



**BUILDING A BRIDGE TO A BRIGHTER AFRICA**

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**The Chairperson  
International Public Sector Accounting Standards Board**

*By email*

Presented below are the Pan-African Federation of Accountants' (PAFA) response to the specific matters raised in the Exposure Draft 64 issued by the International Public Sector Accounting Standards Board (IPSASB) titled *Leases*.

PAFA is the continental body representing Africa's Professional Accountants. Established in May 2011, PAFA is a non-profit organisation with 53 Professional Accounting Organisations (PAOs) from 43 countries. Our mission is to accelerate and strengthen the voice and capacity of the Accountancy profession to work in the public interest, facilitate trade, and enhance benefits and quality services to Africa's citizens. The responses detailed below, have been prepared in consultation with our members.

**Specific Matter for 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.

**PAFA's Response**

Yes, PAFA agrees with the IPSASB's decision.

It is PAFA's view that shift to accounting for leases based on IFRS 16 will assist with reducing divergence in accounting treatment for lessees between public and private sector entities. Furthermore, PAFA believes that the proposed adoption of the right-of-use model for both lessees and lessors will contribute to enhanced transparency and consistency across the public sector.

**Specific Matter for Comment 2:**

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this ED (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.

**PAFA's Response**

While PAFA agrees with the IPSASB's decision to depart from the IFRS 16 risks and rewards model for lessor accounting, it is worth considering the impact this will have on the consolidation of group entities where an entity applying this IPSAS has a for-profit controlling entity that is a lessor (thus applying IFRS) as this might necessitate the inclusion of further guidance.

**Specific Matter for 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 ED? If not, what changes would you make to those requirements?

**PAFA’s Response**

Yes, PAFA agrees with the IPSASB’s decision.

**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 (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 ED? If not, what changes would you make to those requirements?

**PAFA’s Response**

Yes, PAFA agrees with the proposed accounting requirements for concessionary leases.

PAFA does however, wish to highlight that this requirement may prove to be an expensive exercise for smaller entities applying this IPSAS. Consequently, it is PAFA’s recommendation that the IPSASB consider the inclusion of a minimum threshold as a means to provide flexibility to preparers where it is found that the cost exceeds the benefits of applying the proposed accounting requirements for concessionary leases.

Other concerns worth noting are in regards to scenarios where the proposed standard is applied to leases of properties that are intended to serve a particular purpose. In these cases, it may prove difficult to obtain the fair value of said property given their specialised nature. PAFA believes that the inclusion of additional detailed illustrative examples, from both the lessee and lessor perspective, would assist preparers with implementing the requirements of the proposed standard.