Agenda Item 9: Leases

João Fonseca, Principal

IPSASB Meeting
December 10–13, 2019
Abu Dhabi, United Arab Emirates
Agenda Item 9—Leases

Project management: Stock take

- Road Map – progress to date and future meeting plans
- Board Decisions – previous decisions taken and key future issues
- Board Instructions – satisfied with actions taken?
- Other Issues?
Leases

Outline

- Task Force report back to IPSASB
- What is the objective and scope of the Leases project?
- Concessionary leases
- Retain or replace IPSAS 13?
- If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3?
Leases

Task Force report back to IPSASB
Progress in Q4 2019

Task Force members:
• Mike Blake, Chair
• Claudia Beier
• Isabelle Sapet
• Lynn Pamment
• Jeanine Poggiolini
• Sarah Geisman

September
- IPSASB directed the TF and staff to assess the costs and benefits of the right-of-use model for lease accounting
- Two TF meetings:
  • GFS (Sage De Clerck—IMF and John Verrinder—Eurostat)
  • Objective and scope of the Leases project

October

November
- Production of December Issues Paper
What is the objective and scope of the Leases project? (Agenda Item 9.2.1)
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<table>
<thead>
<tr>
<th>Date</th>
<th>Decision</th>
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<tbody>
<tr>
<td>March 2016</td>
<td>• Inclusion of concessionary leases for lessors and lessees</td>
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<tr>
<td>June 2017</td>
<td>• Not to consider Government Finance Statistics in the Leases project</td>
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<tr>
<td>September 2017</td>
<td>• Not to adopt the lessor accounting requirements in IFRS 16, <em>Leases</em> (risks and rewards (R&amp;R) model)</td>
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<tr>
<td>December 2018</td>
<td>• Consider Government Finance Statistics in lessee accounting</td>
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<td>• Preliminary decision to adopt right-of-use model for lessees</td>
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<tr>
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<td>• Reassess right-of-use model for lessors</td>
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<td>• Reassess concessionary leases for lessors and lessees</td>
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<tr>
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<td>• Not to include guidance on transfer of control of physical assets</td>
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<tr>
<td>March 2019</td>
<td>• Consider Government Finance Statistics in lessor accounting</td>
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<td>• Reassess right-of-use (RoU) model for lessees</td>
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<td>• Revisit decision to depart from IPSAS 13</td>
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What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

**Strategic Objective**
- Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

**Strategic Themes**
- Theme A: Setting standards on public sector specific issues
- Theme B: Maintaining IFRS convergence

**Criteria to select projects**
- Prevalence
- Consequences
- Urgency
- Feasibility
What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

CAG Views

• Lease accounting is a very challenging topic with a diversity of views

• Support for extending the project timeline to ensure that all views receive due consideration

• Accounting for concessionary leases raises significant measurement challenges
What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

Option 1
IPSAS 13

Option 2
IFRS 16

Option 3
ED 64 based

Lessor
Risks and rewards model

Lessee
Right-of-use model
What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

- Decision required from IPSASB
  - Revisit the objective and scope of the Leases project in the context of criteria that explicitly reflect the framework provided by the IPSASB S&W 2019-2023?
### Framework of analysis of IPSAS 13, IFRS 16, and ED 64 based (Agenda Item 9.2.2)

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<td>Option 1</td>
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- **PFM benefits**
- **Implementation costs / challenges**
- **GFS alignment impact**
- **IPSASB Conceptual Framework**
- **IFRS alignment**
- **Feasibility of Leases project**

[Traffic lights]
Leases

Framework of analysis of IPSAS 13, IFRS 16, and ED 64 based (Agenda Item 9.2.2)

• Decision required from IPSASB
  – Agree with the framework to analyze the options?
Concessionary Leases (Agenda Item 9.2.3)

Option 2
IFRS 16

- Risks and rewards model
  - Leases at market terms

Option 3
ED 64 based

- Right-of-use model
  - Leases at market terms
  - Leases at below market terms
Concessionary Leases (Agenda Item 9.2.3)

- Lessons learned from ED 64
  - Substantially increased complexity
  - Respondents do not have an unified or consistent view on the appropriate accounting
  - Concessionary lease accounting dependent on the general model
  - Uncertain project timeline
  - Links to the Revenue project

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- Right-of-use model
  - Leases at market terms
  - Leases at below market terms

Lessor

Lessee
Concessionary Leases (Agenda Item 9.2.3)

- **Staff’s recommendation:**
  - Defer the work on concessionary leases

- **Current phase of the Leases project**
  - Simplify the scope
  - Align with the reasons for adding the Leases project to the work program
  - Reduce the complexity
  - Help improve the feasibility of the delivery in accordance with the timetable
Concessionary Leases (Agenda Item 9.2.3)

• Decision required from IPSASB:
  – Agree with the staff’s recommendation to defer the work on concessionary leases from the current phase of the Leases project?
Retain or replace IPSAS 13? (Agenda Item 9.2.4)

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Retain or replace IPSAS 13? (Agenda Item 9.2.4)

- **Staff’s recommendation:**
  - Not to pursue Option 1—Retain IPSAS 13 (Despite this being the most feasible and lowest cost option)
    - Allows off-balance sheet financing of operating leases for lessees
    - Underlying asset not being recognized by either lessee or lessor
    - Inconsistent with the Conceptual Framework
    - Different from IFRS 16 for both lessees and, to a smaller degree, lessors
    - Mixed groups issues
    - Frustrate constituents’ expectations
Retain or replace IPSAS 13? (Agenda Item 9.2.4)

- Decision required from IPSASB:
  - Agree with staff’s recommendation not to pursue Option 1—Retain IPSAS 13?
If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3? (Agenda Item 9.2.5)

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If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3? (Agenda Item 9.2.5)

Leases

- **Staff’s recommendation:**
  - Option 2—IFRS 16 (RoU model for lessees and R&R model for lessors)
    - Has strong feasibility concerns with Option 3 because of the expected significant additional time that would be required to develop proposals which address ED 64 respondent issues with lessor accounting.
    - Option 2 requires re-exposure of another ED for lessor accounting (R&R model)
    - Feasibility should be the decisive criterion
If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3? (Agenda Item 9.2.5)

Leases

- Decision required from IPSASB:
  - Support the staff’s recommendation to move ahead with developing a revised Leases Exposure Draft based on IFRS 16 (Option 2) (RoU model for lessees and R&R model for lessors)?