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IPSASB EXPOSURE DRAFT 64 ON LEASES

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 24th July 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February, 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the Public Finance Management Act, 2012.

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on Exposure Draft 64 on Leases to the International Public Sector Accounting Standards Board. PSASB Kenya has considered the Exposure Draft and is in agreement with convergence of accounting for leases under IPSAS and the newly issued IFRS 16. The objective to develop a new IPSAS on Leases is welcome since it will resolve stakeholder criticisms on the current IPSAS 13.

PSASB Kenya responses on Specific Matters for Comment are documented in the attachment for your consideration.

With kind regards,

BERNARD NDUNGU, MBS
CHAIRMAN, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PSASB's Responses to Exposure Draft 64 on Leases

Specific Matters for Comment 1

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6ïBC8 for IPSASBôs reasons). Do you agree with the IPSASBôs decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

PSASB agrees with IPSASB's decision to adopt the IFRS 16 right –of- use model for lessee accounting. In addition to the reasons outlined in BC6- BC8 of the Exposure Draft, adopting the right – of- use model for lessees allows the lessee to recognise an asset and liability arising from an operating lease and therefore resolves stakeholder criticism which necessitated a review on how leases are accounted for.

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 BC9ïBC13 for IPSASBôs reasons). Do you agree with the IPSASBôs decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

PSASB agrees with IPSASB's decision to depart from the IFRS 16 risks and rewards model for lessor accounting for the public sector specific reasons outlined in the basis for conclusions.

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 BC34ïBC40 for IPSASBôs 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?

PSASB agrees with IPSASB's decision to propose a single right – of – use model for lessor accounting consistent with lessee accounting. This will resolve the public sector related issues noted by IPSASB in their basis for conclusions. This will also resolve asymmetry in accounting for leases which has not been resolved under IFRS 16. In addition, the lessor will continue to account for the underlying irrespective of whether the lease is operating or financing therefore providing a single criteria for accounting for similar leasing transactions in the public sector.

PSASB opines that more guidance should be provided on accounting for the underlying asset by lessor when the asset is expected to transfer to the lessee at the end of the lease term. Under IPSAS 13, where a lease is classified as financing, the lessor derecognises the underlying asset and the lessee recognises that asset in its statement of financial position.

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However, under the proposed ED, the lessor will no longer classify leases and will continue to recognise the underlying asset irrespective of the nature of the lease. Where the underlying asset is expected to transfer to the lessee at the end of the lease term, IPSASB needs to provide guidance on recognition and measurement of the transferred asset at the end of the lease term in both the lessee and lessors statement of financial position.

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 BC77ï BC96 for IPSASBôs reasons). For lessees, the IPSASB proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23 (see paragraphs BC112ï BC114 for IPSASBôs 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?

PSASB agrees with IPSASB's proposal on measurement of concessionary leases at fair value and the recognition of subsidy by both lessors and lessees. The treatment is consistent with underlying treatment for concessionary loans and in accordance with IPSAS 23 for lessors and lessees respectively.

PSASB notes that there is an on-going project on Revenue and Non- exchange Expenses which will address accounting for non- exchange expenses such as the subsidy as described under concessionary loans.