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26 June 2018

Mr Ian Carruthers
Chairman
International Public Sector Accounting Standards Board
529 Fifth Avenue
New York, NY 10014
USA

Via online submission: www.ipsasb.org

Dear Ian

Exposure Draft 64 - Leases

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports IPSASB's standard-setting initiatives that seek to align, to the extent possible, International Public Sector Accounting Standards (IPSAS) with International Financial Reporting Standards (IFRS). Some of our high-level observations are provided below, with additional comments in response to the questions posed in the Consultation included in the **Attachment**.

We support the proposals to adopt the IFRS 16 right-of-use model for lessee accounting. However, for the reasons stated in the **Attachment** to this letter, we do not support the proposals to depart from the IFRS 16 model for lessor accounting. Our comments on the proposals on the accounting for concessionary leases are included in the **Attachment** to this letter.

If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Paul Drum FCPA

Head of Policy

ATTACHMENT

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 proposals.

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 do not agree with the proposals, and reasons for our disagreement include:

- The IASB conducted extensive consultation in developing IFRS 16, including the decision to leave lessor accounting largely unchanged from the previous standard, IAS 17 *Leases*. Reasons for this included a lack of evidence to indicate that user information needs required changes to existing lessor accounting under IAS 17. We do not believe user information needs in the public sector will significantly differ from those in the private sector.
- Misalignment with IFRS will cause additional and unnecessary complexity in jurisdictions that adopt IFRS for the private sector and IPSAS for the public sector. This will include complexities within mixed groups that include public sector and private sector entities, and further contribute to an increasing trend of non-transferable accounting skills between the private and public sectors.
- In the case of a lease that effectively transfers the entire economic benefits arising from a leased asset to a lessee (currently a finance lease), the lessor has, in substance, sold the asset to the lessee. We do not believe it is appropriate for the lessor to continue to recognise an underlying asset in such circumstances.
- In some cases, particularly where the underlying assets are carried at fair value, a double counting of assets can arise. The underlying asset can be revalued by reference to future cash-flows. Under the proposals, the same future cash-flows will also be recognised as a lease receivable.
- We acknowledge that the "risks and rewards" model for current lessor accounting is inconsistent with the "control" model in the IPSASB Conceptual Framework. Equally however, as acknowledged in paragraph BC53, the recognition of a liability (unearned revenue) under the proposals is also inconsistent with the IPSASB Conceptual Framework definition of a liability.

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?

As stated in response to SMC 2, we do not support the lessor accounting proposals in the ED.

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?

Since we do not support the proposals for lessor accounting in the ED, we also do not support the proposals for concessionary lease accounting by the lessor.

In principle, we support the proposals in the ED for concessionary lease accounting by the lessee. However, we do not consider it appropriate to exclude zero or nominal value leases from the scope of the proposed standard. In Australia, in accordance with AASB 1058 *Income of Not-for-profit Entities* (effective from 1 January 2019), the accounting requirements for all leases that have "significantly below-market terms and conditions" will be similar to the accounting proposed for concessionary leases in the ED. We believe this is a cost-effective approach as it does not require entities to differentiate below-market value leases from zero or nominal value leases. We suggest the IPSASB considers the approach adopted in AASB 1058 for the accounting for concessionary leases by lessees.