



## THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

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OUR REF: ICAG/TD/ED/Q2/1  
YOUR REF:

The Technical Director  
International Public Sector Accounting Standards Board (IPSASB)  
New York

May 17, 2021

Dear Sir,  
**Comments on Exposure Draft (ED) 75 - Leases**

We are grateful to the IPSASB for the opportunity given us to share our views on the Exposure Draft (ED) 75 – Leases. This draft Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. We welcome the initiative of the IPSASB to address public sector issues specific to leases. We also support the IPSASB decision that Leases project will be managed in two phases, distinguishing between those lease-type arrangements which are fully within the scope of IFRS 16 Leases issued by the IASB and other lease-type arrangements that exist in the public sector. This ED addresses accounting for leases which are fully within the scope of IFRS 16 for both lessors and lessees.

We provide below our responses to the Specific Matters for Comment requested for by the ED.

### **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.

### **Comment**

We agree with the IPSASB proposal to align ED 75 with IFRS 16 requirements. The public interest would be better served by proceeding with Option 2 (an IFRS 16–aligned Standard) because it would:

- (a) Be less costly and less challenging to implement by changing only lessee accounting, and the public sector could benefit from the private sector experience in implementing IFRS 16;
- (b) Align with the IPSASB's Strategy & Work Plan strategic theme of Maintaining IFRS Alignment, which was an original objective of the Leases project;
- (c) Address more quickly the important off-balance sheet financing of operating leases by lessees that IPSAS 13 permits, without waiting for a new accounting model for lessors; and
- (d) Facilitate Phase One delivery, thus permitting the IPSASB to focus on Phase Two of the project, and so to address the important public sector specific issues described in paragraph BC21(b) in a more timely manner.

We further agree with the IPSASB's modification to IFRS 16 for the public sector entities. We agree in particular to the inclusions and exclusions in the IFRS 16 applicable to the ED 75. In particular the inclusion of service potential as a measure of assets potential is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in referring to assets in terms of both economic benefits and service potential.

#### **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.**

#### **Comment**

We agree with the IPSASB decision to retain the fair value definition as defined in IFRS 16 and IPSAS 13, Leases. The IPSASB decision to retain the fair value definition is consistent with IFRS 16 because:

- (a) It is consistent with the IPSASB's March 2020 decision to retain the IPSAS 13 lessor requirements and align with IFRS 16 for cost-benefit reasons (see paragraph BC36);
- (b) It is consistent with the IASB's decision to retain in IFRS 16 the fair value definition that existed in IAS 17, Leases, as the previous lessor accounting model in IAS 17 was not fundamentally flawed and should not be changed; and
- (c) It provides relief to preparers by not requiring significant changes to their accounting systems for this aspect of [draft] IPSAS [X] (ED 75)

Including the fair value definition consistent with [draft] IPSAS [X] (ED 77) might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback 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.

**Comment**

We agree that IPSASB should consider to refer to both “economic benefits” and “service potential” in the application guidance section in [draft] IPSAS [X] (ED 75) on identifying a lease, rather than “economic benefits” alone. We believe that if the guidance referred only to “economic benefits”, then an entity that intends to use the identified asset to provide services to the community might reach the conclusion that the transaction is not a lease because it does not derive economic benefits from the use of that asset, despite the fact that the transaction meets the definition of a lease in [draft] IPSAS [X] (ED 75).5. Therefore, we urge the IPSASB to add the term “service potential” in the application guidance section on identifying a lease, where appropriate. This approach is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* in referring to assets in terms of both economic benefits and service potential.

We hope the IPSASB finds these comments helpful in further developing its consultations on “Exposure Draft 75 - Leases”. In turn, we are committed to helping the IPSASB in whatever way possible to build upon the results of this Exposure Draft. We look forward to strengthening the dialogue between us. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

**Yours Sincerely,**



**Osei Adjaye-Gyamfi**

**(Director, Technical and Research)**