International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 10**	For:
Meeting Location:	Lisbon, Portugal		☐ Approval
Meeting Date:	September 24–27, 2019		☒ Discussion
			☒ Information

LEASES

Project summary	Develop revised requirements for lease accounting covering both lessors and lessees in order to maintain alignment with IFRS 16, *Leases*, to the extent appropriate. The project will result in a new IPSAS that will replace IPSAS 13, *Leases*.	
Meeting objectives	***Topic***	***Agenda Item***
Project management	Leases: Project Roadmap	10.1.1
	Instructions up to Previous Meeting	10.1.2
	Decisions up to Previous Meeting	10.1.3
Decisions required at this meeting	Depart or not from IFRS 16 Lessor Accounting based on conceptual reasons	10.2.1
Other supporting items	Appendix A – Conceptual Issues Related to IFRS 16 Lessor Accounting Departure – Draft Principles for Basis for Conclusions to IPSAS [XX], Leases Proposed by the Task Force	10.3.1

LEASES: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2016	1. Education Session on IFRS 16 2. First draft of Project Brief, Leases
June 2016	1. Approval of Project Brief, Leases 2. Lessee-Applicability of IFRS 16 recognition and measurement requirements to public sector financial reporting 3. Lessee-"Peppercorn" leases (no decision taken) 4. Lessor-Applicability of IFRS 16 recognition requirements to public sector financial reporting
September 2016	1. Lessor-Applicability of grant of a right to the operator model in IPSAS 32 to lessor accounting (right-of-use model) 2. Sale and leaseback transactions 3. Lessee-Recognition Exemptions-Threshold of leases for which the underlying asset is of low value
December 2016	1. Lessor-Analysis of lessor accounting approaches to the right-of-use model 2. Lease-Measurement (including concessionary leases)
March 2017	1. Lessor-Analysis of lessor accounting approaches for the right-of-use model 2. Leases for zero or nominal consideration 3. Lessee-Reassessment of the lease liability and lease modifications; lease term 4. Sale and leaseback transactions-Draft section of Core Standard and Basis for Conclusions
June 2017	1. Terminology-Conceptual Framework and IPSASs 2. Objective, Scope and Definitions 3. Lessor: Recognition Exemptions 4. Identifying a lease, in-substance fixed lease payments, and lessee involvement with the underlying asset before the commencement date 5. Manufacturer or dealer lessor 6. Lessor-Separating components of a contract 7. Lessor-Lease modifications 8. Sale and leaseback transactions below market terms 9. Lessor-Credit entry 10. Lessor-Measurement 11. Review of first draft of the authoritative section of the ED-except Application Guidance
September 2017	1. "Double-Counting" versus "Gross" versus "Offset"/"Net" 2. Lessor-Measurement of the Underlying Asset 3. Concessionary Leases-Measurement 4. Lessor-Credit Entry (Liability-Unearned Revenue) Related to Subsidy in Concessionary Leases
December 2017	1. Restructuring of the Exposure Draft 2. Lessor-Options to Account for the Subsidy Component of the Credit Entry in Concessionary Leases

	3. Lessor and Lessee-Presentation 4. Amendments to Other IPSASs 5. Transitional Provisions 6. Approval and Exposure Period
March 2018 June 2018	Exposure Period
September 2018	1. Review of Responses: Lessee Accounting (SMC 1) 2. Review of Responses: Lessor Accounting (SMCs 2 and 3) 3. Review of Responses: Concessionary Leases (SMC 4)
December 2018	1. Roadmap to Move the Leases Project Forward 2. Lessee Accounting 3. Assessment on the Feasibility of Publication of Only Revised Lessee Accounting Requirements
March 2019	1. Development of ED 64, Leases 2. ED 64: Overview of single 'right-of-use' proposals 3. ED 64: Overview of responses 4. ED 64: Other Considerations 5. IPSASB CAG December 2018 Update 6. The Way Forward
June 2019	1. Lessor Accounting (Mike and João) 2. Presentations on lessor accounting by David Bean (GASB) and Kimberley Crook (NZASB) 3. IPSASB to instruct Task Force on next steps for the IPSASB Leases project
September 2019	1. Depart or not from IFRS 16 Lessor Accounting based on conceptual reasons (Mike and João) 2. UK Treasury presentation on practical issues associated with IFRS 16 implementation (Sarah Geisman) 3. Presentation on practical issues associated with IFRS 16 for GFS reporting guidelines (John Verrinder) 4. Presentation on practical issues associated with IFRS 16 implementation (Isabelle Sapet) 5. IPSASB to instruct Task Force on next steps for the IPSASB Leases project for one of the both scenarios (departure and not departure)
December 2019	1. To be determined

