

JULY 4, 2018

IPSASB EXPOSURE DRAFT 64:  
LEASES

CONSULTATION RESPONSE

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Manj has over 20 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised a number of jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



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Submitted electronically

4<sup>th</sup> July 2018

Dear IPSASB secretariat

### **ED 64: Leases**

I am delighted to share my comments on the proposed Exposure Draft standard on leases (ED 64) consultation.

#### **Leases**

Accounting for leases has long been a challenging area for standard setters to best reflect the economic reality of transactions.

#### **Lessee Accounting**

I agree with the approach recommended by IPSASB as it is consistent with the approach set out in IFRS 16 (to adopt a right of use model.) I believe this better reflects the substance of the transaction rather than the risk and reward approach (IPSAS 13). This is in line with IPSASB's strategy to converge (or align<sup>1</sup>) with the development of IFRSs.

#### **Lessor Accounting**

I agree with the Board's recommended approach to adopt the right of use model for lessors. This is different to the approach set out in IFRS 16. IPSASB's approach promotes greater accountability, transparency and consistency between the lessor and lessee. For instance, the dynamic may be quite different in the public sector where having lessors and lessee in the same group is more common, for example where a property agency owns all of a government's properties and leases them to departments/ministries. A different approach to accounting for leases would result in a distorted view to the user of the accounts.

Detailed responses to the specific matters for comment are provided in the Annex.

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<sup>1</sup> Alignment with IFRSs better reflects the position as recommended in the previous submission to the 2019-2023 IPSASB Strategy and Work Plan



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Thank you for the opportunity to comment on the draft standard on leases. If there are any questions, please do not hesitate to contact me.

Yours sincerely,

Manj Kalar

Principal consultant



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## Annex: Detailed response to the Consultation ED 64: Leases

### Specific Matter for Comment 1

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting.

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.

I agree with IPSASB's decision to adopt the IFRS 16 right of use model.

This approach allows for continued alignment with IFRSs, which is better for mixed groups (therefore ensures consistency in approach to lessees) and better reflects the economic reality of the transaction rather than looking at risks and rewards (although this was a marked improvement on previous leasing standards).

The key (practical) challenge will be to review all lease arrangements to obtain the required information and adopting the exclusions (leases less than one year/low value) as per IFRS 16 will help to reduce the burden.

### Specific Matter for Comment 2

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this Exposure Draft

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.

I agree with IPSASB's decision.

Although the right of use model approach does not achieve the aim of maintaining alignment with the IFRSs, the proposed approach better reflects the economic reality (substance) of the transaction. It is logical and consistent with the approach proposed for lessees. As there is greater likelihood of mixed groups including lessors and lessees in the public sector, the right of use model aids comparability (hence greater transparency and accountability to the citizen).



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### Specific matter for comment 3

The IPSASB decided to propose a single right-of-use model for lessor accounting consistent with lessee accounting.

Do you agree with the requirements for lessor accounting proposed in this Exposure Draft? If not, what changes would you make to those requirements?

I agree with the requirements for lessor accounting proposed in this Exposure Draft.

It is helpful to have the rationale (i.e. the two different approaches considered and option 1 being adopted).

### Specific matter for 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. For lessees, the IPSASB proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23.

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?

I agree with the proposals.

The approach is logical, consistent with other IPSASs. For greater transparency the disclosure of the value of the concession is required.

Thank you for the opportunity to comment.