



3 May 2021

International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Submission on Exposure Draft ED 75 Leases

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft ED 75 *Leases*.

The Auditor-General is responsible for auditing all of New Zealand's public entities. Public entities in the New Zealand public sector include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public entities are operating and accounting for their performance as intended.

General comments about the proposed standard

We support the IPSASB's proposal to have a Standard for leases that is aligned with IFRS 16. We also support the IPSASB undertaking a second phase in the project that is focused on concessionary leases and lease type arrangements.

Specific comments about the proposed standard

The appendix to our letter contains our responses to the three Specific Matters for Comment. We also raise three further matters under "Other Comments" for the IPSASB to consider:

1. We are concerned that the definition of a lease does not adequately consider the public sector context;
2. We are concerned that the Basis for Conclusions is inconsistent in the way it articulates the proposed recognition exemption for low value leases; and
3. We note that the International Accounting Standards Board (IASB) has proposed further changes to its standard on leases (IFRS 16) and we encourage the IPSASB to reflect any changes made to the IFRS in the IPSASB standard as relevant.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at laywee.ng@oag.parliament.nz.

Nāku noa, nā

A handwritten signature in black ink, consisting of a stylized 'G' followed by a horizontal line with a small flourish at the end.

Greg Schollum
Deputy Controller and Auditor-General

Appendix: Responses to Specific Matters for Comment

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.

Yes, we agree with the IPSASB that the proposed Standard on leases should be an IFRS 16-aligned Standard.

We agree with how the IPSASB has modified IFRS 16 for the public sector.

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 for Conclusions.

We understand the IPSASB’s rationale, as set out in BC43-BC45, for the proposal to retain the fair value definition from IFRS 16 and IPSAS 13, which differs from the definition proposed in ED 77. However, as ED 77 has yet to be published, we are unable to comment specifically on the potential differences.

Notwithstanding this, as a matter of principle, we generally do not support the same term being defined in two different ways. Doing so has the potential to cause confusion.

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.

Yes, we agree with the proposal to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease,

Other Comments

1. Definition of a lease

Paragraph 5 of ED 75 defines a lease as:

“...**a contract, or part of a contract**, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for **consideration.**” [emphasis added]

Paragraph 5 states:

“A contract, for the purpose of this [draft] Standard, is an agreement between two or more parties that creates enforceable rights and obligations.”

Paragraph AG3 states:

“An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for the purposes of this [draft] Standard. Contracts, for the purposes of this [draft] Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- The remedy for non-performance is enforceable by law.”

Paragraph BC41 states:

“BC41. Consideration was given to whether the term “binding arrangement” should be used to describe the arrangements highlighted in paragraph AG3. The term “binding arrangement” is defined in IPSAS 32, *Service Concession Arrangements: Grantor* as contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. For example, an arrangement between two government departments that do not have the power to contract may be a binding arrangement. The IPSASB concluded that the term “binding arrangements,” as used in IPSASs, embraces a wider set of arrangements than those identified in paragraph AG3 and therefore concluded that it should not be used in this [draft] Standard.”

We disagree with limiting the definition of a lease to “contracts, or part of a contract” in the proposed Standard. As paragraph BC41 states, many government departments do not have the power to enter into contracts but enter into binding arrangements that confer similar rights and obligations on the parties as if they were a form of contract. Limiting leases to contracts, or part of a contract, is likely to result in similar transactions being accounted for differently when the substance of the transactions are the same. We recommend that the definition of a lease be extended to include binding arrangements.

Public sector entities may also enter into lease contracts in exchange for consideration that is non-financial, for example, in exchange for the use of an asset, rather than by making a monetary payment. We consider that such transactions should also be within the scope of the draft Standard where they meet all the other criteria for a lease. We recommend that the draft Standard defines and/or clarifies the term “consideration” to refer to financial or non-financial consideration.

2. Basis for Conclusions on low value leases

Paragraph 7 of ED 75 sets out the proposed recognition exemption for low value leases.

Application Guidance paragraphs AG4-AG9 clarify the proposals for low value leases. In particular, paragraph AG5 states:

“The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 7 regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee.

Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value.” [paragraph AG5, emphasis added]

BC50-BC53 set out the IPSASB’s rationale in relation to an entity’s application of the recognition exemption for low value leases. The Basis for Conclusions sets out the following two statements:

“...public sector entities would be able to adopt an approach that appropriately provides a faithful representation of leasing transactions in terms of their own statements of financial position.” [paragraph BC51] and

“The IPSASB acknowledged that, for many public sector entities that are services-based, a figure of US\$5,000 might represent the value of most of their individual assets. The IPSASB concluded that public sector entities, **if they decide to apply the exemption, should use a threshold for determining leases of low-value assets, considering the materiality of leasing transactions in relation to their financial statements.** The IPSASB concluded that it would not provide guidance on a specific monetary amount. In assessing materiality, preparers consider whether the omission of information could influence financial statement users’ assessments of accountability or their decision-making.” [paragraph BC53, emphasis added]

We agree with the IPSASB’s conclusion not to provide guidance on a specific monetary amount and to require preparers, in assessing materiality, to consider whether the omission of information could influence financial statement users’ assessments of accountability or their decision-making. However, we consider that the statement in paragraph BC53 (highlighted above) is inconsistent with the intent of paragraph AG5.

We recommend that the IPSASB rewords paragraph BC53 to reflect the intent that the assessment of whether an underlying asset is of low value is performed on an absolute basis.

3. IASB ED/2020/4 Lease Liability in a Sale and Leaseback – Proposed amendment to IFRS 16

The International Accounting Standards Board (IASB) has recently issued exposure draft ED/2020/4 *Lease Liability in a Sale and Leaseback – Proposed amendment to IFRS 16*.

We recommend that the IPSASB considers the proposals in IASB ED/2020/4 to determine if those proposals should also be incorporated into the IPSASB’s proposed Standard on leases, given the intention for the proposed Standard to be aligned with IFRS 16.