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Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board
International Federation of Accountants

Submitted via website

18 May 2021

Comments to IPSASB's
ED 75 "*Leases*",

Dear Mr. Carruthers,

We are pleased to respond to IPSASB's ED 75 "*Leases*".

Overall, we agree with the IPSASB's proposal to align its guidance on leases with the corresponding IFRS.

With regards to the retention of the fair value definition from IFRS 16 (which deviates from the IASB's own definition of fair value provided in IFRS 13) in a future Standard on leases, we would consider a consistent definition of fair value within the IPSAS accounting framework being more beneficial compared to being aligned with the IASB's definition of fair value in IFRS 16. Our experiences with applying IFRS 16 show that the terminological differences for fair value in the IASB framework do not make any difference in practice.

Sincerely,

Thomas Müller-Marqués Berger
Partner and Global Leader of
Public Sector Accounting

Jens Heiling

Dr. Jens Heiling
Senior Manager

Annex – detailed responses

ED 75 "*Leases*"

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.

We agree with the IPSASB's view to align the IPSAS accounting requirements for leases with IFRS 16, i.e. the application of the right-of-use model for lessees and the application of the risks-and-rewards approach for lessors. Therefore, we agree that the IPSASB should not consider a variant to IFRS 16 lessor accounting as discussed by the IPSASB in the first phase of the project that would require all lessors to account for leases as operating leases only.

In terms of the scope of the proposed Standard, we suggest a clarification regarding concessionary leases. Without specifically excluding concessionary leases from the current scope of ED 75 this may imply that all leases will fall within the scope of ED 75, hence also concessionary leases. Ideally the scope exclusion therefore should exclude zero or peppercorn leases.

With regards to the terminology "binding agreement" and "contract" respectively, we have noted that the Application Guidance explains in AG 3 the factors that an entity should consider in assessing whether an arrangement is contractual or non-contractual. One of the factors is that 'contracts involve willing parties entering into an arrangement'. In the public sector, there are many arrangements where parties are not necessarily *willing* to enter into arrangements, e.g. government orders. In our view this could imply that these types of arrangements may not qualify as leases. It is noted that the term binding arrangement includes a wider set of arrangements than those covered in AG3, but it is our concern that the IPSASB may unintentionally scope out these binding arrangements as leases with this wording. In our view some further guidance or reasoning on why "binding arrangement" is not the appropriate term to use should be provided. If the intention is not to scope them out, but rather to defer dealing with them until the next phase, then consideration should be given to whether such a deferral is appropriate in light of the potential prevalence of these broader binding arrangements that share the same characteristics of a lease and the imminent need for guidance on how to account for these.

When it comes to initial direct costs, we agree with the IPSASB that a future IPSAS on leases should not include the IFRS 16 requirements for a manufacturer or dealer lessor.

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 do not agree with the decision to retain the fair value definition of IFRS 16. By keeping the fair value definition of IAS 17 instead of using the IFRS 13 definition, the IASB created an inconsistency in their own literature. We do not think that the IPSASB should "import" this inconsistency in its own set of standards. In our view, there should not be two different definitions of fair value used in the IPSAS accounting framework. The reasons to deviate from the Measurement ED definition do not seem to be too substantial. We would therefore rather support consistency with the definition of fair value in the Measurement ED.

In our view, two different definitions of fair value in one accounting framework can lead to legal uncertainty. Our experiences in practice with applying IFRS 16 show that the terminological differences to the fair value definition of IFRS 13 do not lead to a different application in practice. We expect the same with respect to the Measurement ED definition. Against this background we would prefer to follow the Measurement ED definition in the Leases Standard.

We note that lease classification and the timing of recognizing gains or losses for sale and leaseback transactions might be impacted significantly if the fair value definition in the Measurement ED is used, but, based on our experiences, it seems these transactions would occur less frequently in the public sector environment and guidance in the application or implementation guidance can be provided around how such a transaction should be treated when it arises. The benefits gained by ensuring consistent definitions across the suite of standards would, in our view, exceed any potential downside with regard to accounting for sale and lease-back transactions.

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 IPSASB's view to refer to both "economic benefits" and "service potential" in the Application Guidance section on identifying a lease. Leased assets are used to provide public services. Reference to "service potential" clarifies that such leased assets are within the scope of the proposed IPSAS on leases. We have also noted that this would be consistent with IPSAS 13 (see IPSAS 13.12 and IPSAS 13.29) and IPSASB's Conceptual Framework referring to assets in terms of both economic benefits and service potential