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The Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

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Per electronic submission

30 June 2018

Dear John

COMMENTS ON ED 64 *LEASES*

We welcome the opportunity to comment on the proposed IPSAS on *Leases.*

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating its comments, the Secretariat consulted a range of stakeholders including auditors, preparers and professional bodies.

As this is a converged project with IFRS 16, we agree with the IPSASB's proposal to adopt the right-of-use model in IFRS 16 for lessees. However, we do not support the decision to depart from the IFRS 16 model for lessors. In our view, the proposed accounting to continue to recognise and measure the underlying asset does not reflect that the lessor's right to service potential and future economic benefits in the underlying assets have diminished. We believe that the IPSASB should either consider (a) modifying its current proposal to reflect a change in measurement of the underlying asset, or (b) retaining the IASB's model for lessors. By retaining the IASB's model, it means that the same transactions are accounted for in the same way in the public and private sectors.

Furthermore, while we agree in principle with the concept of concessionary leases from the perspective of lessees, we disagree with the proposed accounting for lessors. We have concerns about recognising revenue for a transaction that has no economic substance at the outset.

Our detailed responses to the specific matters for comment are outlined in Annexure A to this letter. Other matters, which mostly indicate areas where additional guidance should be considered, are outlined in Annexure B.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

Jeanine Poggiolini

Technical Director

ANNEXURE A – RESPONSES TO SPECIFIC MATTERS FOR COMMENTS

Specific matter for comment 1

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6 to 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 support the IPSASB's decision to adopt the IFRS 16 right-of-use model for lessee accounting. We believe that the right-of-use model for lessees is easily understandable and its conceptual basis is reflective of the existing principles established by the IPSASB in its literature.

Potential implementation issues

Resource implications for first time adoption

We note that in paragraph BC7(e) the IPSASB considered the costs associated with adopting the right-of-use model, and concluded that these costs would not outweigh the benefits if the IPSASB also adopted the practical expedients in IFRS 16. Our stakeholders indicated that the cost of implementation in the private sector has been significant, particularly where changes to systems are required to ensure that relevant information is gathered on a timely basis to recognise right-of-use assets and lease liabilities. As most leasing arrangements in the public sector are currently classified as operating leases, the costs involved to make the necessary system changes and obtain the relevant skills to undertake the implementation are likely to be significant. Although the practical expedients or recognition exemptions made available to lessees will be helpful and alleviate some cost issues, not all leases will meet the criteria to apply the practical expedients or other recognition exemptions.

Impact on debt and other financial ratios

For lessees, the effect of the proposed accounting is that entities will be reporting financial liabilities for those leases. While the proposed accounting is expected to provide more transparent information about the lessee's existing financial commitment, we are concerned that the impact of recognising additional financial liabilities on financial ratios such as net and gross debt has not been considered. There is a possibility that applying the proposed lessee accounting may result in some entities no longer complying with debt covenants on existing financing facilities or other regulatory requirements as a result of the potential change in debt ratios.

Recommendation

Since leases are pervasive in public sector and likely to affect most public sector entities, we recommend that the IPSASB reconsiders the transitional provisions and/or effective date of the Standard to allow entities sufficient time to obtain the relevant information to apply the right-of-use model. In addition, we believe that the IPSASB, when determining the effective date of the Standard, should consider which other IPSASs will become effective in the same period so that entities do not deal with too many reporting changes at once.

Furthermore, we believe the IPSASB should take cognisance of the consequences of the changes to the accounting for lessees, and similar to the IASB, consider conducting extensive outreach activities with users of financial statements (such as rating agencies, analysts and lenders) to raise awareness of the changes, and manage the likely effects.

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 to 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.

We do not support the IPSASB's decision to depart from the IFRS 16 risks and rewards model for lessor accounting. We note the IPSASB's reasons for departing from the IFRS 16 model in BC9 to BC13, and we do not believe the reasons provided are sufficient grounds for departure.

Our stakeholders were not in favour of the IPSASB's decision and indicated that while IFRS 16 may not be consistent with the lessee model, they would support retaining the dual model in IFRS 16 for lessors.

Lessors should not derecognise the underlying asset in a lease

Paragraphs BC9 and BC35(a) explain that the lease does not transfer control of the underlying asset to the lessee as no sale has occurred, and the lessor should not derecognise the underlying asset. We question whether the conclusions reached are appropriate in relation to the principles of control in the Conceptual Framework.

