KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Exposure Drafts

Leases

Comments on the Exposure Draft 75, Leases

May 17, 2021

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Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: The comments on the Exposure Draft 75, *Leases*

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the "GAFSC") at Korea Institute of Public Finance would like to express our sincere gratitude for the opportunity to respond to the Exposure Draft 75, Leases issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions, inquiries or comments regarding our comments. You may direct your inquiries to Grace Choi, a technical staff of the GAFSC (gracechoi@kipf.re.kr).

Sincerely,

김 완 희
Kim, Wan Hee
Chief Director of GAFSC at KIPF

[Specific Matter for Comment 1]

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21-BC36). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37-BC60)? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

[GAFSC Comments]

Agree with the IPSASB's proposal in principle. Yet, by considering the fact that ED 75 will be developed in the direction of pursuing the alignment with IFRS 16, further consideration on the following is recommendable:

(1) In order to achieve the greater alignment with IFRS 16, additional consideration on the appropriateness in reflecting the 'Lease Liability in a Sale of Leaseback (IASB ED/2020/4)' in ED 75 is suggestible.

(2) The paragraphs 48-49 of ED 75 directly adopts the COVID-19 practical expedient of IFRS 16, and that of practical expedient limits the duration affected by COVID-19 that makes the affected period same for all. However, in reality, the actual affected period may vary, which might cause confusion of the prepares of F/S and lead to arbitrary decisions. Hence, it seems reasonable to double check the appropriateness of adopting the COVID-19 practical expedient of IFRS 16.

<Reference>

48. As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 49 is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

49. The practical expedient in paragraph 48 applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) Any reduction in lease payments affects only payments originally due on or before [MM DD, YYYY] (for example, a rent concession would meet this condition if it results in reduced lease payments on or before [MM DD, YYYY] and increased lease payments that extend beyond [MM DD YYYY]); and

(c) There is no substantive change to other terms and conditions of the lease

[Additional Comments]

There is a need to focus on the issues that can possibly be derived from the imbalance in the accounting for lessee and lessor. For instance, in case of head lease with fixed payments and sublease with variable lease payments linked to sales having the same lease period, judgements may differ on whether it can be classified as operating lease or finance lease by the intermediate lessor, as well as, on the occurrence of the profit or loss of right-of-use assets at the commencement date of the sublease. These issues are not eligible to be addressed for the Phase 2 of the *Lease* project for the next phase has been designed for the public sector specific issues, thus it is suggestible for IPSASB to consider them while dealing with the phase 1–pursuing better alignment with IFRS 16.

[Specific Matter for Comment 2]

The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, *Leases*, which differs from the definition proposed in ED 77, *Measurement* (see paragraphs BC43-BC45). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis of Conclusions.

[GAFSC Comments]

Agree with the IPSASB's proposal entirely.

[Additional Comments]

In order to provide more faithful explanation on the reason why IPSASB retained the fair value definition of IPSAS 13, it is advisable to address the impact of conceptual difference between the fair value definition of IPSAS 13 and ED 77 on lease accounting.

Current explanation only addresses the foreseeable effect of including the fair value definition consistent with ED 77 on the lease classification and accounting for sale and leaseback transactions (BC44 of ED 75) without mentioning the conceptual difference between the fair value definitions of ED 77 and IPSAS 13 as a cause of such effect.

<Reference>

BC44. The IPSASB noted that including the fair value definition consistent with [draft] IPSAS [X] (ED 77) might significantly change the lease classification and the timing of recognizing gains or losses for sale and leaseback transactions.

Meanwhile, in the BC of IFRS 13, *Fair Value Measurement*, IASB indicated their decision to exclude some of the transactions including lease that are not consistent with a current exit price or the requirements for measuring fair value (IFRS 13. BC45).

<Reference>

BC45(IFRS 13). The IASB concluded that some fair value measurement requirements in IFRSs were inconsistent with a current exit price or the requirements for measuring fair value. For those fair value measurements, IFRS 13 excludes the measurement from its scope (see paragraphs BC19-BC26)

Based on the reason for the conclusion of IASB, it can be inferred that the incompatibility of the new fair value definition of ED 77 having its basis on exit price for the fair value measurement requirements of accounting for lease classification or sale and leaseback could be the reason for retaining the existing fair value definition in ED 75.

Therefore, by providing the details in the BC of ED 75 focused on the reasons why the fair value measurement required for lease transactions is not compatible with the concept of exit price, it can result in clearly illustrating the relationship between ED 75 and ED 77 and enhancing the understandability of the Standard users.

[Specific Matter for Comment 3]

The IPSASB decided to propose to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46-BC48). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

[GAFSC Comments]

Agree with the IPSASB’s proposal entirely.

[Additional Comments]

None