

Agenda Item 11: Leases

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IPSASB Meeting

March 10–13, 2020

New York, USA

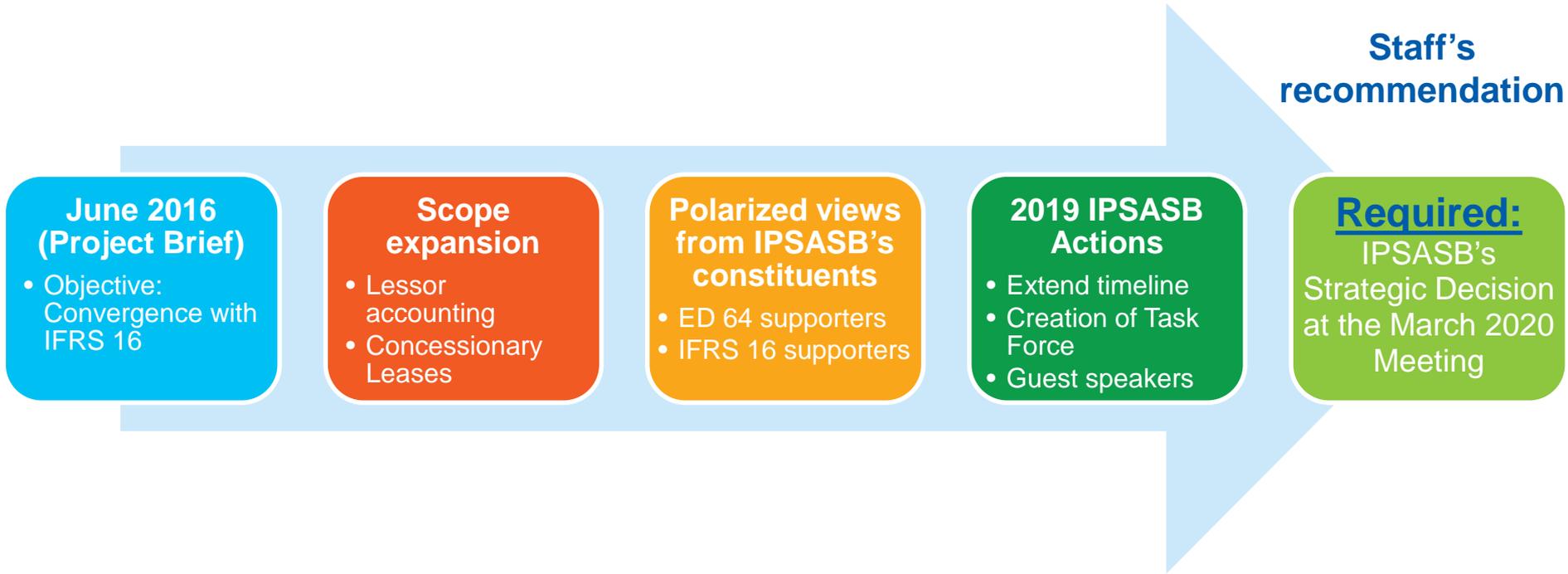
Project management: Stock take

- 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?

Outline



Project Strategy and Public Interest (Agenda Item 11.2.1)



Project Strategy and Public Interest (Agenda Item 11.2.1)

- **Decision required from IPSASB**
 - Agree with the staff's recommendation that a decision on the direction of the Leases project is needed now?

Leases Project Phasing and Management (Agenda Item 11.2.2)

Phase 1:

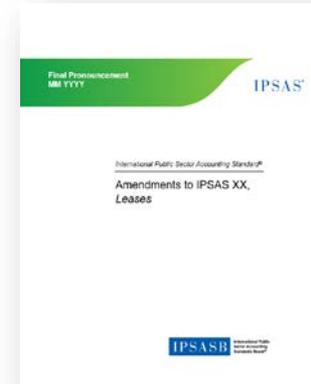
Lease
Accounting
Model



**Staff's
recommendation**

Phase 2:

Concessionary
Leases



Leases Project Phasing and Management (Agenda Item 11.2.2)

- **Decision required from IPSASB**
 - Agree with the staff's recommendation to adopt a phased project management approach?

Framework of analysis for the options to make a decision on the Leases project (Agenda Item 11.2.3)

Factors

Public financial management (PFM) benefits

Implementation costs/challenges

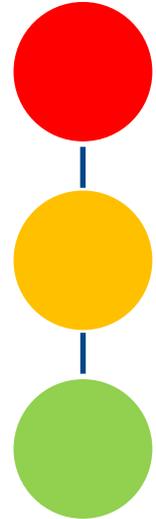
Government Finance Statistics (GFS) alignment impact

IPSASB Conceptual Framework

IFRS alignment

Feasibility of Leases project

Traffic Light



Framework of analysis for the options to make a decision on the Leases project (Agenda Item 11.2.3)

- **Decision required from IPSASB**
 - Agree with the staff's recommended revised framework of analysis for the options to make a decision on the Leases project?