In particular, paragraph AG4. in the Exposure Draft explains that a lessee should assess whether a lease conveys the right to control the use of the leased asset based on whether it has the a) right to obtain substantially all of the economic benefits from use and b) right to direct the use of the underlying asset. To direct the use, the lessee should consider whether it has the right to direct how and for what purpose the asset will be used or whether the decisions about how and for what purpose are predetermined. In accordance with the determinants of control in the Conceptual Framework, the lessee accounting demonstrates that the substance of the lease is that the lessor has transferred the following to the lessee:

- *access to the resource, or ability to deny or restrict access to the resource;*
- *the means to ensure that the resource is used to achieve its objectives; and*
- *the existence of an enforceable right to service potential or the ability to generate economic benefits*.

Based on the above principles, we believe that the IPSASB's proposals seemingly apply substance over form only when assessing the lease from the lessee's perspective. However, from the lessor's perspective, the proposal has ignored that in substance the lessor's rights in the underlying asset have diminished. Therefore, we have concerns that the lessor model allows the continued recognition of the underlying asset even though the lessor's rights to service potential or the ability to generate economic benefits from using the asset are limited for the duration of the lease.

Applicability of the control based approach in IPSAS 32, *Service Concession Arrangements: Grantor*

The IPSASB explains in paragraphs BC9 to BC13 that the risks and rewards model in IFRS 16 is not based on control, and is inconsistent with existing literature (i.e. IPSAS 32). While we understand that there may be similarities in the control based approach in IPSAS 32 and the proposed lease accounting, we have our reservations about the arguments made that the proposed lessor accounting is consistent with the grant of a right to the operator model, in all respects.

For instance, the principles of control in IPSAS 32 are on the premise that the grantor has control over the service concession asset when the grantor controls or regulates the services that the operator must

provide, to whom the operator must provide them and at what price. In the case of the lessor, the IPSASB concludes that the lessor has control over the underlying asset, even though it is explicitly clear in the lessee model that the lessor does not have the right to obtain substantially all of the economic benefits from use or the right to direct the use of the underlying asset for the duration of the lease. As such, the right to direct the use, how and for what purpose the underlying asset will be used or whether the decisions about how and for what purpose are predetermined rests with the lessee rather than the lessor in this case. Therefore, we do not believe that the arguments made in paragraphs BC9 and BC36 can be supported based on IPSAS 32.

Practical issues in the public sector

Consolidation issues

The IPSASB also decided to depart to address consolidation issues and to make leasing transactions more understandable by the lessor and lessee applying the same accounting model. The IPSASB was concerned that under the risks and rewards model, if the lessor classifies the lease as a finance lease, the underlying asset would not be recognised by either party, and separate records would be required to report the underlying asset. A similar observation is made for operating leases and the recognition of lease receivables.

The IPSASB's arguments to address the consolidation issues are only relevant where all public sector entities apply IPSASs. However, in some jurisdictions, including our own, the consolidation issues discussed in paragraph BC10 will remain a challenge for mixed groups, i.e. where entities apply IFRS Standards and IPSASs (or equivalent reporting framework). In such cases, lessors applying IFRS Standards will be required to account for their leases based on the risks and rewards model in IFRS 16 in their own financial statements, and produce information that applies the right-of-use model for use in the consolidated financial statements. For the economic entity, the implications may be limited for leases within the group as these would be eliminated, however the cost implications may be significant for leases external to the economic entity as the lessor will be required to apply different principles, and maintain separate records.

In our view, we believe that departing from the IFRS 16 model will result in understandability issues for users in the public sector and private sector, as the same transaction is accounted differently in the public sector and private sector.

Recommendation

We suggest that the IPSASB re-evaluates its reasons for departing from IFRS 16 in an effort to achieve symmetry. In our view, a symmetrical approach was intended to resolve consolidation issues where the lessee and lessor apply IPSASs and are both part of the same economic entity. In such cases, symmetry allows for the same transaction to be accounted for in the same way by both parties in their individual entity (or separate) financial statements. From an economic entity level, symmetry is unachievable if the counterparty is external to the economic entity and does not apply IPSASs.

We have examined the IASB's developments in its lease project. The IASB proposed similar approaches in its Exposure Drafts but concluded that it would retain the existing dual model in IAS 17 as most constituents indicated that the existing accounting worked well in practice. We suggest that the IPSASB considers the feedback provided to the IASB's by its constituents, when it considers feedback from respondents as this may assist the IPSASB to either (a) conclude that the economics of leases in the public and private sector are the same and that there is no reason to depart from the IFRS 16 model, or (b) provide guidance on how to resolve the measurement of the underlying asset as discussed in our response to SMC 3.

