17 May 2021

Mr Ian Carruthers
Chairman
International Public Sector Accounting Standards Board
529 Fifth Avenue New York, NY 10017 USA
Via online submission: www.ipsasb.org

Dear Ian

Submission on ED 75 *Leases*

As the representatives of over 280,000 professional accountants in Australia, New Zealand and around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission to the International Public Sector Accounting Standards Board (IPSASB) on its Exposure Draft 75 Leases (ED 75). In addition to this submission in response to the ED 75, we have also made a separate submission in response to the Request for Information - Concessionary Leases and Other Arrangements Similar to Leases (RFI).

In developing this submission, CA ANZ and CPA Australia have conducted outreach activities, including a dedicated roundtable with public sector participants from Australia and New Zealand, at which both ED 75 and the RFI consultations were discussed.

We support the IPSASB's proposals in ED 75 to develop a standard based on IFRS 16 Leases (IFRS 16), including aligning the requirements to account for lessor accounting with IFRS 16. As part of the development and implementation of IFRS 16, a number of practical challenges have been identified, including first time implementation issues for small and medium entities with limited financial expertise, which can also inform the IPSASB in developing and implementing a standard based on the proposals in ED 75. In this regard, we agree with the IPSASB's proposal in ED 75 to include the COVID-19-related rent concessions amendment to IFRS 16 in the proposed standard.

We note there are other matters that are currently being considered by the IASB as potential amendments to IFRS 16 (e.g. lease liability in a sale and leaseback) and matters that we hope will be considered as part of the post-implementation review (e.g. lease incentives). Whilst we do not expect the IPSASB to address these matters as part of the development of the standard based on the proposals in ED 75, we suggest the IPSASB takes note of, and monitors, these matters.

Based on feedback received, we have not identified any public sector-specific reasons to diverge from the requirements in IFRS 16, except in relation to the threshold for leases for which the underlying asset is of low value. As highlighted in our responses to specific questions raised in ED 75 in the **Attachment**, it would be beneficial if, similar to IFRS 16, a specific monetary amount is suggested to guide entities in applying the low-value asset exemption.

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We are supportive of the IPSASB's plan to address the accounting treatment of concessionary leases and other similar arrangements separately through phase two of the leases project. However, until the completion of phase two of the project, we recommend the IPSASB provide explicit scope exclusion in the proposed standard based on ED 75 for all concessionary leases and other similar arrangements. This is to ensure first time implementation of the proposed standard does not lead to unnecessary challenges and complexity for entities with concessionary leases and other similar arrangements.

The **Attachment** to this letter sets out our responses to the specific questions posed in ED 75. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Your sincerely

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Dr Gary Pflugrath CPA
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Attachment

Specific matters for 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.**

Subject to the below, we agree with the modifications proposed by the IPSASB to IFRS 16 for application in the public sector:

- Feedback we received through our outreach activities indicates that there are currently no requirements or guidance on accounting for concessionary leases and other similar arrangements, which has led to divergence in practice in accounting for such arrangements. Therefore, we support the IPSASB's plan to address the accounting treatment of concessionary leases and other similar arrangements separately through phase two of the leases project. However, the Basis for Conclusions paragraph BC38 indicates that the IPSASB has tentatively decided not to provide explicit scope exclusion in the proposed standard for concessionary leases and other similar arrangements.

  We believe this may cause confusion amongst constituents as to whether the new requirements in the proposed standard based on ED 75 will apply to concessionary leases and other similar arrangements, or to continue with the current accounting practices until the phase two of the leases project is completed. Accordingly, we recommend that the IPSASB provide scope exclusion for all concessionary leases and other similar arrangements from the proposed standard until the completion of phase two of the leases project.

- In paragraph BC49, the IPSASB states that it did not identify any public sector specific reasons that would warrant different recognition exemptions from IFRS 16 in the proposed standard based on ED 75. Whilst we agree with this decision, we do not agree with the IPSASB's conclusion to not provide guidance on a specific monetary amount in the Basis for Conclusions. We note IFRS 16 paragraph BC100 states *"the IASB had in mind leases of underlying assets with a value, when new, in the order of the magnitude of US$5,000 or less"*. We recommend the IPSASB should provide similar guidance on a specific monetary amount to provide clarity to public sector entities, to ensure consistent application of the low-value asset exemption and to avoid unnecessary cost in determining the threshold on an individual basis by public sector entities.

- The proposals to issue additional Application Guidance explaining the factors an entity should consider in assessing whether a lease arrangement is contractual or non-contractual will be very useful in the public sector environment. In the public sector, there are instances where leases are granted with no written/signed contracts, and where such arrangements are based on memoranda of understanding that may not meet the definition of a contract. Accordingly, although we agree with the IPSASB's decision to not use the term "binding arrangement" in the proposed standard, the definition of the term "contract" as provided in the Basis for Conclusions needs to be clarified to reflect the unique nature of public sector arrangements involving leases.

- Based on our outreach, we understand that manufacturer or dealer lessor transactions are not common in the public sector. We therefore agree with the IPSASB's proposals to not include the requirements from IFRS 16 for manufacturer or dealer lessors in the proposed standard.

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.

We agree with the reasons provided in paragraph BC45 to retain the definition of fair value from IFRS 16 and IPSAS 13 *Leases* in the proposed standard.

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.

Generally, lease arrangements in the public sector represent either the economic benefit and/or the service potential of the assets subject to a lease. Reference to the terms "economic benefits" and "service potential" is consistent with the Conceptual Framework and is currently used as part of the requirements of other IPSAS such as IPSAS 21 *Impairment of Non-cash-generating Assets,* which requires the consideration of "economic benefits" and "service potential" of an asset when testing non-cash generating assets for impairment. For this reason, we agree with the IPSASB's proposal to refer to both "economic benefits" and "service potential", where appropriate, in the application guidance on identifying a lease.

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