IFRS 16 variant (Agenda Item 11.2.4)

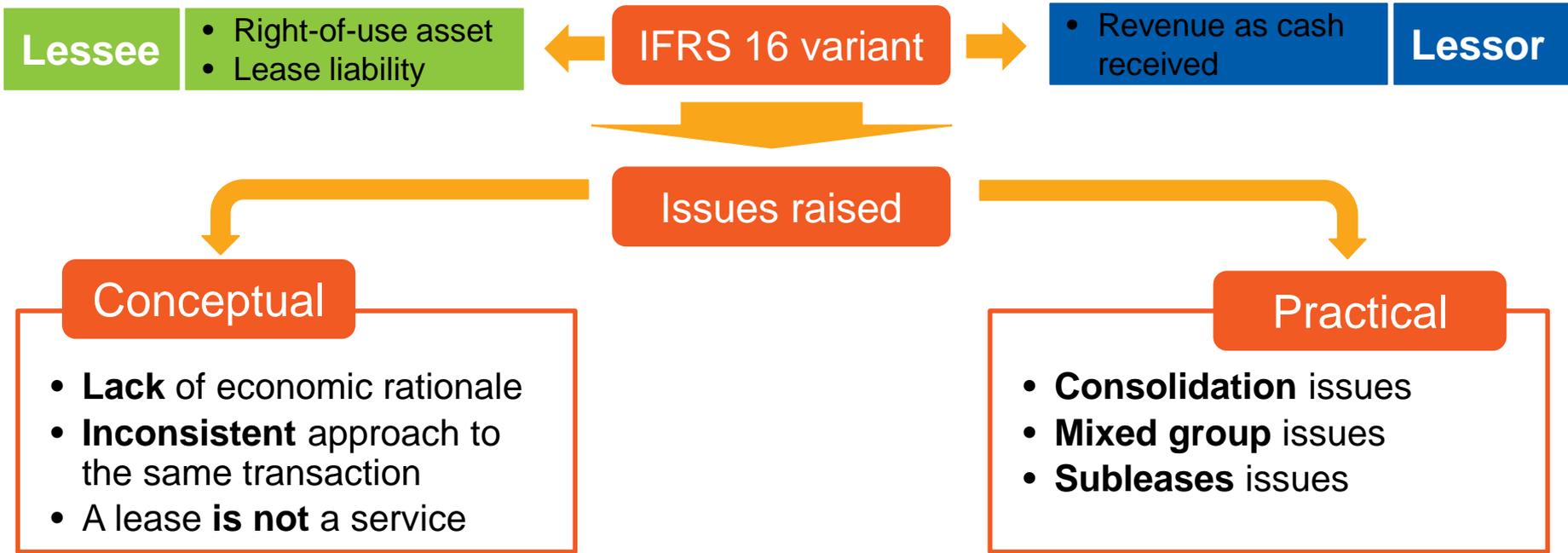
- **Background**

- December 2019 meeting—IPSASB instructed staff to consider an IFRS 16 variant for lessor accounting

- **IFRS 16 variant**

- Lessor to account for **all leases** as **operating leases only**—revenue as cash received
- Underlying asset always recognized by the lessor prevents IPSAS 13 practical issues:
 - Possible recognition of the underlying asset by both the lessor and the lessee
 - Possible non-recognition of the underlying asset by either the lessor or the lessee

IFRS 16 variant (Agenda Item 11.2.4)



IFRS 16 variant (Agenda Item 11.2.4)

- **Staff's views:**
 - No respondent to ED 64 proposed such a model for lessor accounting;
 - No such model has been considered or developed previously by an international or national standard setter; and
 - Might raise IPSASB credibility issues by pursuing an accounting model that removes judgement, by eliminating any assessment of risks and rewards as it is implicit in the model.

IFRS 16 variant (Agenda Item 11.2.4)

- **Staff's recommendation:**
 - Staff does not recommend the IPSASB consider the IFRS 16 variant.
- **Decision required from IPSASB:**
 - Agree with staff's recommendation not to consider IFRS 16 variant?