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2019	The IPSASB **instructed** the Task Force to: 1. Reflect on the thinking behind the IASB and GASB approaches to their leasing standards and report back to the IPSASB in September 2019 on whether the IPSASB has adequately addressed issues raised by the IASB and GASB approaches. 2. Carry out a detailed review of the criticisms raised about the IPSASB's conceptual thinking behind lessor accounting behind ED64 and report back to the IPSASB in September 2019 on whether the IPSASB needs to rethink its approach, or whether it is more a question of more clarity of explanation. 3. Consolidate the list of issues raised by constituents and emerging from the session with IASB and GASB under a limited number of strategic headings to be agreed in discussion between the Task Force and IPSASB chairs in order to facilitate the eventual IPSASB decision on the overall project direction.	1. Leases Task Force meeting in July 18-19, in La Défense, Paris, France 2. September 2019 Issues Paper
March 2019	The IPSASB **instructed** the Task Force to: 1. Assess first the departure or not from IFRS 16 lessor accounting; 2. Evaluate implications based on the same agreed criteria that was used for lessee accounting; and 3. Make recommendations to IPSASB in June 2019;	1. June 2019 Issues Paper
December 2018	The IPSASB **instructed** staff: 1. To include in the Basis for Conclusions the reasons not to include additional guidance on transfer of control; 2. To include in the analysis the consequential amendments to other IPSAS;	

	3. To include in the analysis the IASB's deliberations on lessor accounting; and 4. Bring for the March 2019 meeting options to deal with IFRS 16 lessor accounting with advantages and disadvantages.	
September 2018	The IPSASB **instructed** staff to: 1. Develop a more detailed analysis of respondents' views on lessee accounting for the December 2018 meeting with the following factors (no ranking): – Implementation issues; – User's needs; – Relationship with Government Finance Statistics; and – Relationship with public-private partnerships (IPSAS 32, *Service Concession Arrangements: Grantor*). 2. Develop for the December 2018 meeting a roadmap for a decision-making process on lessor accounting and concessionary leases with the following factors (no ranking): – Consistency between ED 64, IPSASB's Conceptual Framework and IPSAS, including a review of IPSASB's decisions on ED 64 and their rationale; – IASB's proposals for lessor accounting; – Consistency between the lessor accounting requirements of IFRS 16, Leases, and IASB's Conceptual Framework; – Compare IPSASB's decisions on ED 64 with IASB's decisions on IFRS 16; – Respondents' views on ED 64; – Consistency between ED 64 and Government Finance Statistics; and – ED 64 implementation issues. 3. Develop for the December 2018 meeting the following five-step roadmap for the decision-making process of the issues to be	

	considered at subsequent meetings: – First step: Decide on lessee accounting, subject to a more extensive review of the responses to ED 64; – Second step: Decide to align or depart from IFRS 16 lessor accounting proposals; – Third step: Decide on the nature of any departure from IFRS 16 lessor accounting proposals; – Fourth step: Decide on the approach to concessionary leases; and – Fifth step: Decide on the next steps for the Leases project.	

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2019	1. None.	
March 2019	1. To adopt the following criteria in assessing departures from the lessor accounting requirements in IFRS 16, Leases: a. Consistency with the IPSASB's Conceptual Framework; b. Consistency with the Rules of the Road; c. Implementation Issues; d. User needs; e. Relationship with Government Finance Statistics; and f. Relationship with IPSAS 32, Service Concession Arrangements: Grantor 2. To adopt two phases for evaluating approaches to lessor accounting: a. Phase 1: i. Examine all responses focusing on the reasons submitted for departing, or not departing, from IFRS 16; ii. Subject to conclusions on 1 (above), evaluate implications and make recommendations to the IPSASB in June 2019; iii. IPSASB to consider/redeliberate the approach in June 2019; iv. Outcome of c. will determine next steps after the June 2019 meeting, including instructions to the Task Force; and v. Accounting for concessionary leases is only to be addressed once step d. has been completed. b. Phase 2 will depend on the discussions at the June 2019 meeting.	
December 2018	1. To confirm the tentative decision made in September to adopt the lessee accounting requirements in ED 64, subject to decisions on the approach to be taken to lessor accounting, and where relevant, concessionary leases; 2. Not to publish lessee accounting requirements based on ED 64 ahead of the decisions on lessor accounting, and where relevant, concessionary leases; 3. To create a Task Force to consider all the issues raised by respondents; 4. Not to adopt the "bundle of rights" approach to lessee accounting; 5. Not to adopt exemption for leases between public sector entities;	

	6. Not to provide additional guidance on transfer of assets; 7. To create a Task Force for the Leases project to be established at March 2019 meeting; 8. Review all IPSASB's decisions in light of respondents' views; 9. Only take a final decision on lessee accounting, lessor accounting and concessionary leases after all issues have been discussed;	
September 2018	1. To tentatively adopt the proposals in ED 64, Leases, on lessee accounting in the draft IPSAS, Leases, subject to a more detailed analysis of the responses; 2. To extend the timeline of the Leases project in order to carry out a detailed analysis of all the issues raised by respondents; and 3. To get CAG's views on the Leases project at the December 2018 meeting.	

