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The International Public Sector Accounting Standards Board

277 Wellington St. West
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Submission via website

14 May 2021

Dear Ross

COMMENTS ON ED 75 ON *LEASES*

We welcome the opportunity to provide comments on Exposure Draft (ED) 75 of the Proposed IPSAS on *Leases*.

General

We issued ED 75 and the Request for Information for comment in our jurisdiction. We arranged a series of education sessions (three) and roundtable discussions (five) to solicit views from preparers, auditors, technical experts, academics, consultants, professional bodies and users. The comments outlined in this response have been developed by the Secretariat of the ASB and not the Board.

Overall impressions of ED 75

We agree with the IPSASB's proposal to align with the IASB's requirements for lessees and lessors in IFRS 16. However, we do not support the new phased approach to develop lease requirements and suggest that the IPSASB does not rush to issue the IFRS-aligned IPSAS. A final IPSAS with public sector specific requirements should be issued once Phase Two is complete.

Our detailed comments on ED 75 are set out as follows:

- Annexure A – Responses to specific matters for comment
- Annexure B – Other significant issues

Our comments on the Request for Information are provided separately.

If you have any questions regarding our responses, please feel free to contact me.

Yours sincerely

Jeanine Poggiolini

Technical Director

ANNEXURE A – RESPONSES TO 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.

We agree with how the IPSASB has modified IFRS 16 for the public sector, except as outlined below.

Scope

We understand the IPSASB's reasons for not including an explicit scope exclusion for concessionary leases. However, given the time lag between Phase One and Phase Two, our stakeholders indicated that the IPSASB should consider providing guidance (i.e. staff Q&A) in the interim on how to deal with concessionary leases in the absence of guidance.

Definitions

The IPSASB concluded that the term "binding arrangements" should not be used in ED 75.

Our stakeholders noted that retaining the concept of "contractual arrangements" in ED 75 would be problematic for the public sector as some arrangements will not involve "willing parties" as explained in paragraph AG3. In their view, restricting the application of ED 75 to contractual arrangements will result in certain binding arrangements being scoped out of ED 75 as they are not contracts as described in paragraph AG3. Stakeholders questioned what the appropriate accounting requirements would be for leases arising from non-contractual arrangements. As a suggestion, the IPSASB should reconsider the use of "contractual arrangements" in ED 75.

Other stakeholders made the observation that for Phase One, contractual arrangements may be appropriate however, under Phase Two the IPSASB may conclude that ED 75 should embrace a wider set of arrangements.

We recommend that the IPSASB reconsiders the use of "contractual arrangements" as part of Phase Two of the project.

Recognition exemption

The IPSASB decided not to make any reference to a threshold for determining low-value assets.

We agree that no threshold should be provided, however, we disagree with the IPSASB's conclusions in paragraph BC53. The IPSASB concludes that entities should determine whether assets are low-value assets by *"considering the materiality of leasing transactions in relation to their financial statements..."* We note that this conclusion is inconsistent with paragraph AG5 which explains that the assessment of low value assets is not affected by the size, nature or circumstances of the lessee.

The IPSASB's view that materiality should be applied should be reconsidered as it also goes against the IASB's intention for wanting different lessees to reach the same conclusions about whether an asset is of low value.

Discount rate

The IPSASB decided not to provide additional guidance on determining the appropriate discount rate.

Our stakeholders indicated that it is easier to determine the incremental borrowing rate for entities that would usually borrow from financial markets. However, there may be difficulties in determining an appropriate rate particularly when entities acquire funding through central treasuries. As these funding mechanisms are more common in the public sector, the IPSASB should consider providing additional guidance and examples to determine the incremental borrowing rate.

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 support the proposal to retain the fair value definition from IFRS 16 and IPSAS 13, which differs from the definition proposed in ED 77, *Measurement*.

The IPSASB explains that retaining the IPSAS 13 fair value is consistent with the IASB's decision. We are concerned that the IPSASB's decision could result in the same term being used with different meanings in IPSAS.

We further note that fair value is required when accounting for sale and leaseback transactions. Our stakeholders were not persuaded by the IPSASB's rationale in paragraph BC45. They indicated that sale and leaseback transactions occur infrequently in the public sector, and suggested that the IPSASB reconsiders the retention of the fair value definition from IPSAS 13 by weighing up the benefits of the consistent use of terminology against the rationale outlined in paragraph BC45, since these transactions are not common.

Other stakeholders noted that the IPSASB's rationale is not sufficient and encouraged the IPSASB to assess the impact of the use of IFRS 13 fair value and make a decision on that basis.

Some of our stakeholders had difficulty expressing a view on this SMC as they are not familiar with the IPSASB's proposals in ED 77, *Measurement* which was not yet published at the time of this stakeholder consultation.

We recommend that the IPSASB reconsiders the use of the fair value definition from IPSAS 13 in light of its developments in ED 77.

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 decision to refer to both “economic benefits” and “service potential” in the application guidance.

ANNEXURE B – OTHER SIGNIFICANT ISSUES

Alignment with IFRS Standards

We would like to highlight to the IPSASB the growing concerns among our stakeholders about the appropriateness of alignment with IFRS Standards in general.

The IPSASB's current activities include significant projects aimed at aligning with the private sector requirements on revenue and leases. Stakeholders questioned whether such alignment is beneficial to the public sector when the IASB's requirements were developed and intended to address specific private sector deficiencies, including improving performance metrics.

We understand that the IPSASB has implemented processes in the past to assess the applicability of IFRS Standards in the public sector. However, we believe that is in the public interest for the IPSASB to reflect on how its alignment proposals in current and future projects will enhance the users' decisions in the public sector even when the transactions are sector-neutral.

Two-phased approach to leases

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 and adopt a phased approach.

We agree that an IFRS-aligned IPSAS should be developed, however, we do not support the phased approach dealing with IFRS 16-aligned requirements and public sector specific arrangements separately. We are concerned that finalising the IFRS 16-aligned IPSAS, without any guidance on public sector specific lease arrangements will not be beneficial to preparers as they will need to consider significant amendments to that IPSAS after implementing the IFRS 16-aligned requirements.

We suggest that the IPSASB does not rush the process to implement IFRS 16 in the public sector, but considers issuing a final IPSAS with public sector specific requirements once Phase Two is complete.

Cost of implementation

We wish to remind the IPSASB that the cost of implementation of IFRS 16 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.

We recommend that the IPSASB considers the potential costs of implementation when finalising 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. Furthermore, the IPSASB should be cognisant of which other IPSASs will become effective in the same period so that entities do not deal with too many reporting changes at once.