Ian Carruthers
Chair
IPSASB

Submitted online

Brussels, 11 May 2021

Subject: Accountancy Europe Responds to IPSASB ED (Exposure Draft) 75

Dear Mr Carruthers,

We have pleasure in enclosing our response on the public consultation of IPSASB Exposure Draft 75.

Accountancy Europe supports the decision of the IPSASB to drop the public sector specific treatment proposed for lessors in ED 64 and to align the proposed new standard as closely as possible with IFRS (International Financial Reporting Standards) 16 *Leases*. We were not convinced that public sector specificities warrant the deviation from the accounting treatment for lessors contained in IPSAS 13/IAS 17/IFRS 16.

Whilst we accept that IFRS 16 is not a conceptually perfect standard (as does the IASB), we believe that it is a pragmatic approach to a difficult and divisive subject. We consequently applaud the IPSASB's decision to issue ED 75 as an IFRS 16 alignment project. The aligned standard will provide the guidance necessary for many public sector leases and as well as being a fast-track solution for dealing with urgent IPSAS 13 issues, specifically sale and lease back transactions.

We also agree with the IPSASB's decision to issue simultaneously the Request for Information - *Concessionary Leases and Other Arrangements Similar to Leases* as the first stage of setting the accounting treatment for lease-like arrangements specific to the public sector.

We respond to the specific matters for comment below.

SMC 1

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21–BC36).

Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37–BC60)?

If not, please explain your reasons.

If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

1. Accountancy Europe believes that where the IPSASB engages in an alignment project with IFRS, divergences should be kept to a minimum and only occur where characteristics of public sector transactions require divergence from the relevant IFRS to result in fair presentation.

2. Consequently, we support the minimal changes made to IFRS 16 in the development of ED 75.

3. We support the exclusion from the draft standard of paras 71-74 of IFRS 16, *Manufacturer or Dealer Leases,* as well as the associated guidance in para 86 of IFRS 16. We agree that these circumstances are extremely unlikely to occur in public sector organisations.

4. To ensure the longevity of the standard, we do not recommend the inclusion of paragraphs 48 – 49 and 64 in respect of rent concessions arising because of the COVID-19 pandemic as it will date the standard. It is noteworthy that the *Covid-19-Related Rent Concessions* amendment made to IFRS 16 by the IASB currently will only to apply to any reduction in lease payments originally due on or before 30 June 2022.

5. Consequently, as this issue is urgent, we would recommend that the IPSASB issue as soon as possible a separate Staff Paper in respect of the practical expedient detailed in para 48.

6. In respect of the recognition exemptions in mentioned in para 6 (b) and AG4-AG9, we share the concerns expressed by the IPSASB in BC49-BC53. In particular, we agree with the IPSASB's decision not to set an explicit monetary threshold but expect preparers to set their own materiality amount for the exemption - based on whether the omission of the information could influence users' assessment of accountability or their decision making.

7. Our concerns regarding the recognition exemptions are not sufficient to warrant departure from IFRS 16. However, we believe that the IPSASB will need to monitor how the exemption is applied by preparers after the standard comes into force to assess whether the exemptions are appropriate for (all) public sector entities.

SMC 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.

8. As mentioned above, we support the IPSASB's decision to make the first phase of the leases project an alignment project with IFRS 16. Consequently, we support the IPSASB's decision to use the definition of fair value in IFRS 16 rather than the IFRS 13 definition.

9. Ultimately, however, it is not ideal to have two definitions of fair value in two different standards. The definitions are very similar and the differences that might 'significantly change the lease classification and the timing of recognised gains and losses for sale and leaseback transactions' (BC44) will only be discernible to experts in the field. This not ideal for transparency, especially for the public sector where a broader pool of non-experts could be expected to be interested in the financial statements.

10. In our response to the public consultation paper *Measurement*, we supported aligning the definition of fair value with the IFRS 13 *Fair Value* definition, which has been carried forward

to ED77 *Measurement.* We believe that there should be a single definition of fair value in the IPSAS suite aligned with IFRS 13.

11. Consequently, we call on the IPSASB to conduct additional research on whether the differences in definition really would lead to:

    a. real world changes in lease classifications,

    b. the timing of recognised gains and losses for sale and leaseback transactions and

    c. 'significant changes' to preparers' accounting systems.

    This issue in not unique to the public sector so a joint effort with the IASB would be preferable.

SMC 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.

12. We agree with the IPSASB's decision to add the criteria of "service potential" to the IFRS 16 criteria of "economic benefits" in AG10 (a) when a public sector entity is assessing whether a particular transaction constitutes a lease.

Sincerely,

Myles Thompson
President

Olivier Boutellis-Taft
Chief Executive

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