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Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submission via www.ifac.org

Dear John

**Submission on Exposure Draft 64: Leases**

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix A.

We appreciate the opportunity to comment on the Exposure Draft ("the ED"). Our responses to the specific matters for comment raised in the ED follow in Appendix B.

Yours gratefully


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# Appendix A

## About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

## About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 200,000 members and over 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers.

ACCA works through a network of 101 offices and centres and 7,291 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; corporate governance and corporate social responsibility.

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## Appendix B

**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 support replacing IPSAS 13 with an IPSAS primarily based on IFRS 16. Therefore we agree with the IPSASB's proposal to adopt the IFRS 16 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.**

We do not agree with the IPSASB's proposal to depart from IFRS 16 for lessor accounting. The IPSASB's key reasons for departing from IFRS 16 appear to focus on consolidation issues where the lessor and the lessee are part of the same economic entity. However, it is likely that the proposals would still give rise to inconsistent accounting by the two parties to a lease, so consolidation issues would still arise. For example, the lease receivable and the lease liability would not necessarily be recorded at the same amount by the two parties due to different estimates being used, such as discount rates. In addition, the IPSASB is not proposing a recognition exemption for lessors for "low value" leases.

Of greater concern is the impact of different accounting requirements on "mixed groups" – economic entities that contain both public sector entities and private sector entities. Such structures are common within the public sector. Substantial differences between the IPSASB's and IASB's lessor model will, in our view, create even more consolidation issues.

Another reason for the departure that the IPSASB raises is the inconsistency with the Conceptual Framework. However we note that the deferred income balance proposed arguably does not meet the definition of a liability.

We therefore disagree with the IPSASB's conclusion that there is a public sector issue that warrants a departure from the lessor accounting approach in IFRS 16.

**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?**

As mentioned above, we do not support departure from IFRS 16. Furthermore, the proposed approach ("Approach 1") results in a double counting of the one set of cash inflows in two assets – the whole underlying leased asset and the lease receivable. This appears to be because "control" of the underlying leased asset centres on legal ownership in the ED. We would argue that the concept of control needs to be considered in a broader context, for example; the entitlement to future service potential.

The existence of the two assets raises the issue of the need to consider their combined carrying value for impairment which is not currently specifically mentioned in the ED.

If the IPSASB does decide to adopt a right-of-use model for lessor accounting, our preference is the derecognition approach ("Approach 2") as outlined in paragraph BC35(b). We believe the lessor only recognising a residual underlying leased asset would provide a more faithful representation of the transaction, which in turn would result in information that is more relevant and understandable for users of the financial statements.

**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?**

We are pleased the IPSASB is addressing the accounting treatment of concessionary leases as there are currently no requirements or guidance which has led to divergence in practice in accounting for such leases. However, we are concerned with the resulting revenue and expense recognition outcomes under these proposals. In particular, that the lessee and lessor recognise the subsidy in full as income and an expense respectively on the inception date of the lease. The benefits are provided over the lease term, therefore a model that results in the lessee and lessor both spreading the subsidy amount over the lease term would, in our view, be more appropriate and meaningful to users of the financial statements.

There are also concerns about the cost-benefit considerations of these proposals, such as determining the fair value of a concessionary lease. In particular, where the underlying leased asset has a restricted use (eg an entity can only undertake certain activities) and where the underlying leased asset is of a specialised nature (eg a school). This is a particular concern for NGOs that apply IPSAS, as well as public sector entities.

*Lessees*

We consider it appropriate that a lessee reflects the benefits received from concessionary leases, and effectively recognises a donation. However, the benefits are provided over the lease term, not just on the inception date of the lease. So there would be more support for this approach if a lessee was permitted to recognise the subsidy over the lease term regardless of whether or not the lease included "conditions" as defined in IPSAS 23. We understand the IPSASB is currently considering feedback received on its *Consultation Paper: Revenue and Non-Exchange Expenses*, including that IPSAS 23 is too restrictive in only allowing non-exchange revenue to be recognised over time where there is a condition. Under the public sector performance obligation approach that was proposed, there may be more flexibility for the subsidy to be recognised over the lease term. We recommend the IPSASB consider these two projects in tandem.

*Lessors*

Since the proposed accounting for concessionary leases by lessors is also based on the right-of-use model, it follows that we do not support this approach. If a concessionary lease and a concessionary loan are the same or similar in substance, then it follows that the accounting treatment should be consistent. With a concessionary loan, once the grantor has paid out the cash, the cash is derecognised. Therefore with a concessionary lease the subsidy should be credited to the underlying leased asset to reflect the transfer of future service potential.

If the IPSASB decides that lessors should recognise the subsidy of a concessionary lease, then we support this derecognition approach which is consistent with our view in SMC 3. If the IPSASB proceeds with recognition of the subsidy as an expense then, as previously mentioned, there is support for spreading this over the lease term.

*Leases for zero or nominal consideration*

The definition of a lease includes “in exchange for consideration” which excludes leases for zero or nominal consideration. Leases for zero or nominal consideration are considered to be grants and are, therefore, outside the scope of ED 64 and accounted for as a non-exchange transaction (paragraph BC21).

A lessee would account for leases for zero or nominal consideration in accordance with IPSAS 23 (paragraph AG60(a)). ED 64 also proposes amendments to IPSAS 23 to require right-of-use assets acquired by a lessee through non-exchange transactions to be measured at fair value as at the date or acquisition, and the fair value of right-of-use assets to be measured in accordance with ED 64. This circuitousness is unnecessarily complex.

A lessor would account for leases for zero or nominal consideration accordance with the “relevant international or national accounting standard” (paragraph AG60(b)). This is unhelpful when there is no relevant international standard, and most countries are unlikely to have a national standard dealing with non-exchange expenses. In our view, the IPSASB should provide some specific requirements or guidance for lessors to account for leases for zero or nominal consideration.