Depart or not from IFRS 16 Lessor Accounting based on conceptual reasons

Question

1. Whether to depart or not from IFRS 16 Lessor Accounting based on conceptual reasons.

Detail

Background

2. The Leases Task Force held a face-to-face meeting on July 18-19, 2019, in La Défense, Paris, France to respond to the IPSASB instructions at its June 2019 meeting, which were for the Task Force to:

   (a) Use the selected criteria to assess departure or not from IFRS 16 Lessor Accounting;

   (b) Compare IFRS 16 Lessor Accounting with ED 64 Lessor Accounting;

   (c) Assess the conceptual issues raised by respondents on departure or not from IFRS 16 Lessor Accounting and ED 64 Lessor Accounting against the criteria selected by the IPSASB;

   (d) Assess the conceptual issues raised by the IPSASB at the June 2019 meeting on IFRS 16 and ED 64 Lessor Accounting; and

   (e) Provide a recommendation to depart or not from IFRS 16 Lessor Accounting based on conceptual reasons according to the criteria selected by the IPSASB.

3. The Task Force notes that at the September 2019 meeting, the IPSASB will consider presentations about, and discuss practical issues related to IFRS 16 and ED 64 Lessor Accounting (see paragraph 9) that the Task Force needs to address in Q4 of 2019. At the December 2019 meeting, the IPSASB will take its final decision on departure or not from IFRS 16 Lessor Accounting based on the conceptual and practical reasons considered at the September 2019 and December 2019 meetings.

4. Agenda Item 10.3.1 provides the draft principles for Basis for Conclusions to IPSAS [XX], *Leases* proposed by the Task Force.

High-level results of the Task Force assessment

5. The Task Force:

   (a) When reviewing the IASB's main decisions and proposals on their Leases project, did not identify a public sector specific conceptual reason to develop a dual model[1] for accounting and classification of leases for lessors (see paragraphs BC1–BC4 of Agenda Item 10.3.1)

   (b) Is of the view that:

      (i) IFRS 16 Lessor Accounting does not satisfy the objectives of public sector financial reporting (see paragraphs BC5–BC7 of Agenda Item 10.3.1);

[1] IFRS 16 is a dual accounting model in that accounting by the lessee and lessor differ. IFRS 16 Lessor Accounting is also a dual model because of different accounting requirements for finance leases and operating lease.

(ii) IFRS 16 Lessor Accounting is inconsistent with IPSASB Conceptual Framework (see paragraphs BC8–BC11 of Agenda Item 10.3.1) and IPSAS (see paragraphs BC12–BC16 of Agenda Item 10.3.1)

(iii) The relationship with Government Finance Statistics (GFS), while an important consideration, is not a relevant factor to assess departure from a conceptual perspective (see paragraphs BC17–BC21 of Agenda Item 10.3.1);

(iv) IFRS 16 Lessor Accounting is inconsistent with IPSAS 32, *Service Concession Arrangements: Grantor* (see paragraphs BC22–BC28 of Agenda Item 10.3.1);

(v) The remaining conceptual issues raised by respondents either:

a. Are not relevant to assess departure from IFRS 16 Lessor Accounting (comparability, understandability, strength of reasons to depart, public sector leases different from private sector leases and analogy with joint arrangements) (see paragraphs BC29–BC33, BC37–BC39, BC43–BC50 of Agenda Item 10.3.1); or

b. Lead to the need to depart from IFRS 16 Lessor Accounting (asymmetry of information and economics of the transaction) (see paragraphs BC34–BC36, BC40–BC42 of Agenda Item 10.3.1); and

(vi) The additional issues raised by the IPSASB at the June meeting:

a. Are not relevant to assess departure from IFRS 16 Lessor Accounting (should all or portion of the underlying asset be derecognized?, strength of reasons to depart, double-counting) (see paragraphs BC54–BC59 of Agenda Item 10.3.1);

b. Are covered in other criteria or issues (is the public sector different? and public interest) (see paragraphs BC51 and BC60 of Agenda Item 10.3.1); and

c. Lead to depart from IFRS 16 Lessor Accounting (IPSASB and IASB' Conceptual Framework, who controls the underlying asset?) (see paragraphs BC52–BC53 and BC61 of Agenda Item 10.3.1).

Issues to be further discussed by the Task Force

6. The Task Force did not conclude on the recognition and measurement of the lease receivable and liability in lessor accounting. The Task Force is of the view that these issues need to be further discussed in case the IPSASB decides to depart from IFRS 16 Lessor Accounting. In doing so, the Task Force may have to have regard to the IPSASB's further considerations of the performance obligation in ED 70.

7. Although the Task Force did not conclude on these two issues, this does not influence Task Force's recommendation to IPSASB in paragraph 8.

Task Force Recommendation to IPSASB

8. The Task Force recommends the IPSASB to depart from IFRS 16 Lessor Accounting for conceptual reasons. The outcome of this recommendation will:

(a) Include guidance, for both lessors and lessees, on transfer of control of the underlying asset[2] in the IPSAS on Leases to ensure that the underlying asset is always recognized by the purchaser and derecognized by the seller in a sale;

(b) Not to include the guidance of IFRS 16 Lessor Accounting on finance leases in the IPSAS on Leases to avoid that the underlying asset is neither recognized by the lessor nor by the lessee; and

(c) Only include requirements for lessors based on a single model (no classification of leases) to be proposed at a later stage by the Task Force if the IPSASB decides to depart from IFRS 16.[3]

Presenters at the September IPSASB meeting

9. The IPSASB and Task Force Chairs invited Sarah Geisman (Senior Finance Advisor, Government Financial Reporting, Public Spending Group, UK HM Treasury), John Verrinder (Acting Director of Macro-economic Statistics, Eurostat), and Isabelle Sapet (Partner at Mazars, France) to make presentations on practical issues related IFRS 16 Lessor Accounting to the IPSASB at the September 2019 meeting.

