

6th June, 2018

To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

“ED 64 Leases”

Overall comments

The Institute of Certified Public Accountants in Ireland (CPA Ireland) welcomes the publication of this much needed exposure draft on accounting for leases and supports the broad thrust of the recommendations for lessee accounting but has some reservations on the changes to lessor accounting.

There is a need to ensure consistency in how leases should be accounted for in terms of their recognition, measurement, presentation and disclosure. CPA Ireland also agrees with the objective of the ED to ensure that the proposed amendments should provide relevant information in a manner that faithfully represents lease transactions.

Specific comments

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.

CPA Ireland agrees with IPSASB’s reasons for adopting the right of use model. Clearly it makes sense to adopt the same model as per IFRS 16 and CPA Ireland agrees that not only does it fit the definition of an asset under the IPSASB’s *Conceptual Framework* but also there are no public sector issues that would suggest an alternative treatment. Undoubtedly there will be additional costs for lessees but these are outweighed by having consistent accounting treatment across all leases for lessees and thus the benefits outweigh the costs. The former artificial division of leases between finance and operating has led to similar leases being treated differently by different lessees and to ‘off balance sheet financing’ as most lessees would have treated the majority of their leases as operating and not finance.

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.

CPA Ireland has practical issues with this approach. Clearly, in theory and under the *Conceptual Framework*, there should be a mirror accounting treatment by lessors to that applied by lessees and thus the approach proposed by IPSASB would be the ideal solution.

The reasons for adopting the ‘mirror’ or ‘control’ approach are logical i.e.

- The current risks and rewards division of finance and operating leases does not meet the definition of control under the conceptual framework
- The IFRS 16 approach does lead to inconsistent accounting by both parties with an asset effectively being reported on both the lessors’ and the lessees’ balance sheets, albeit at different values.

The Basis of Conclusions (BC10) argues that if public sector entities follow the IFRS 16 approach to lessor accounting there will be practical issues on consolidation, that leasing will become less understandable to users and that asymmetrical information will distort the analysis of the financial position of public sector entities.

These issues are not unique to the public sector and CPA Ireland questions whether the costs of implementing the ‘control’ model are really outweighed by the benefits. CPA Ireland would also question whether the public sector

should diverge from the private sector at this moment in time. It is likely that, at some stage in the future once the lessee model settles down, further changes may be adopted to IFRS 16 if it was felt that the financial statements of lessors were no longer providing a true and fair view. Should the IPSASB not wait until this emerges?

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?

Bearing in mind the comments above, if the IPSASB decides to adopt the ‘control’ model then Approach 1 would seem to be the easiest to apply which is not unimportant given the challenges of implementing IPSAS in many countries although, in theory, Approach 2 would seem to be more directly comparable with lessee accounting. Approach 1 will leave the underlying asset or part of it still being double-counted as it will be recorded in both sets of books but introducing a lease receivable (at present value of the future lease payments) and corresponding liability should reduce the costs of compliance considerably. CPA Ireland also agrees with the idea that the approach is consistent with the conceptual framework and is less complex than having to determine the component of the underlying asset to be derecognised and instead recognising a residual asset, as required in the second approach

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?

CPA Ireland supports this approach as concessionary leases appear frequently in the public sector and thus there is a case for special accounting treatment.

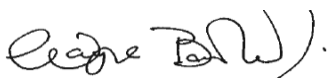
CPA Ireland supports the introduction of specific guidance on these leases and agrees with the approach adopted in the exposure draft, particularly the requirement to include them at fair value and recognize revenue in line with IPSAS 23 requirements.

Conclusion

CPA Ireland welcomes the publication of ED 64 *Leases* and, in particular, the very useful application guidance and illustrative examples. However, it has concerns over the practical implementation of the proposals for lessors and, in particular, with the proposed divergence from the private sector’s accounting treatment in IFRS 16 *Leases*. In the opinion of CPA Ireland there is not sufficient evidence to suggest that the public sector has unique issues to justify a different accounting treatment even though the IPSASB proposals are theoretically more correct than those of the IASB.

If you have any questions on the above, please do not hesitate to contact me.

Yours sincerely,



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Chair, CPA Ireland IPSAS Advisory Board