Agenda Item 10: Leases

Mike Blake, Task Force Chair
João Fonseca, Principal

IPSASB Meeting
Lisbon, Portugal
September 24–27, 2019
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?
Introduction

• Structure and purpose of this session

Task Force report back to IPSASB

• Work Progress in Q3 2019
• Task Force views on departure or not from IFRS 16 Lessor Accounting based on conceptual reasons
• Issues to be further discussed by the Task Force
• Task Force recommendation

IFRS 16, Leases

• Presentation by Sarah Geisman (UK Treasury) (preparer perspective)
• Presentation by John Verrinder (Eurostat) (GFS perspective)
• Presentation by Isabelle Sapet (Mazars) (audit perspective)

Next steps (afternoon session)
Leases

Task Force report back to IPSASB
Progress in Q3 2019

Task Force members:
- Mike Blake, Chair
- Claudia Beier
- Isabelle Sapet
- Lynn Pamment
- Tsholo Tshoke

June
- IPSASB directed the TF to provide a recommendation to depart or not from IFRS 16 Lessor Accounting based on conceptual reasons

July
- Face-to-face TF meeting in La Défense, Paris, France (18th-19th) (host: Mazars)

August
- Production of September Issues Paper
Leases

Task Force report back to IPSASB

Task Force views

- IASB’s main decisions and proposals
- IPSASB Conceptual criteria to assess departure or not from IFRS 16 Lessor Accounting
- Remaining issues raised by respondents
- Additional issues raised by the IPSASB at the June meeting
Leases

Task Force report back to IPSASB

Task Force view: IASB’s main decisions and proposals

- All leases result in a lessee obtaining the right to use an asset, regardless of the nature or remaining life of the underlying asset;
- Task Force did not identify a public sector specific conceptual reason to:
  - Develop a dual model for accounting; and
  - Classify leases as either finance or operating leases for lessors.
#### Task Force report back to IPSASB

**Task Force view:** IPSASB criteria to depart or not from IFRS 16 Lessor Accounting

<table>
<thead>
<tr>
<th></th>
<th>IFRS 16 Lessor Accounting</th>
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<tbody>
<tr>
<td><strong>Consistency with the Conceptual Framework</strong></td>
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<tr>
<td><strong>Consistency with IPSAS</strong></td>
<td>×</td>
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<tr>
<td><strong>Relationship with GFS</strong></td>
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</tr>
<tr>
<td><strong>Relationship with PPP (IPSAS 32)</strong></td>
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</tbody>
</table>
Leases

Task Force report back to IPSASB
Task Force view: Consistency with Conceptual Framework

- Underlying asset
  - Continuing to recognize the underlying asset in a lease
  - May need remeasurement in a lease
  - Risks and rewards for asset recognition/derecognition not consistent with Conceptual Framework

IFRS 16 finance lease requirements not consistent with Conceptual Framework
Task Force report back to IPSASB

Task Force view: Consistency with IPSAS

Leases

Transfer of control

IFRS 16 finance lease requirements not consistent with IPSAS

Sale of the underlying asset

Sale of the right to use an underlying asset
Leases

Task Force report back to IPSASB
Task Force view: Relationship with GFS

Not a relevant factor to decide departure or not from IFRS 16 Lessor Accounting
Leases

Task Force report back to IPSASB
Task Force view: Relationship with PPP (IPSAS 32)

Economics of the Transactions

Type of Resource Received
Cash, right to receive cash or mix of both

TF View:
Comparable transactions

Type of Rights Transferred over Physical Asset for a Period of Time

Comparison between SCAs with existing asset and leases

Grant of a right to the operator model with existing asset

Leases

Type of Rights Transferred over Physical Asset for a Period of Time

Intangible Asset
- Access
- Charge users
- Use of physical asset

Right-of-use Asset

Comparable transactions
Task Force report back to IPSASB
Task Force view: Relationship with PPP (IPSAS 32)

Leases

Comparison between SCAs with existing asset and leases

Accounting of the Transactions

<table>
<thead>
<tr>
<th></th>
<th>IPSAS 32 / IFRIC 12</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Single</td>
<td>Dual</td>
</tr>
<tr>
<td>Approach</td>
<td>Control (operator &amp; grantor)</td>
<td>Control (lessee) and R&amp;R (lessor)</td>
</tr>
<tr>
<td>Underlying asset</td>
<td>Continues to be recognized</td>
<td>Derecognized in a finance lease</td>
</tr>
<tr>
<td>Receivable</td>
<td>Recognized</td>
<td>Not recognized in an operating lease</td>
</tr>
<tr>
<td>Liability</td>
<td>Recognized</td>
<td>Never recognized</td>
</tr>
</tbody>
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TF View:
IFRS 16
Lessor Accounting inconsistent with IPSAS 32
## Leases

### Task Force report back to IPSASB

### Task Force view: Issues raised by respondents and IPSASB

<table>
<thead>
<tr>
<th>Conceptual issues raised by respondents and IPSASB</th>
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<tbody>
<tr>
<td>Comparability</td>
<td>Not relevant</td>
</tr>
<tr>
<td>Understandability</td>
<td>Not relevant</td>
</tr>
<tr>
<td>Strength of reasons to depart</td>
<td>Not relevant</td>
</tr>
<tr>
<td>Public sector leases different from private sector leases</td>
<td>Not relevant</td>
</tr>
<tr>
<td>Analogy with joint arrangements</td>
<td>Not relevant</td>
</tr>
<tr>
<td>Asymmetry of information</td>
<td>Depart</td>
</tr>
<tr>
<td>Economics of the transaction</td>
<td>Depart</td>
</tr>
</tbody>
</table>
## Leases

**Task Force report back to IPSASB**

**Task Force view: Relationship joint arrangements (IPSAS 37)**

### Economics of the Transactions

<table>
<thead>
<tr>
<th>Type of Resource</th>
<th>Physical asset / Right-of-use asset</th>
<th>Right-of-use asset</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Control</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not shared</td>
<td></td>
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</tbody>
</table>

#### TF View:
- **Different economics => not comparable**

### Comparison between joint arrangements and leases

- Joint arrangement
- Lease

- **Transfer of control of right-of-use asset**
  - Shared
  - Not shared

- **Sharing of control of assets**
  - Shared
  - Not shared
Leases

Task Force report back to IPSASB

Issues to be further discussed by the Task Force

• Recognition and measurement
  – Lease receivable
  – Liability

• These issues do not influence Task Force’s recommendation
Leases

Task Force report back to IPSASB
Task Force recommendation

- Depart from IFRS 16 Lessor Accounting
  - Include guidance on transfer of control for both parties
  - Single model / no classification of leases
  - Not to include guidance on IFRS 16 finance lease
Task Force report back to IPSASB

Task Force recommendation

- Does the IPSASB agrees with the Task Force recommendation to depart from IFRS 16 Lessor Accounting based on conceptual reasons?
  - Note: Any final decision on departure or not will be subject to the Task Force's consideration of practical issues associated with departure.