Therefore, depending on the feedback received by the IPSASB, we would propose that either the IPSASB retains the IFRS 16 model or modifies Approach 1 to address the measurement issues discussed in our response to SMC 3.

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 to 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?

We do not support the IPSASB's proposal for lessors to apply the right-of-use model consistent with the lessee accounting as we do not agree with the IPSASB's reasons for adopting Approach 1 rather than Approach 2.

IPSASB approaches to the right-of-use model

Our comments below should be read in the light of our response to SMC 2.

Paragraph BC35 notes that the IPSASB considered two mutually exclusive approaches to the right-of-use model for lessors. The IASB considered several possible approaches for lessor accounting in its project on leases. In 2010, the IASB proposed that both lessees and lessors should apply the right-of-use model when accounting for leases. The IASB model considered whether the lessor retained exposure to the risks or benefits associated with the underlying asset during the lease term. The extent of exposure determined whether the lessor would either recognise a lease liability while continuing to recognise the underlying asset (i.e. performance obligation approach) or derecognise the rights in the underlying asset that the lessor transferred to the lessee and continue to recognise a residual asset of its rights to the underlying asset at the end of the lease term (i.e. derecognition approach). Approach 1 of the IPSASB is the right-of-use model proposed in the Exposure Draft, and is similar to the IASB's performance obligation approach while Approach 2 is similar to the derecognition approach. The IASB received mixed views on those approaches but decided to retain the existing lessor accounting.

We question whether it is appropriate for the lessor to continue to recognise and measure the underlying asset without considering that its rights to service potential or the ability to generate economic benefits from using the asset are limited for the duration of the lease. We considered the IPSASB's reasons for favouring Approach 1 to Approach 2, and note the following concerns about the Approaches.

Approach 1: right-of-use asset is a separate economic phenomenon to the underlying asset

We agree that the right-of-use asset is a separate economic phenomenon to the underlying asset but question whether the continued recognition of the underlying asset is appropriate.

Continued recognition of the underlying asset

This approach assumes that the lessor retains control of all the future economic benefits and service potential of the underlying asset and should continue to be recognised in its entirety in the statement of financial position. We do not believe that the accounting of the underlying asset is a faithful representation of the substance of the transaction, as noted in our response to SMC 2.

Recognition of the lease receivable

We agree with the IPSASB's conclusion that the lease receivable should be recognised as the lessor has an unconditional right to receive the lease payments. However, some of our stakeholders generally

disagreed with Approach 1, as it requires the recognition of a lease receivable as well the underlying asset which results in double counting and "grossing up" of the lessor's financial position.

Recognition of a credit entry

The IPSASB decided in paragraph BC35 that the lessor should recognise a credit entry and refer to it as a lease liability (unearned revenue) that will be reduced subsequently over the lease term as revenue is recognised in the statement of financial performance. The IPSASB acknowledges that the treatment would not be consistent with the Conceptual Framework and existing IPSASs on revenue recognition. Since there is no outflow of resources, we do not believe that the credit entry is a liability. Additionally, it is unclear how the credit entry represents revenue, when the lessor has not earned any revenue and the credit entry is just a consequence of the recognition of the lease receivable.

Some of our stakeholders also questioned what is meant by the phrase in paragraph 43 that the lessor should recognise revenue according to the substance of the lease contract. They indicated that since most leases are time-based, it is unclear what is meant by "the substance of the lease". Some indicated that this means revenue should be recognised on a straight line basis over the term of the lease. We suggest that the IPSASB considers providing additional guidance to clarify that revenue may be recognised on a straight line basis, or another systematic basis to ensure that consistent principles are applied when determining what is meant by "the substance of the lease contract".

Approach 2: right-of-use asset is a component of the underlying asset

Similar to the IASB's proposed derecognition model, in Approach 2 the right-of-use asset is a component of the underlying asset and the lessor would derecognise the component of the underlying asset that is transferred to the lessee and recognise a residual asset. The IPSASB's reason that the derecognition approach is not consistent with the Conceptual Framework is debatable. In our view, IPSASs allow for the derecognition of parts of or components of assets (for example, property, plant and equipment and financial instruments) and this principle would apply in the same way under Approach 2. As such we disagree that the Approach 2 is not consistent with the Conceptual Framework. In addition, we also disagree with the IPSASB's arguments that Approach 2 is not consistent with the control based approach in IPSAS 32. As noted earlier in our response, we do not believe that the approach in IPSAS 32 is entirely consistent with the control approach discussed in the Exposure Draft.