Decisions required

10. Does the IPSASB agree with the Task Force recommendation to depart from IFRS 16 Lessor Accounting based on conceptual reasons?

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2 Where transfer of control has in substance taken place through the lease contract/binding arrangement.

3 At the July face-to-face meeting, the Task Force discussed five, immediately dismissed one, possible lessor accounting models. If the IPSASB decides to depart from IFRS 16 in lessor accounting, the Task Force will continue its work on those models in order to bring a recommendation to the IPSASB.

APPENDIX A – CONCEPTUAL ISSUES RELATED TO IFRS 16 LESSOR ACCOUNTING DEPARTURE

─ DRAFT PRINCIPLES FOR BASIS FOR CONCLUSIONS TO IPSAS [XX], *LEASES* PROPOSED BY THE LEASES TASK FORCE ─

CONTEXT

These proposed draft principles for Basis for Conclusions are premised on the Task Force's primary conclusion (see Agenda Item 10.2.1), from its meeting in La Défense, France in July 2019, that the IPSASB should depart from IFRS 16 Lessor Accounting for conceptual reasons. The proposed Basis for Conclusions should not be taken as final proposals. They will be further developed once a decision is made by the IPSASB whether to depart or not and should be read alongside Agenda Item 10.2.1.

In Q4 2019, the Task Force will explore practical implications of departure or not from IFRS 16 Lessor Accounting and will bring a proposal to IPSASB at the December 2019 meeting. While references may be included in these draft Basis for Conclusions to lessee accounting, this is not the main focus.

Review of main lessor accounting decisions on IASB's Leases project[4]

BC1. The IPSASB considered the three consultation documents issued by the IASB during the development of IFRS 16, *Leases*[5] and in doing so focussed on conceptual matters.

BC2. The IPSASB reviewed the IASB's main decisions on their Leases project. The IPSASB is of the view that all leases result in a lessee obtaining the right to use an asset, regardless of the nature or remaining life of the underlying asset, and did not identify a public sector specific conceptual reason to:

(a) Develop a dual model for lease accounting; and

(b) Classify leases as either finance or operating leases for lessors[6].

BC3. The IPSASB also noted that the IASB and IPSASB's Leases projects had different objectives. The objective of IASB's Leases project was to address lessee accounting, while the objective of the IPSASB Leases project was to develop revised requirements for lease accounting covering both lessors and lessees in order to maintain alignment with IFRS 16, *Leases*, to the extent appropriate and to address public sector specific transactions (ex: concessionary leases at this stage).

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4 The IASB Leases project was a joint project with the US Financial Accounting Standards Board (FASB), the primary objective of which was to address lessee accounting. In previous IPSASB meetings and in ED 64, the IPSASB supported the IFRS 16 right-of-use model for lessees.

5 2009 Discussion Paper, 2010 Exposure Draft, and 2013 Exposure Draft.

6 As outlined in BC 6 below, IFRS 16 is a dual accounting model in that accounting by the lessee and lessor differ. IFRS 16 retained the classification of a lease as either a finance or operating lease for lessors. As outlined in BC14-16, BC41-42 and BC57 below, the IPSASB concluded this classification is not needed, in particular where transfer of control has in substance taken place through the contract or other binding arrangement.

BC4. The IPSASB agreed that having had different project objectives could influence the outcome of both IPSASB and IASB's Standards on Leases, especially in the context of lessor accounting.

Review of IFRS 16 Lessor Accounting

BC5. The IPSASB noted that IFRS 16 introduces a right-of-use model for lessee accounting and retained the 'risks and rewards incidental to ownership' model previously applied in IAS 17 (and IPSAS 13) to lessors. This means that IFRS 16 has two conceptual models for lessees and lessors for the same transaction with different recognition/derecognition requirements.

BC6. As a consequence, IFRS 16 requires the lessor to classify the lease as either a finance or operating lease. If the lessor classifies the lease as:

(a) Finance lease, the underlying asset is neither recognized by the lessor nor by the lessee because the lessee recognizes a right-of-use asset, not the underlying asset[7]; and

(b) Operating lease, the lessor continues to recognize the underlying asset but does not recognize a lease receivable, while the lessee, in addition to recognizing a right-of-use asset, always recognizes a lease liability.

BC7. The IPSASB is of the view that from a conceptual perspective having two conceptual models in accounting for one transaction does not satisfy the objectives of public sector financial reporting in the *Conceptual Framework* because:

(a) In the lessor's 'risks and rewards incidental to ownership' model:

(i) The lessor would not be providing complete information about its management of the resources entrusted to it for the delivery of services to constituents and others, which is an essential feature of accountability, as, in a finance lease, the financial statements would omit the underlying asset.

(ii) The lack of information on the underlying asset would fail to inform users on operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

(b) The users of financial information from public sector entities are different from private sector profit-oriented entities, which result in different information needs related to the financial statements.

