

July 9, 2018

International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: PSAB Staff Comments on Exposure Draft 64 (ED 64), “Leases”

Thank you for the opportunity to provide input on the proposed International Public Sector Accounting Standard – Leases.

PSAB staff fully supports the proposed improvements to lease accounting in ED 64. This standard would ensure that lessees and lessors provide relevant information in a manner that faithfully represents leasing transactions. This standard will ensure that better information about leases is provided in the financial statements for accountability and decision-making purposes, consistent with the objective of financial reporting in the IPSAS conceptual framework. This is an excellent, thoroughly researched and well explained proposed standard that has been appropriately adapted to the public sector, and we would support its adoption as a new IPSAS.

We are particularly supportive of the proposal to apply the same right of use model to both lessee and lessor accounting for leases. The articulated reasons for this decision in the Basis for Conclusions are compelling and this accounting will promote greater accountability for leasing transactions in the financial statements of public sector entities. Further, the proposals for concessionary leases are important additions to public sector accounting theory. Together these proposals ensure internal consistency within the IPSAS for items of similar substance.

We have provided responses to each of the specific matters for comment, which we hope you will find useful.

Kind regards,

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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 IPSASB’s decision to adopt the IFRS 16 right of use model for lessee accounting. The reasons explained under BC6-BC8 are comprehensive.

However, we believe that the users will benefit further if clarification is provided under BC7 with respect to what is controlled (identified asset, control of the right to use an identified asset or control of the right to access to operate an identified asset) how is it controlled and for how long (lease term).

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 with the IPSASB’s decision to depart from the IFRS 16 risk and rewards model for lessor accounting. The reasons mentioned under BC9 – BC13 are comprehensive.

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 IPSASB’s proposal for a single right-of-use model for lessor accounting consistent with lessee accounting. We agree that Approach 1 is appropriate for the reasons stated in paragraphs BC34–BC40.

However, we believe that the readers would benefit if BC37 were consistent with the information suggested under specific matter for comment 1.

Also, the explanation provided under BC56 to not propose all recognition exemptions for lessors is not compelling because BC56(a) and BC56(b) would apply to lessee also, perhaps the argument could be further strengthened.

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 overall requirement to account for concessionary leases for lessors and lessees proposed in the exposure draft and the specific requirements on how such leases should be accounted for in public sector financial statements. The proposed approach is consistent with that for items of similar substance in other IPSAS, and also consistent with the underlying theory in Canadian accounting standards for accounting for loans provided with concessionary terms (Public Sector Accounting (PSA) Handbook, Section PS 3050.20-.25) and portfolio investments with concessionary terms (PSA Handbook, Section PS 3041.17-.26).