Recommendations

Given the similarities between the IPSASB's approaches and the IASB's proposed performance obligation and derecognition approach, we question whether the IPSASB fully explored the IASB's reasons to not pursue its earlier proposals in the Exposure Draft in 2010. The IASB undertook extensive consultation on its proposals, with users and preparers, and based on the feedback decided that the risks and rewards model is not conceptually flawed and should continue to be applied for lessors. We therefore recommend that the IPSASB re-evaluate whether the same concerns raised in response to the IASB's proposals in the private sector do not also exist in the public sector.

Furthermore, the IPSASB seems to have concluded that Approach 2 is more costly and complex. In our view, cost considerations and the complexity of the proposed accounting are applicable to both approaches and if cost and undue effort was the only consideration, we would support consistency with the IFRS 16 model in this regard.

If Approach 1 is retained in the final IPSAS, we suggest that the IPSASB considers modifying this Approach to deal with the concerns raised that the measurement of the underlying asset cannot be the same as that of similar assets that are not the subject of a lease.

Our proposed modified Approach is a hybrid approach that combines some aspects of the two approaches. This would mean that:

- The lessor would continue to recognise the underlying asset but re-measure it in such a way that the value of the underlying asset reflects the lessor's residual rights to service potential or the ability to generate future economic benefits. The re-measurement would require the underlying asset to be measured at the fair value (similar to the fair value model in IPSAS 16), irrespective of whether the IPSAS relevant to that underlying asset allows the use of the revaluation, fair value or cost model.
- In determining the fair value of the underlying asset, the entity would need to consider the possibility of double counting when measuring the underlying asset and the lease receivable. Existing guidance in IPSAS 16 indicates that in determining the fair value of the underlying asset, the value of the other assets recognised should be excluded. In this case, the value of the lease receivable would be excluded from the fair value of the underlying asset to resolve the issue about double counting in the statement of financial position.
- If however, the IPSASB believes that prescribing the use of fair value for all leased assets is inappropriate, and retains the proposed requirement to continue to allow entities to use either the revaluation, fair value or cost model, then similar measurement consideration would be required where the cost model is applied. The carrying amount of the underlying asset would also reflect the lessor's residual rights to service potential or the ability to generate future economic benefits by either proportionately reducing the cost of the underlying asset or impairing the underlying asset.

Specific matter for comment 4

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?

Some of our stakeholders welcomed the introduction of the concept of concessionary leases in ED 64 as concessionary leases are prevalent in the public sector. Generally, support was expressed for the guidance on concessionary leases for lessees, however many disagreed with the proposed lessor accounting. In particular, our stakeholders found it difficult to understand the conceptual basis of the proposed lessor accounting.

In other cases, stakeholders did not agree with the introduction of concessionary leases as they did not believe it provides useful information to the users of financial statements.

Some stakeholders also indicated disagreement with the proposals for concessionary leases for lessees as the use of assets in these arrangements is similar to services in-kind, and that the IPSASB is not being consistent by allowing lessees to recognise concessionary leases, when services in-kind are not required to be recognised in the financial statements under IPSAS 23.

Recognition of concessionary leases

We do not support the recognition of concessionary leases by lessors. While we understand that the IPSASB aims to reflect the substance of the transaction on day one (i.e. an expense is recognised for the economic benefits given away through reduced lease payments), we have concerns about recognising revenue for a transaction that has no economic substance at the outset.

Our stakeholders also questioned how entities should account for a cancellation to a concessionary lease as it was unclear whether the lease would be derecognised upon cancellation. We suggest that the IPSASB considers providing additional guidance to address cancellation of concessionary leases.

In mixed groups, entities preparing financial statements based on IFRS Standards would need to identify concessionary leases and report on them differently when preparing the information for the consolidation. Therefore, there would be cost implications as concessionary leases need to be measured at fair value.