IPSASB selected criteria to assess departure or not from IFRS 16 Lessor Accounting

First criterion — Consistency with IPSASB Conceptual Framework

Summary of respondents' views to ED 64

BC8. Respondents have opposing views on the consistency of IFRS 16 Lessor Accounting with the IPSASB Conceptual Framework:

[7] Under a finance lease, the lessor has effectively sold the asset and, consequently, derecognizes the underlying asset.

(a) Some respondents are of the view that IFRS 16 Lessor Accounting is consistent with the Conceptual Framework, while others are of the view that that IFRS 16 Lessor Accounting is inconsistent with the Conceptual Framework;

(b) Respondents that disagree with departure from IFRS 16 lessor accounting are split between:

(i) Respondents that agree that IFRS 16 Lessor Accounting is consistent with the Conceptual Framework; and

(ii) Respondents that agree that IFRS 16 Lessor Accounting is inconsistent with the Conceptual Framework;

(c) Some respondents are of the view that the lessor has lost control of the underlying asset in a finance lease; and

(d) Some respondents are of the view that the risks and rewards model is consistent with the notion of control in the Conceptual Framework and its indicators of control.

IPSASB view

BC9. The IPSASB is of the view that the underlying asset meets the definition of an asset in the Conceptual Framework because:

(a) It is a resource—an item with service potential or the ability to generate economic benefits (from the sale of the underlying asset, using the underlying asset as collateral, or receive cash flows from leasing the underlying asset);

(b) It is presently controlled by the entity—for example, it can decide to sell the underlying asset, it can terminate the lease and receive back the right to use the underlying asset, it can prevent the sublease of the underlying asset, it can ensure that the resource is used according to its objectives as typified in the lease contract, it has access to the underlying asset;

(c) It arises from a past event—the purchase of the underlying asset.

As a result, the IPSASB concluded that the lessor should, for conceptual reasons, continue to recognize the underlying asset, but that, the entering the lease may represent a trigger for the need for the lessor to remeasure the carrying amount of this asset.

BC10. The IPSASB noted that the Conceptual Framework:

(a) Does not have any reference to risks and rewards in the definition of an asset;

(b) Provides a control-based definition of assets; and

(c) Provides indicators based on control to assess the presently control of assets.

BC11. The IPSASB concluded that:

(a) Continuing to recognize the underlying asset is consistent with the Conceptual Framework;

(b) The possible need for the lessor to remeasure the underlying asset is consistent with the Conceptual Framework; and

(c) Applying a risks and rewards model to recognize/derecognize assets would not be consistent with the Conceptual Framework.

Second criterion — Consistency with IPSAS

Summary of respondents' views to ED 64

BC12. Respondents have opposing views on the consistency of the accounting for the underlying asset and a lease receivable:

(a) Some respondents are of the view that the lessor has lost control of the underlying asset in a finance lease; and

(b) Some respondents are of the view that the lease receivable is a financial asset, while others are of the view that it is not a financial asset because the lessor does not have the unconditional right to receive cash.

IPSASB view

BC13. The IPSASB also considered whether a lease contract transfers the control of the underlying asset or the control of the right-of-use asset.

BC14. The IPSASB is of the view that, other than where the lease is in substance a sale (refer BC18), a lease conveys the right to use an underlying asset for a period of time and does not transfer control of the underlying asset to the lessee.

BC15. Therefore, the IPSASB considered that derecognizing the underlying asset in a lease transaction would be inconsistent with current IPSAS, but the lessor may need to remeasure the underlying asset on entering into a lease.

BC16. However, the IPSASB also concluded that, where a lease contract or binding arrangement is in substance a sale, such transactions transfer control and are sales or purchases within the scope of other Standards (for example, IPSAS 17, *Property, Plant, and Equipment*).

Third criterion — Relationship with GFS

BC17. The IPSASB considered the requirements of Government Finance Statistics (GFS) reporting guidelines on leases when developing IPSAS [XX], *Leases*.

BC18. GFS classifies leases based on the distinction between legal and economic ownership, and accounts for leases based on economic ownership, determined by the distribution of risks and associated benefits between the parties. The IPSASB noted that although GFS has a different lease accounting model from IPSAS 13 and IAS 17, generally GFS applies the same principles as in IPSAS 13 and IAS 17 for recognition and measurement as this relates to both lessees and lessors. As a consequence, the GFS approach results in similar accounting from a conceptual perspective.

BC19. This means that from a conceptual perspective both IFRS 16 and the proposals in ED 64 are not fully consistent with GFS because:

(a) IFRS 16 applies the right-of-use model for lessee accounting; and

(b) ED 64 proposes the right-of-use model for both lessors and lessees.

BC20. Therefore, whichever route the IPSASB chooses there will always be conceptual differences between IPSAS and GFS.

BC21. As a consequence, the IPSASB is of the view that the relationship with GFS from a conceptual perspective is not a relevant factor to decide departure or not from IFRS 16 Lessor Accounting.

