Joint Submission by the Association of Chartered Certified Accountants and Pan African Federation of Accountants

17 May 2021

To: Ian Carruthers
Chair, IPSAS Board
227 Wellington Street West
Toronto ON, Canada
M5V 3H2

Submission via website

Dear Ian

This submission is made jointly by the Association of Chartered Certified Accountants (ACCA) and Pan African Federation of Accountants (PAFA). More information about ACCA and PAFA is contained in Appendix A.

ACCA and PAFA share a commitment to supporting good practices in public financial management across Africa and around the world. The adoption and implementation of international accounting standards is a cornerstone of transparency and accountability in the public sector, as well as providing decision-useful information to inform the policymaking process and support good value for money from public services. Therefore, we appreciate the opportunity to comment on Exposure Draft ("the ED") 75, *Leases*. Our responses to the specific matters for comment raised in the ED follow in Appendix B.

The expertise from our members, networks, and in-house technical experts allows ACCA and PAFA to provide informed opinion on a range of financial, regulatory, public sector and business areas. Further information about our comments on the matters discussed here can be requested from:

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Appendix A

About ACCA

ACCA supports its 227,000 members and over 544,000 future members in 176 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide, who provide high standards of employee learning and development.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

About PAFA

The Pan African Federation of Accountants (PAFA) is the continental body representing Africa's Professional Accountants. Established in May 2011, PAFA is a non-profit organisation currently with 55 Professional Accountancy Organisations (PAOs) from 44 countries. Our mission is to accelerate and strengthen the voice and capacity of the Accountancy profession to work in the public interest, facilitate trade, and enhance benefits and quality services to Africa's citizens.

PAFA takes a multi-layered approach to engaging with stakeholders at continental, regional and national levels, and we aim to develop the profession and work collaboratively to drive Africa's agenda.

Our mandate is founded on the premise that national Professional Accounting Organisations (PAOs) have the capacity to drive good financial management practices, accountability, transparency and good governance across public and private entities. We therefore believe that our ability to develop institutional capability will enable the acceleration of economic growth and the reduction of poverty in Africa.

Our vision is to work in the public interest by leading and developing the accountancy profession in Africa, and delivering value to our members.

ACCA AND PAFA welcome the opportunity to comment on Exposure Draft (ED) 75 on *Leases*. The ACCA Public Sector Global Forum, as well as ACCA and PAFA staff experts have considered the matters raised and their views are represented in the following. We also positively note that ed75 acknowledges stakeholder feedback on ED 64, including ACCA's 2018 consultation response, which disagreed with the IPSAS BOARD's proposal to depart from IFRS 16 for lessor accounting.

In addition to the areas for specific comment below, ACCA and PAFA suggest that the IPSAS Board consider the implications for IFRS 16 alignment in ED75 arising from the IASB's November 2020 exposure draft 'Lease liability in a sale and leaseback'.

AREAS FOR SPECIFIC COMMENT:

Specific Matter for Comment 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.

ACCA and PAFA agree that it is appropriate to pursue an IFRS-aligned standard in this instance and that the public interest will be best served by limiting divergences from IFRS16 wherever possible. The current ED effectively strikes this balance.

In our view, the divergence proposed for contractual arrangements is appropriate and it is positive to see the alignment across to definitions contained under IPSAS 32, *Service Concession Arrangements: Grantor*. It is also appropriate to remove references to 'manufacturer or dealer lessor'.

Finally, given the delayed effective dates of other IPSASs, we could recommend that the paragraphs relating to rent concessions from COVID-19 be removed. Instead, the contents of the relevant paragraphs on rent concessions should be included in an updated Staff Q&A for COVID-19 or similar staff paper.

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.

In response to ED 77 ACCA supported the proposal that IPSAS should use the definition of fair value from IFRS13. In any system of accounting standards, it is unhelpful for those applying and relying on the standards if identical terms have different definitions in different standards. The definition of fair value in ED 75 paragraph 5 applies only to lessor accounting, so presumably does not apply to fair value when that is used in the accounting for sale and leaseback transactions. The inconsistency would occur between different IPSASs, but also within the same IPSAS.

In our view therefore, the IFRS13 definition should be used so that IPSAS should be a coherent system of standards. We also note that BC44 seems inconsistent with the definition of fair value (paragraph 5 of the ED) in respect of sale and leaseback transactions.

We are aware that the proposed IPSAS is intended to be aligned with IFRS16 which is also a desirable objective, but one which is incompatible with the principle above in this regard.

We observe that the differences in the two definitions of fair value would seem to be small. The IASB in its basis of conclusions to IFRS 16 (BC66) decided to carry forward the definition from the previous standard (IAS17) to avoid implied changes in lessor accounting when none were intended.

In BC44 IPSASB's concern is that a new definition "might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions". Does IPSAS Board have evidence for the classification concern as a practical reality? Could this issue have not been better dealt with by an option to retain the classification from IPSAS 13 for existing leases on transition?

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 addition of "service potential" alongside "economic benefits" where appropriate; particularly as it is consistent with the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.