Measurement of concessionary leases

Determining market-related payments

Concerns about the measurement of concessionary leases were raised by preparers. It was noted that it would be difficult to determine a market-related rental as the types of lease arrangements undertaken in the public sector often do not exist in the broader property market in a jurisdiction. In our local government environment, we identified leases where municipalities lease social housing to citizens, lease land used in road reserves, lease sidewalks to residents to be used as gardens, and leases of land for sporting facilities, at no or nominal consideration or below market terms. While these leases may appear to be either at no or nominal consideration or below market terms, it was unclear whether the market envisaged in the Exposure Draft would be the government-specific market or the broader property market in a jurisdiction.

Some of our stakeholders indicated that if the classification of leases is made based on the government-specific market, entities may find that the lease is in fact at market terms and not a concessionary lease. Some of our stakeholders also noted that lessees may experience further difficulties in obtaining information about market lease payments when the lessor is not another public sector entity. Furthermore, we noted that in some cases the lease payments charged may be regulated by government. For example, in our environment some entities are centralised lessors established to lease property to other public sector entities, and the lease payments are capped and regulated by the treasury/ministry of finance. In such cases, it is questionable whether those capped lease payments in fact represent a market-related lease. We suggest that the IPSASB considers clarifying which market is used in determining the appropriate classification of leases.

If the IPSASB envisaged a broader property market in a jurisdiction in the Exposure Draft, we suggest that the IPSASB considers introducing a practical expedient that concessionary leases are measured based on the contractual lease payments.

Measuring the unearned revenue

The IPSASB proposes recognising a day 1 expense resulting in a lease liability (unearned revenue) that is higher than the contractual lease receivable. Conceptually, the proposed accounting is inconsistent with existing revenue principles. For example, initially the unearned revenue is based on the benefits the entity has given away in the lease rather than the benefits it expects to receive. This is inconsistent with the principles in the revenue standards which indicate revenue is measured based on the value of the consideration received or to be received.

Furthermore, it was unclear what the nature of the credit entry is in a concessionary lease. From our understanding, the unearned revenue represents foregone revenue. In our view, the lessor has not earned the revenue relating to the concession, and therefore it should not be recognised in the financial statements. We also had difficulty understanding the conceptual difference between this type of concession and subsidised goods and services. For example, in the case of subsidised goods and

services, an entity would recognise revenue based on what it expects to receive from service recipients, and not what was given away as proposed in this Exposure Draft.

Our stakeholders also noted that the proposed accounting results in double counting of expenditure. For example, on initial recognition, the lessor recognises the subsidy as an expense and the entity will also incur costs such as depreciation, maintenance, etc. to make the underlying asset available to the lessee. The recognition of additional expenditure may overstate the cost of providing the subsidised lease.

Recommendation

In our view, the proposed accounting is not conceptually sound and is also difficult to understand. It is important that the IPSASB considers the objective of recognising this information, and the relevance of providing the information to the users of financial statements. We believe that the benefits of recognising concessionary leases may be outweighed by the costs involved to recognise and measure the concessionary leases. Instead, it may be more appropriate to provide disclosures about the concession in the financial statements.

Some of our stakeholders noted that if the IPSASB concludes that the market is the government-specific market, then there may not be as many concessionary leases to be reported in the public sector. Similarly, where there are concessionary leases, it may be more appropriate to provide disclosures rather than recognise and measure those leases as proposed in this Exposure Draft.

It was also suggested that if the IPSASB concludes that recognising the subsidy implies grossing up revenue, then the subsidy and revenue should be offset over time or should be offset against each other in the same reporting period.

