Treasury Board of Canada Secretariat | Secrétariat du Conseil du Trésor du Canada

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John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
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Dear Mr. Stanford:

SUBJECT: Exposure Draft: *Leases*

Thank you for the opportunity to comment on the Exposure Draft: *Leases* issued in January 2018.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our responses to the specific matters for comment in the Exposure Draft (ED) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Exposure Draft. If you require further information, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

for Diane Peressini
Executive Director,
Government Accounting Policy and Reporting

c.c.: Janique Caron, Assistant Comptroller General of Canada
Diane Peressini, Executive Director, Government Accounting Policy and Reporting

Canada

APPENDIX

Responses to Specific Matters 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.

We agree with the proposal to adopt the IFRS 16 right-of-use model for lessee accounting, as this better recognizes the rights and obligations arising from lease contracts compared to the requirements in IPSAS 13. We agree with the reasons stated in the Basis for Conclusions for adopting this approach.

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 that the lessor accounting model should be based on control, and should recognize the rights and obligations arising from the lease contract on the same basis as the lessee accounting model. We agree with the reasons stated in the Basis for Conclusions for developing this lessor model.

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 proposed lessor model. We agree that the credit entry represents a liability, but believe that the Basis for Conclusions (BC 44-53) should provide a better explanation of how the credit entry satisfies the definition of a liability. In our opinion, the credit entry represents the obligation of the lessor for an outflow of the economic benefits or service potential embodied in the underlying asset, as a result of entering into the lease contract. Consequently, this obligation meets the definition of a liability. Since the lessor still controls the underlying asset, its performance obligation to provide the right to use the asset to the lessee is satisfied over the term of the lease.

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 proposal for accounting for concessionary leases by the lessor.

Other matters

We have noted some additional issues for the IPSASB to consider in developing its guidance on leases.

Service potential
The Conceptual Framework defines an asset as "a resource controlled by an entity as a result of a past event". A resource embodies either economic benefits or service potential. Throughout the ED, only economic benefits are referred to with respect to the right-of-use asset. However, we assume that there is an intent that a right-of-use asset embodying service potential be included within the scope of the proposals, and suggest that the guidance is updated accordingly.

Presentation and disclosure
We do not agree that the lessor should present the underlying asset with other items of property, plant and equipment according to their nature. As underlying assets that are the subject of a lease are not held by the entity in the provision of goods and services, we believe that they should be presented in a separate category.

Transition provisions
For concessionary leases, paragraphs 132(b) and 142(b) require that the value of the liability (unearned revenue) and the right-of use asset are measured at the carrying amount as if the standard had been applied since the commencement date. These paragraphs require preparers to use hindsight to determine the fair value of the right-of-use asset/liability at inception. We do not believe this is appropriate unless the subsidy portion is explicitly stated in the lease contract. We suggest that the transition provision allows for the use of historical cost (based on the present value of the remaining lease payments) to determine a deemed carrying value of the right-of-use asset/liability in an existing concessionary lease.