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Lausanne, June 25, 2018

Swiss Comment to

Exposure Draft 64 Leases

Dear John,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Exposure Draft 64 Leases. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP

Prof Nils Soguel, President

Evelyn Munier, Secretary

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Table of Content Page

1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).
The SRS-CSPCP has discussed the ED 64 Leases and comments as follows.

2. General Remarks

The SRS-CSPCP notes that in the proposed ED the symmetry between lessor and lessee in respect of booking is given. This symmetry is very important for consolidation purposes and also for financial statistics.
However, leasing agreements are already very difficult to reflect technically. This ED makes everything even more complicated. The SRS-CSPCP wonders why long-term rental agreements are to be treated differently from long-term insurance contracts *(executory contracts*). Liabilities under long term insurance contracts are nor reflected in the statement of financial position sheet. In the Notes also there is no reference to these contracts. Furthermore, the SRS-CSPCP wonders whether the model for the lessor is suitable for long-term rental of land contracts (e.g. a leasehold agreement covering 70 years). Under certain circumstances two identical assets are reflected in the lessor (Property and Receivable from right of use). The SRS-CSPCP wonders whether this presentation is *true and fair* and serves as a better basis for decisions.
The SRS-CSPCP criticizes capitalization of the right of use: does one have the right to sell it?
The SRS-CSPCP wonders what additional benefit the new model brings the public sector compared with the present model under IPSAS 13. It is of the opinion that the capitalization of all rental contracts as Rights-of-Use (RoU) achieves no additional benefit. Rather it unnecessarily blows up the statement of financial position. For example, in public entities with centralized property management, where all government units are tenants. Depending on the choice of accounts (stand-alone or consolidated accounts and calculation basis for key figures) a different picture is given, which is hardly comprehensible for the stakeholder.
In the statement of financial performance, instead of rental costs, amortization of the RoU and interest would be recorded. The informative value of the statement of financial performance is thereby diminished. The budget debate would also be made more difficult, because in public authorities it is carried out from a cash aspect. The fact that no cash flow is associated with traditional amortization, but that with the amortization of the RoU there is indirectly no cash outflow in the form of leasing instalments, would require explanation.
The proposed leasing model creates very high costs in the public sector, while compared with the present model the benefit is questionable. The *Conceptual Framework* talks of a favorable cost-benefit ratio. This is not considered in this proposal by the IPSASB.
The SRS-CSPCP would like the SRS-CSPCP to find a solution, which is more practical and less complicated.

3. 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.

The SRS-CSPCP is not in agreement with the decision of the IPSASB. The reasons are the following:

1) This model is simpler in the use of rental contracts by decentralized properties (Australia, New Zealand). In the Swiss public sector, and also in other countries properties are in part managed centrally.
2) For the state from an operational standpoint it is important to know the individual types of cost (e.g. rental or occupation costs). In Switzerland this is very clear, when in the budget debate the various types of cost are analyzed. In the private sector on the other hand, frequently only the final result counts and therefore only the profit distribution. If now in the public sector amortization (of the RoU) is recorded instead of rental costs, the statement of financial performance loses informative value.
3) The SRS-CSPCP is of the opinion that the focus of the proposed model is concentrated too heavily on the statement of financial position. However, in the public sector the statement of financial performance is the central control instrument.
4) If the introduction of this model is too complicated and costly, there is a risk that the governments will try to deviate from this standard in some way or other or not to adopt it. It could possibly become another obstacle to adopting IPSAS accounting.
5) In small government units application difficulties have already been discovered; it can therefore be assumed that larger units will have to reckon with even greater difficulties in the implementation.
6) The current IPSAS 13 discloses the liability from operating leases in the Notes of the lessee. In the new standard this is no longer possible for most leasing liabilities. It is hardly comprehensible that in addition in the new standard the liability on unrealized income in the lessor must be carried among the liabilities in the statement of financial position.
7) The RoU model can result in valuation problems. For example, determination of the duration of the right of use can become a challenge, if grant of the rental contract is governed only by law. The accountant in the lessee and the accountant in the lessor must make estimates, which politically is extremely delicate. The power of decision lies with the legislator, i.e. the Parliament. Estimates are conceivable between one year (budget year, approval of expenditure), four years (legislative period) and 150 years (prior duration of use). Clear guidance would be necessary in the standard as a decision-making aid.

4. 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.

As the SRS-CSPCP believes that symmetry between the recording in the lessor and the lessee is essential, it is in agreement with this decision. A synchronous accounting for such agreements in the lessor and the lessee is absolutely compulsory in the public sector, because different definitions for the same facts would not be comprehensible to the stakeholder. In the lessee and the lessor it is the same economic transaction and it should be reflected accordingly (purchase/sale or transfer of benefits and risks).
A combination of both alternatives, as implemented in IFRS 16, is rejected.
The SRS-CSPCP is not in agreement with the double recording of the assets in the lessor (once as an asset made available to the lessee (*underlying asset*) and once as receivable from sale of the right of use (*right to receive lease payments*).

5. 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?

The SRS-CSPCP regards the symmetry between recording in the lessor and lessee and the systematic classification of leasing agreements as essential.
However, the SRS-CSPCP rejects the present proposal of the ISPASB, because the lessor must report the asset twice in the statement of financial position. It is of the opinion that this does not represent the best implementation of the symmetric model. First it is reported as an asset made available to the lessee (*underlying asset*) and then as a receivable from the sale of the right of use (*right to receive lease payments*). In addition, the lessor carries in the liabilities a leasing liability (unrealized income). The SRS-CSPCP does not support that the lessor twice reports the same asset in the statement of financial position and thereby blows up its statement of financial position. The SRS-CSPCP wishes a review of this symmetric approach in the lessor, so that the expansion of the total of the statement of financial position (total assets) can be avoided. In addition, the carrying of the leasing liability (non-realized income) should be critically examined. As long as a convincing model for the lessor cannot be found, the present ISAS 13 should be retained, as it constitutes a proven symmetric model.

6. 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?

The SRS-CSPCP welcomes that the existing gap in the treatment of such contracts on non-market terms in the accounts is to be closed. The SRS-CSPCP is of the opinion that *concessionary loans* and *concessionary leases* should be accorded equal treatment. In earlier consultations (*e.g. CP Revenue and non exchange expenses)* the SRS-CSPCP had already pointed out that the income and expense sides should be treated equally. A Day-one effect in the expenses with *conditions* is rejected. Possibly it is also a question under the topic "*Time Requirements*" that must be answered with new standards on "*Revenue and non exchange expenses".* We recommend close coordination in the projects. In this case too it is important that the recording is symmetrical between lessor and lessee.

Lausanne, June 11, 2018