Fourth criterion — Relationship with Public Private Partnerships

Summary of respondents' views on ED 64

BC22. Respondents have opposing views on the analogy with IPSAS 32, *Service Concession Arrangements: Grantor*, outlined in ED 64 as follows;

(a) Some respondents agree with ED 64.BC9(e), which states that "Applying a 'risk and rewards' model to lessor accounting, while applying a control model to lessee accounting, would be inconsistent with the IPSASB's existing literature. For example, IPSAS 32, *Service Concession Arrangements: Grantor*, which deals with transactions that have some similarities with leases, adopts a control-based model for the grantor. IFRIC 12, *Service Concession Arrangements*, which deals with the accounting by the operator (the other party to the transaction), also adopts a control-based model."

(b) Other respondents are of the view the analogy does not hold because the lessor does not control or regulate what services the lessee must provide with the asset, to whom it must provide them, and at what price, which are conditions in a service concession arrangement.

IPSASB view

BC23. The IPSASB noted that the grant of a right to the operator model with an existing asset in IPSAS 32 and leases have two common elements as follows:

(a) Both transactions transfer individual rights over physical assets from one party to the other party—in the grant of a right to the operator model with an existing asset and in leases the grantor and lessor, respectively, transfer to the operator and lessee, respectively, at least the right to access the asset, the right to charge users of the asset, and the right to use the asset.

(b) In both transactions, the grantor and lessor receive cash, a right to receive cash, or a mix of both in exchange for the transferred rights—the rights transferred over the physical asset and the cash or right to receive cash are dissimilar goods.

BC24. Therefore, the IPSASB concluded that both the grant of a right to the operator model with an existing asset in IPSAS 32 and leases are comparable transactions.

BC25. The IPSASB also concluded that, although the extent of rights being transferred in the grant of a right to the operator model with an existing asset and in leases differ, in principle this does not impact in how the transactions should be accounted for because in both cases there is always an exchange of rights for cash, right to receive cash, or a mix of both. However, the IPSASB acknowledged that the extent of rights being transferred might impact on the value of the transactions. For example: in principle, the more rights are transferred, the more valuable is the transaction.

BC26. When reviewing the accounting requirements in IPSAS 32 for the grant of a right to the operator model with an existing asset, the IPSASB noted that the grantor recognizes:

(a) Cash, a right to receive cash (receivable), or a mix of both (debit entry);

(b) Recognizes a liability (credit entry); and

(c) Continues to recognize and measure the underlying asset according to the applicable Standards.

BC27. When comparing IFRS 16 with the grant of a right to the operator model with an existing asset in IPSAS 32, the IPSASB noted that:

(a) IFRS 16 has different (dual) models to account for leases for lessees (right-of-use model based on control) and lessors (risks and rewards incidental to ownership model), while IPSAS 32 has the same model based on control as in IFRIC 12, *Service Concession Arrangements* (which provides accounting guidance for the operator);

(b) IFRS 16 has a dual model to account for leases for lessors (finance lease and operating lease), and IPSAS 32 only has a single model to account for the service concessions arrangements that deal with transfer of rights to the operator[8];

(c) The lessor derecognizes the underlying asset in a finance lease, the grantor does not derecognize the underlying asset, although in both transactions the lessor and grantor continue to control the underlying asset[9];

(d) The lessor does not recognize a lease receivable in an operating lease, while the grantor always recognizes a receivable if the operator does not pay in cash the acquired right to charge users; and

(e) The lessor never recognizes a liability, while the grantor always recognizes a liability.

BC28. Therefore, the IPSASB concluded that IFRS 16 lessor accounting is inconsistent with the grant of a right to the operator model with an existing asset in IPSAS 32.

Other conceptual issues raised by respondents related to IFRS 16 Lessor Accounting Departure

Comparability and Understandability

Summary of respondents' views on ED 64

BC29. Respondents have different views on comparability between the public and private sectors or within the public sector. Respondents:

(a) Agree with IFRS 16 Lessor Accounting Departure because:

(i) It is easier to apply in the public sector;

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[8] The IPSASB notes that the financial liability model in IPSAS 32 does not involve transfer of individual rights to the operator.

[9] If the lease is in substance a sale, then it should be accounted as sale and not as a lease.

(ii) It is absolutely compulsory in the public sector that entities adopt the same accounting; and

(iii) Departure aids comparability in the public sector because ED 64 proposes a single model approach;

(b) Disagree with IFRS 16 Lessor Accounting Departure because it:

(i) Deters comparability between public sector and for-profit entities;

(ii) Causes additional and unnecessary complexity in jurisdictions that adopt IFRS for the private sector and IPSAS for the public sector; and

(iii) Is confusing to users of financial statements, particularly where users attempt to compare lease information between the public and private sectors.

