

Responses to IPSASB Consultation Paper: Leases
(January, 2018; Comments due: June 30, 2018)

CONSULTATION PAPER (CP)
ACCOUNTING FOR LEASES

The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
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Brasília, Brazil
June 30, 2018

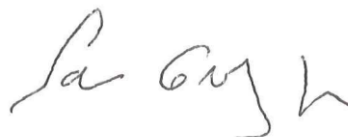
Dear Mr. John Stanford,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on *Leases*. CFC, along with its regional arms - Regional Accounting Councils or Conselhos Regionais da Contabilidade (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Advisory Board for Public Sector Accounting Standards (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,



Idésio S. Coelho
Technical Vice-President
Conselho Federal de Contabilidade

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, one federal district and 5,569 municipalities. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

The proposed approach requires a “right-of-use” model to all leases. Under this model, lessees would record a right-of-use asset and a lease liability in the statement of financial position and lessor would record a lease receivable and a liability (unearned revenue).

In this document, we present the contributions for the consultation paper based on a practical approach applicable to our jurisdiction. In general, we believe that the IPSASB propositions are appropriated, however, the proposed approach to concessionary leases may be excessively onerous due the requirement to assess if all leases contracts are at market value.

In the next section, we present our comments and answers on the preliminary views and specific matters for comment of the consultation paper on an international level.

In addition, we included in the other comments section of this letter the following topic:

(a) Low value assets

One aspect of the proposal is that a lessee may elect not to apply the requirements in paragraphs 63 and 68–100 to leases for which the underlying asset is of low value. This election, however, has not been allowed to lessors. In order to maintain consistency between the accounting of both the lessor and lessee, we believe that such election should also be allowed to lessors.



2. Responses to the Specific Matters for Comment and Preliminary Views

Specific Matter for Comment 1:

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6–BC8 for IPSASB’s reasons). Do you agree with the IPSASB’s decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

We are not aware of any other alternative that would comply more with the current version of the framework and with what would be expected of financial statements prepared according to IPSAS.

The proposed approach would nearly eliminate off-balance sheet financing through operating leases.

GA/CFC agrees with the right-of-use model for lessee accounting.

Specific Matter for Comment 2:

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this Exposure Draft (see paragraphs BC9–BC13 for IPSASB’s reasons). Do you agree with the IPSASB’s decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

An approach for lessor (risk and reward) different from the approach for lessee (right-of-use) will cause an asymmetrical accounting making leasing transaction less understandable to some user of the financial statements. Also, there are lease agreements between government entities in our jurisdiction and an asymmetrical accounting will cause consolidation issues.

GA/CFC agrees with IPSASB approach to depart from IFRS 16 risk and rewards model and the adoption of the right-of-use model for lessor.

Specific Matter for Comment 3:

The IPSASB decided to propose a single right-of-use model for lessor accounting consistent with lessee accounting (see paragraphs BC34–BC40 for IPSASB’s reasons). Do you agree with the requirements for lessor accounting proposed in this Exposure Draft? If not, what changes would you make to those requirements?

GA/CFC agrees with the Board view in adopting approach 1 of BC 35 where the right-of-use is considered a separate phenomenon to the underlying asset and, therefore, the lessor continue to recognize the underlying asset in its entirety.

GA/CFC agrees that it maintains consistency with the lessee accounting and does not conflict with other principles derecognizing “slices” of assets.



Pre Specific Matter for Comment 3:

For lessors, the IPSASB proposes to measure concessionary leases at fair value and recognize the subsidy granted to lessees as a day-one expense and revenue over the lease term consistent with concessionary loans (see paragraphs BC77–BC96 for IPSASB’s reasons).

For lessees, the IPSASB proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23 (see paragraphs BC112–BC114 for IPSASB’s reasons). Do you agree with the requirements to account for concessionary leases for lessors and lessees proposed in this Exposure Draft? If not, what changes would you make to those requirements?

GA/CFC agrees with the Board proposal for lessors to measure concessionary lease at fair value and recognize the subsidy granted to lessees as a day-one expense and revenue over the lease term.

GA/CFC also agrees with the Board proposal for lessees to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23.

GA/CFC also believe that additional guidance should be provided in order to help lessor and lessees evaluate when a lease contract is at market value as it may be excessively onerous to assess every single contract in order to check if it is at market value.

Other comments

Low value assets

One aspect of the proposal is that a lessee may elect not to apply the requirements in paragraphs 63 and 68–100 to leases for which the underlying asset is of low value. This election, however, has not been allowed to lessors.

As per the paragraph 54 of the basis for conclusion, the IPSASB decided not to propose a recognition exemption for lessors for leases for which the underlying asset is of low value for the following reasons:

- (a) IPSAS 13 does not provide recognition exemptions in lessor accounting;
- (b) IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors already provides sufficient guidance on materiality in applying IPSASs to specific transactions; and
- (c) It is consistent with a head lease not qualifying as a lease of a low-value asset if the lessee subleases an asset, or expects to sublease an asset.

We believe that the reasons set up in (a) and (b) above would also be applicable for lessee and would not justify a different approach for lessors and lessee.

In other to maintain consistency between the accounting of both the lessor and lessee, we believe that such election should also be allowed for lessors.

