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11th June, 2018

The Technical Director

International Public Sector Accounting Standards Board (IPSASB)

New York

Dear Sir,

Subject: Comments on the Exposure Draft 64 - Leases.

We are grateful to the IPSASB for the opportunity given for us to comment on the Exposure Draft (ED) 64, Leases. We welcome the initiative of the IPSASB to propose improvements to lease accounting in order to ensure that lessees and lessors provide relevant information in a manner that faithfully represents leasing transactions.

We do concur with the ED and note that the various explanations in the Basis of Conclusions (BC) ensure consistency of the conceptual framework of IPSAS. Moreover, aligning IPSAS lease accounting to IFRS 16 leases ensures that accrual base information is adequately provided under a lease accounting.

We note the following on Specific matter for comment;

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.

ICAG is a member of:



Address all correspondences to: The Chief Executive Officer

Comment

While we do not disagree that the departure from IFRS 16 risk and rewards, we note that this should be stated in the body of the standard. We are of the view that making this clear statement would eliminate the danger of implementing the IFRS 16 rules.

We generally agree with the right of use approach adopted by the Board and specifically the selection of Approach 1. Approach 1 is easier to apply especially as it aligns with the treatment that will be applied in the books of the lessee. The other advantage of this approach is its alignment with the IPSAS conceptual framework and other IPSAS standards such as IPSAS 16, IPSAS 17, and IPSAS 32.

The major challenge we foresee with this approach though is its departure from the IFRS 16 principle which potentially creates an inconsistent basis for lessor accounting across the public and private sectors, making comparisons inappropriate if leases account for significant proportions of the balance sheets of the private and public sector entities being compared.

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?

Comment

Yes we agree. Title is not transferred so this should still be reported as an asset on lessor's books. This model recognizes what has happened (transfer of use).

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?

Comment

We disagree with the recognition of the subsidy granted to lessees as a day-one expenses/revenue over the lease term. The reason given in BC81 is that this provides most useful information for accountability purposes. We believe that useful information can be disclosed in the note. Rather, we believe that the subsidy should mirror treatment that the lessee treats this gain over the life of the lease. That way there is reciprocal consistency in treatment. Useful information can always be disclosed without losing the symmetry in the

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?

Comment

We disagree with the recognition of the subsidy granted to lessees as a day-one expenses/revenue over the lease term. The reason given in BC81 is that this provides most useful information for accountability purposes. We believe that useful information can be disclosed in the note. Rather, we believe that the subsidy should mirror treatment that the lessee treats this gain over the life of the lease. That way there is reciprocal consistency in treatment. Useful information can always be disclosed without losing the symmetry in the accounting treatment between lessor and lessee. We however agree with the treatment recognizing revenues in accordance with IPSAS 23.

We think that the recognition of subsidy as day one expense is not appropriate for the following reasons:

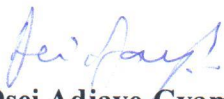
- i. Given that the decision to lease will be over a period, the economic consequence of that decision should be spread over the period of the lease. Consequently, we believe a better approach will be to have these lease subsidies spread over the period of the lease.
- ii. Additionally, concessionary leases are a common occurrence in the public sector and the financial magnitude could be very significant. Consequently, day one recognition of lease subsidy could have extremely significant impact on the financial statements of the entities which in reality is a "book entry". We believe amortising this transaction over the period of the lease will more accurately reflect the impact of the concessionary lease decision on the entity.

We hope the IPSASB finds these comments helpful in further developing its consultations to issue a standard on the proposed Exposure draft on Leases for the Public Sector Accounting.

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,


Paul Kwasi Agyemang
(Chief Executive Officer)


Osei Adjaye-Gyamfi
(Director, Technical and Research)