BC30. Respondents also have different views on understandability between the public and private sectors or within the public sector on departing from IFRS 16 lessor accounting:

(a) Agree with IFRS 16 Lessor Accounting Departure because:

(i) Different definitions for the same facts would not be comprehensible to the stakeholder; and

(ii) An approach for lessor (risk and reward) different from the approach for lessee (right-of-use) will cause asymmetrical accounting making leasing transactions less understandable to some users of the financial statements;

(b) Disagree with IFRS 16 Lessor Accounting Departure because:

(i) Accounting treatment consistent with IFRS 16 could increase understandability by financial statement users;

(ii) Departing from the IFRS 16 model will result in understandability issues for users in the public sector and private sector, as the same transaction is accounted for differently in the public sector and private sector;

(iii) Applying a different lessor accounting model in the public sector to the lessor accounting model in the private sector would make the financial statements of public sector entities less understandable to users; and

(iv) Diverging from IFRS could lead to more confusion than having two different accounting models for leases.

IPSASB view

BC31. The IPSASB considered the qualitative characteristics of comparability and understandability to assess departure or not from IFRS 16 Lessor Accounting.

BC32. The IPSASB noted that these qualitative characteristics have multiple dimensions of analysis and users of financial statements will give different weights to each dimension according to their specific needs and preferences. In particular, the IPSASB considered that greater weight should be given to wanting to ensure underlying assets are not lost off public sector balance sheets where public sector lessors enter into finance leases, and that this was felt to be key to the balances of arguments around user needs and understandability.

BC33. Therefore, the IPSASB decided that comparability and understandability are not relevant issues for consideration to depart or not from IFRS 16 Lessor Accounting.

Asymmetry of information

Summary of respondents' views on ED 64

BC34. Respondents had different views on the importance of information asymmetry between the public and private sectors or within the public sector on departing from IFRS 16 lessor accounting:

(a) Agree with IFRS 16 Lessor Accounting Departure because:

  (i) Synchronous accounting for such agreements by the lessor and the lessee is absolutely compulsory in the public sector; and

  (ii) 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);

(b) Disagree with IFRS 16 Lessor Accounting Departure because they do not believe that the key practical issues summarized (consolidation and asymmetrical information) under BC10 are more prevalent in the public sector.

IPSASB view

BC35. The IPSASB noted that it was never its intention to require symmetrical accounting between lessees and lessors in all aspects of the lease transaction. For example, a lease receivable and a lease liability might be measured differently because:

(a) The parties to a lease may consider different information when recognizing or measuring assets or liabilities arising from leasing transactions (such as lease terms or discount rates); or

(b) The lessor may not have access to all the information that a lessee might take into account when measuring its right of use asset or liability.

BC36. However, the IPSASB is of the view that, in the public sector, similar accounting for the same transaction by two entities in the same public sector is important when analyzing the lease transaction from both parties to a lease. While the IPSASB is not proposing symmetrical accounting, it is a common understanding that, for a lease transaction between two public sector entities in the same jurisdiction, the rights and obligations are clear and similar for ensuring that the transaction is accounted for in the similar, way by both parties, just like in a sale/purchase of goods. In other words, just like in a sale/purchase, it is not expected that both parties recognize the same good or no one recognizes it, in a lease it is not expected that the underlying asset is derecognized from the financial statements of the lessor because the lessor has only transferred the right to use an asset, not the underlying asset itself. In saying this, it may not preclude the need for the lessor to remeasure the underlying asset.

Strength of reasons to depart

Summary of respondents' views to ED 64

BC37. Respondents had opposing views on the strength of reasons to depart:

(a) Some respondents agreed that the reasons provided in the Basis for Conclusions to ED 64 were enough to warrant departure from IFRS 16 Lessor Accounting; but

(b) Some respondents were of the view that those reasons were not strong enough, especially the reference to consolidation issues.

IPSASB view

BC38. The IPSASB considered the arguments presented by both types of respondents and noted that respondents gave different importance to different criteria or had different criteria when putting forward their opinion.

BC39. The IPSASB concluded that this could be related to the relative importance that each jurisdiction gives to each criterion. Therefore, the IPSASB decided that the strength of reasons to depart should not be a criterion to assess departure or not from IFRS 16 Lessor Accounting as this is a very jurisdiction-based type of assessment[10].

Economics of the transaction

Summary of respondents' views to ED 64

BC40. Respondents have different views on the economics of the lease transaction:

(a) Some respondents are of the view that the lessee and the lessor should apply the same conceptual arguments to the same transaction and this better reflects the economic reality (substance) of the transaction; and

(b) Some respondents are of the view that the lessor should derecognize the underlying asset in a finance lease and not recognize a lease receivable in an operating lease.

IPSASB view

BC41. The IPSASB is of the view that a lease conveys the right to use an underlying asset for a period of time and does not transfer control of the underlying asset to the lessee—transactions that do, in substance, transfer control are sales or purchases within the scope of other Standards (for example, IPSAS 17, *Property, Plant, and Equipment*). The accounting for a transaction depends on the substance of that transaction and not of its legal form.

BC42. As a consequence, the IPSASB is of the view that the lessor should not derecognize the underlying asset is a lease but accepts it may need to be remeasured.

Public sector leases different from private sector leases

Summary of respondents' views to ED 64

BC43. Respondents had opposing views when comparing leases in the public and private sectors:

(a) Some respondents were of the view that consistent accounting for leases by lessees and lessors in the public sector is absolutely compulsory because different accounting based on the same facts would not be comprehensible to stakeholders; and

[10] However, the TF wishes to revisit this prior to the December 2019 meeting because many reasons for non-departure around practicalities were put forward by respondents that need to be considered.

