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Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
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Dear Mr. Carruthers

Exposure Draft 75 Leases

I am pleased to make this submission on Exposure Draft 75 *Leases*.

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

I have followed the IASB's project on IFRS 16 for over 10 years, and I have been involved in the implementation of Australia's equivalent to IFRS 16 (AASB 16) in the public sector.

Comments

I support IPSASB aligning with IFRS 16. I have been involved with applying IFRS 16 (AASB 16) in the public sector in Australia. For lessors, using IFRS 16 continues to provide useful information.

Intra-government leases

However, applying IFRS 16 to intra-government leases (e.g. from department to department) is regarded as overly burdensome and not providing useful information. As most departments do not have airplanes (a reference to the famous David Tweedie quote¹) the most common lease is office buildings, or often, parts of office buildings. However, other leases are also affected.

Fortunately, in Queensland, we had arrangements in place for centralised management of office space. Under those arrangements, the agreements did not meet the definition of a lease under IFRS 16. This has saved us a lot of unnecessary work when preparing individual agency financial statements.

¹ 'One of my great ambitions before I die is to fly in an aircraft that is on an airline's balance sheet', Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), April 25, 2008

I describe the arrangements in my article for the QAO blog at:

<https://www.gao.qld.gov.au/blog/do-you-have-any-lease-agreements-are-not-leases-or-any-hidden-leases>

Fair value

In Australia, whole of government reports are prepared on an IFRS-modified basis, using fair values for PPE, including infrastructure assets. Fair values are pushed down into individual agency financial statements. Fortunately, entities can choose not to revalue individual classes of right-of-use assets. An advantage given the lack of guidance on determining fair value for right-to-use assets. At least one jurisdiction in Australia has chosen to right-of-use assets – why, I do not know, given many would appear to be office buildings. There still seems to be scope to revalue “finance lease” type right-of-use assets that have essentially been purchased – and were already on balance sheet.

Low value

I have found the low value threshold, and in particular the identification of a numerical amount, very useful.

Having the exemption means that preparers do not have to undertake an exercise to prove that the amounts exempted are not material.

Having a numerical threshold means it is easy to explain what low value means. Not having a numerical threshold (as proposed by the IPSASB) will mean wasting time discussing and debating with auditors what low value means. And then probably reverting to the IASB USD 5000 anyway.

Portfolio

The portfolio expedient is a great idea.

However, I want to flag that (at least in the private sector where I have heard the issue raised) there are practical issues in implementing the expedient in Year 2 when the portfolio changes.

Contract definition

I note that that the proposed definition of contract will change and link to the ED70.

The definition needs to go beyond legal contract, as we have many arrangements under statute or other binding arrangement (like ministerial directive).

Concessionary leases

I strongly recommend not proceeding with mandatory fair valuing concessionary leases. There seems to be no demand from users for that information. Then there are problems with determining fair value, particularly without having to pay for valuers. Then there are problems with the distortion of net surplus for upfront recognition of grants of the lease.

Yours sincerely,

David Hardidge

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