The standard would then only apply mandatorily to lease arrangements between private and public sector entities.

On a more detailed level, we would recommend enhancing consistency between the definition of a lease in paragraph 5 and the “Identifying a Lease” section in paragraph 10. We would suggest aligning the definition on the wording in paragraph 10; the definition would then read as follows:

“A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset (the underlying asset) for a period of time in exchange for consideration.”

This inconsistency could have consequences on the implementation of the guidance in AG10 that states that the existence of the right to control the use should be asserted through the customer having both the right to obtain the economic benefits or the service potential and the right to direct the use of the asset. From a practical and implementation perspective, and especially when considering whether an arrangement is a lease, inconsistent references to the right to use make it difficult to decide whether the analysis should focus on the right to use, the right to control the use or the right to direct the use.

Specific Matter for Comment 2

The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, Leases, which differs from the definition proposed in ED 77, Measurement (see paragraphs BC43–BC45). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

On this very specific matter, we note that paragraph BC44 states that the use of the new definition of fair value significantly changes the lease classification and the timing of recognising gains and losses

for sale and leaseback transactions. We would appreciate if the Board could be more specific as to the extent of "significantly" as compared to the benefit of having one same definition.

Additionally, we would suggest that one same word should not be used to reflect two different realities to avoid confusion for users and preparers.

Specific Matter for Comment 3

The IPSASB decided to propose to refer to both "economic benefits" and "service potential", where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46-BC48). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We agree with the proposal to add "service potential" to "economic benefits" when assessing whether a contract conveys the right to control the use of an identified asset, as this mirrors the description of a resource, basis of the definition of an asset in the Conceptual Framework; this enhances consistency within the IPSAS suite of standards.