Annexure B – Other matters

Reference	Comments
Paragraph 4	The definition of a lease indicates that the right to control the use of the asset is in exchange for consideration. Our interpretation of "in exchange for consideration" led us to conclude that barter transactions are not considered to be leases as no consideration has been exchanged. Our stakeholders indicated several instances where, for example, an entity would enter into an arrangement to lease undeveloped land to another entity, in return for a developed building. The entity providing the land waives the right to collect taxes, the obligation to undertake routine maintenance, etc. We believe that guidance on how to treat these types of arrangements may be useful.
Paragraph 10	This paragraph notes that the allocation of consideration should be in relation to IPSAS 9. In IFRS 16, this reference would be to IFRS 15 *Revenue from Contracts with Customers.* The guidance in IFRS 15 is more specific than that in IPSAS 9. We question whether the guidance in IPSAS 9 is sufficient, and if the specific guidance needed should be aligned to IFRS 15 in the interim, in the absence of an IPSAS that is converged with IFRS 15. It may also be useful for the IPSASB to explain in the basis for conclusions the reasons it believes the IPSAS 9 guidance is sufficient for entities to allocate the consideration, as intended in IFRS 15.
Paragraph 15	Paragraph 15 requires that a lessor and lessee should determine whether the lease is at market terms or at below market terms. Some of our stakeholders indicated that the IPSASB should clarify the treatment of discounts and other reductions when making the assessment. It was noted that guidance similar to IPSAS 23.11 should be considered for inclusion to clarify whether the classification of leases subject to discounts will be at below market terms. Our stakeholders noted that it may be difficult in practice to distinguish between concessionary leases and leases at no or nominal consideration. The distinction requires judgement to be exercised, and it may be useful for the IPSASB to provide additional guidance, particularly where it is not immediately clear whether the arrangement is concessionary or at no or nominal consideration. We also suggest that the exclusion of leases at no or nominal consideration should be more prominent, as it is unclear from the diagram in paragraph 22 and the application guidance that these leases are effectively scoped out and accounted for using other Standards.
Paragraphs 98 to 112	Paragraph BC 110 notes that the IPSASB decided to adopt the Conceptual Framework's approach on presentation that distinguishes between information selected for display or disclosure. We note that the presentation requirements for lessors reflect this approach while the lessee presentation requirements do not. We suggest that this section is amended to be consistent with the presentation approach in the Conceptual Framework.
AG3	This paragraph provides guidance on whether an arrangement is a contract. We question whether arrangements would include those that are not in writing.
AG 4 to AG26	The application guidance provides guidance on how to assess whether a lease conveys the right to control the use of an identified asset. It requires that the customer

	should assess whether it has the right to obtain *substantially all of the economic benefits* from use of the identified asset. It is unclear why the IPSASB decided to exclude from the discussion the service potential embodied in the underlying assets. If this was deliberate, it would be useful for the IPSASB to provide reasons in the basis for conclusions why the lease accounting does not recognise that leased assets are resources embodying service potential.
	The guidance does not deal with how an entity would identify whether a contract is a lease or a sale under IPSAS 9. For example, it is not clear how entities should account for an arrangement that conveys the right to control the use of the asset for substantially all of its economic life. Such guidance would be useful to clarify at what point a lessor would lose control of an underlying asset.
AG27 to 28	While this application guidance deals with separating components of a contract, we questioned whether the existing principles of separating a lease of land and buildings in IPSAS 13 may be of relevance in the IPSAS on leases. For example, when accounting for a lease of land and buildings IPSAS 13 required the separation of the lease between the two elements. It was unclear whether such a principle would apply under the proposed accounting, particularly if the lessee is required to apply the depreciation requirements in IPSASs when subsequently measuring the right-of-use asset. As land typically does not have a finite life, it may be useful to provide guidance on how the measurement requirements in the Exposure Draft should be applied, or indicate that the land and buildings may be treated as a single unit for the purpose of the proposed accounting. In addition, we believe the principle may be useful to include when considering whether an entity has conveyed the right to use an asset for substantially its economic life. It is important to make the distinction as the considerations will be different for land and buildings.
AG 29 to 37	The application guidance provides guidance on determining the lease term of a contract. Our stakeholders indicated that it is common for a lessee to lease a custom-built property (for example, military base, police stations and correctional facilities) on a month-to-month basis, with the option to renew each month. In such cases, it was unclear how entities would account for such a lease, as the underlying asset is of such a specialised nature that, in substance, it can be argued that the lease arrangement is indefinite. Therefore the IPSASB should consider providing additional guidance for these types of leases.
AG56 to 57	The application guidance indicates how entities should account for subleases. While we agree with the guidance, we note that in our jurisdiction, some entities are centralised lessors established to lease property to other public sector entities. In some cases, the property to be leased may be of such specifications that the lessor does not have the property available in its portfolio of assets, and enters into a lease contract as an intermediary with a third party on behalf of the lessee. The lease contract between the centralised lessor and the lessee would be under the same terms as the original lease contract with the third party. It is unclear from the guidance whether the lessor would be required to account for the lease as both lessee and lessor, or whether the lease arrangements can be offset, and a back-to-back arrangement is disclosed in the financial statements.
AG60	Paragraph AG60 notes that where a concessionary lease (grant) is granted by the

	lessor, the grant should be accounted for according to the relevant international or national accounting standard. We suggest that the IPSASB acknowledges that currently no such guidance exists for accounting for non-exchange expenses and, a consequential amendment can be made in the final IPSAS when the IPSASB approves the guidance on non-exchange expense in 2020.