(b) Some respondents were of the view that misalignment with IFRS will cause additional and unnecessary complexity in jurisdictions that adopt IFRS for the private sector and IPSAS for the public sector, especially with mixed groups.

IPSASB view

BC44. The IPSASB is of the view that leases in the public and private sectors are economically the same. However, the IPSASB is also of the view that the approach to lessor accounting should consider whether IFRS 16 Lessor Accounting meets the information needs of users in the public sector.

BC45. As noted in paragraphs BC6(a) and BC7(b), when applying IFRS 16 Lessor Accounting users of financial information from public sector entities would not have information on the underlying asset in a finance lease that is essential for accountability and decision-making about public sector resources.

BC46. Therefore, the IPSASB concluded that it is more important to meet the users' needs in the public sector in achieving the objectives of public sector financial reporting with more complete information on the financial position and financial performance of public sector lessors, than the private sector users' needs regarding private sector lessors.

Analogy with joint arrangements

Summary of respondents' views to ED 64

BC47. Some respondents are of the view that physical assets are already recognized as portions under IPSAS 37, *Joint Arrangements*. Therefore, they do not agree with the IPSASB's view in ED 64.38(a) "It conflicts with the principles elsewhere that the underlying asset is recognized or derecognized in its entirety."

IPSASB view

BC48. The IPSASB noted that according to IPSAS 37, joint control is the agreed sharing of control by way of a binding arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSASs applicable to the assets, liabilities, revenues and expenses.

BC49. In a lease there is no sharing of control over the underlying asset. In a lease, the lessor transfers the control of the right to use the underlying asset to the lessee, while retaining control of the underlying asset. For the requirements on joint control in IPSAS 37 to be relevant to leases, the lessee and the lessor would need to have joint control over each of the rights associated with the underlying asset. This is not the case in a lease.

BC50. Therefore, the IPSASB is of the view that the analogy with IPSAS 37 from a conceptual perspective is not a relevant factor to decide departure or not from IFRS 16 Lessor Accounting.

Additional issues raised by the IPSASB at the June 2019 meeting on IFRS 16 and ED 64 Lessor Accounting (not included in the previous paragraphs)

Is the public sector different?

IPSASB view

BC51. [The Leases Task force is of the view that this matter is an overarching issue with multiple dimensions, and some are covered elsewhere in these draft principles for Basis for Conclusion to IPSAS [XX].

IPSASB and IASB's Conceptual Framework

IPSASB view

BC52. The IPSASB noted the IASB concluded that IFRS 16 Lessor Accounting is not consistent with the IASB's Conceptual Framework because the rights retained in the underlying asset and the lease receivable meet the definition of an asset.

BC53. The IPSASB is of the view that departing from IFRS 16 Lessor Accounting would result in the underlying asset remaining on the balance sheet of the lessor or, where in substance the lease transaction is a sale, on the balance sheet of the 'lessee'/purchasing public sector entity. This will result in faithful representation of the balance sheet and that this faithful representation is important in the public sector for accountability and decision-making purposes.

Should all or portion of the underlying asset be derecognized?

IPSASB view

BC54. The IPSASB considered whether portions of rights of the underlying asset should be derecognized when a lease contract is signed.

BC55. Theoretically, physical assets encompass a bundle of rights (right to access, right to use, right to charge users, right to sell, etc.). However, the IPSASB noted that usually at initial recognition of physical assets their individual rights are not separately recognized and measured. This means that the value recognized in the financial statements is related to the whole physical asset, and it is depreciated as whole according to its useful life.

BC56. The IPSASB also noted that physical assets can have separate physical components (for example, engine or wheels in trains, etc.). These separate physical components can be replaced and be depreciated according to their specific useful life because they are separately recognized and measured at initial recognition.

BC57. However, the IPSASB noted that the componentization of physical assets into physical components is not economically the same as componentization of physical asset into components of rights (bundle of rights).

BC58. The IPSASB is of the view that from a conceptual perspective it is possible to derecognize portions of rights of physical assets, but that would raise practical issues (e.g. identification of transferred rights and their measurement) that would need to be dealt with at standards level by providing additional guidance to IPSAS 16, *Investment Property* and IPSAS 17, *Property, Plant, and Equipment*.

Double-counting

IPSASB view

BC59. [The Leases Task force is of the view that this issue is not relevant to assess departure or not from IFRS 16 Lessor Accounting. In other words, the Leases Task Force is of the view that this issue should only be addressed if the IPSASB decides to depart from IFRS 16 Lessor Accounting.]

Public interest

IPSASB view

BC60. The IPSASB is of the view that this issue is considered as a result of the factors discussed elsewhere in these draft principles for Basis for Conclusions to IPSAS [X].

Who controls the underlying asset?

IPSASB view

BC61. The IPSASB is of the view that a lease conveys the right to use an underlying asset for a period of time and does not transfer control of the underlying asset to an entity. Contracts or binding arrangements that, in substance, transfer the control of the underlying asset are sales or purchases within the scope of other Standards (for example, IPSAS 17, *Property, Plant, and Equipment*).