ICGFM The International Consortium on Governmental Financial Management

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June 25, 2018

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2
CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to Exposure Draft 64 "Leases" issued January 2018.

2. We appreciate the opportunity to comment on this Exposure Draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

Michael Parry

Chair, ICGFM Accounting Standards Committee

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Cc: Jim Wright, President, ICGFM

International Consortium on Government Financial Management (ICGFM)

Response to Exposure Draft 64 "Leases"

Issued January 2018

Overview

The proposed "right of use" approach to leases is both elegant and simple. The application of the right of use model to both lessor and lessee ensures symmetry between entities under common control. The right of use model removes the requirement to determine whether the lease is an operating or a financial lease by creating a right of use asset which separates the right of use from the underlying asset. The model also enables a logical solution to concessionary leases that enhances transparency.

Although as a general principle ICGFM advocates convergence with GFS, in this instance the right-of-use model is clearly superior to the GFS approach and it is the latter that should change.

However, the elegance of the solution is undermined by the fact that it is not universally applied:

- IMF (Government Finance Statistics (GFS) Manual 2014 continues to treat leases differently according to whether they are financial or operating
- Commercial public sector entities (public corporations) will report in accordance with IFRS 16, which has a different accounting treatment for lessors.
- Service concession arrangements (otherwise known as Public Private Partnerships (PPPs) or Public Finance Initiatives (PFIs)) often share many of the characteristics of leases, yet a different accounting treatment is applied under IPSAS 32.

These differences can potentially lead to complications in preparing financial reports:

- GFS and IPSAS reports on government - a decision will have to be made whether to base the valuations in the accounting system on the ED64 or GFS model. Assuming the accounting system is based on the ED64 requirements, sufficient information will then have to be recorded (e.g. continuing to have separate classification codes for finance and operating leases) to enable GFS reports to be prepared. The consequent IPSAS and GFS reports will show different values for assets and liabilities, reducing the credibility of both types of financial reports.
- When preparing whole of government accounts, it may be that a commercial public sector entity to be consolidated is a lessor to other public sector entities. The commercial public sector entity will report in accordance with IFRS 16. In consequence there will be asymmetry between the entities and balances that will not cancel out on consolidation.
- Assets acquired or provided under service concession arrangement (IPSAS 32) have many of the characteristics of leased assets, but will be treated differently to assets acquired or provided under leases.

For the reasons indicated above, the ICGFM also considers the right of use model should be considered for incorporation within an amended IPSAS 32. This would result in a consistent approach across different operational and funding models, and would minimise opportunities for "gaming" different valuation models.

Specific matters for comment

Matter for comment	Response
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	We agree with the use of this model though we are concerned about the impact of different models for GFS and IPSAS and between different IPSAS (see comments above)
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 BC9–BC13 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.	We agree with the departure as it provides symmetry between lessors and lessees under common control. However, again we are concerned about the impact of having entities within common control using different standards and valuation models (see comments above)
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?	We agree with the single right of use model, subject to the comments above

Matter for comment	**Response**
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?	We agree with the approach in the ED. The proposed approach is logical and provides transparency