Continue with the Lease project? (Agenda Item 11.2.5)

- **Problems with IPSAS 13:**

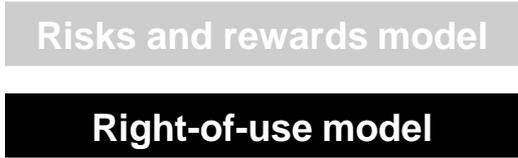
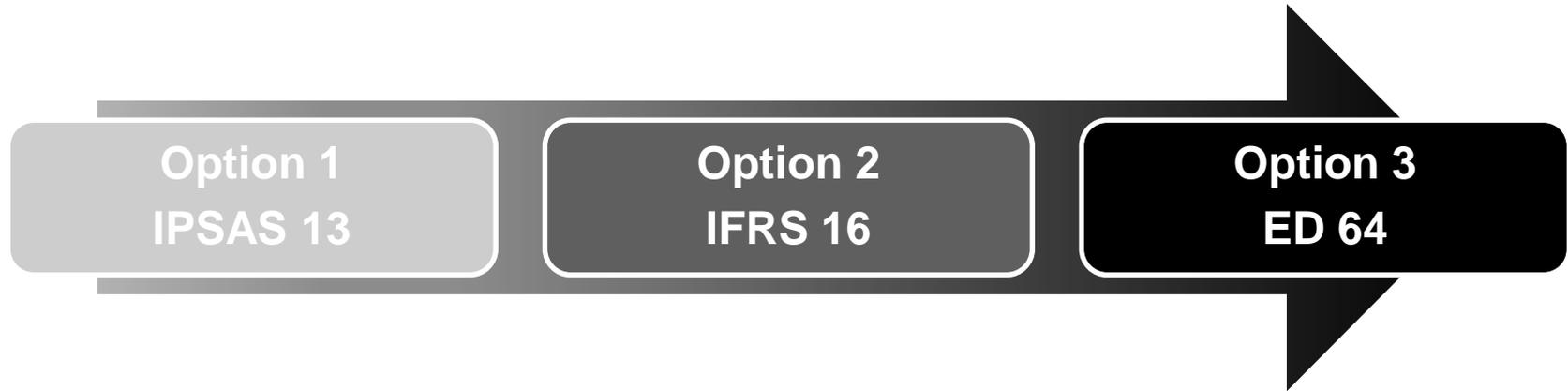


- Might not be recognized by both the lessor and the lessee
- Might be recognized by both the lessor and the lessee



- Lessee might not recognize a lease liability if the lessee classifies the lease as an operating lease
- Lessor does not recognize a lease receivable and the lessee recognizes a lease liability arising from the same lease contract or vice-versa

Continue with the Lease project? (Agenda Item 11.2.5)



Continue with the Lease project? (Agenda Item 11.2.5)

Factors \ Options	No change/Stop		Change/Continue with Leases Project			
	Option 1		Option 2		Option 3	
	IPSAS 13		IFRS 16		ED 64	
	R&R		RoU	R&R	RoU	
	Lessee	Lessor	Lessee	Lessor	Lessee	Lessor
PFM benefits	Red	Red	Green	Yellow	Green	Yellow
Implementation costs / challenges	Green	Green	Red	Yellow	Red	Red
GFS alignment impact	Yellow	Yellow	Red	Yellow	Red	Red
IPSASB Conceptual Framework	Red	Red	Green	Red	Green	Green
IFRS alignment	Red	Yellow	Green	Green	Green	Red
Feasibility of Leases project	Green	Green	Green	Green	Green	Yellow

Continue with the Lease project? (Agenda Item 11.2.5)

- **Staff's recommendation:**
 - **Not to pursue Option 1—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
 - No IPSASB member supported retention of IPSAS 13 at the December 2019 meeting

Continue with the Lease project? (Agenda Item 11.2.5)

- **Staff's recommendation:**
 - It is in the **public interest** (for reasons of transparency, accountability and decision making) to address:
 - Lessee's off-balance sheet financing through leases;
 - The different accounting outcomes resulting from independent lease classifications by each entity to the same lease contract which leads to:
 - Possible disappearance or recognition in duplicate of the underlying asset in the financial statements; and
 - Possible non-recognition of the lease receivable by the lessor, while the lessee possibly recognizes a lease liability

Continue with the Lease project? (Agenda Item 11.2.5)

- **Decision required from IPSASB:**
 - Agree with staff's recommendation to continue with the Leases project?

Which option should the IPSASB develop: Option 2–IFRS 16 or Option 3–ED 64? (Agenda Item 11.2.6)

	Option 2–IFRS 16	Option 3–ED 64
Lessor	<p>Underlying Asset</p> <ul style="list-style-type: none"> • Finance lease: derecognized • Operating lease: continues to be recognized and measured according to the applicable Standards <p>Lease Contract</p> <ul style="list-style-type: none"> • Finance lease <ul style="list-style-type: none"> ✓ Debit: Lease receivable ✓ Credit: Underlying asset • Operating lease <ul style="list-style-type: none"> ✓ Revenue on straight-line basis 	<p>Underlying Asset</p> <ul style="list-style-type: none"> • Continues to be recognized and measured according to the applicable Standards <p>Lease Contract</p> <ul style="list-style-type: none"> • Debit: Lease receivable • Credit: Lease liability (unearned revenue)
Lessee	<ul style="list-style-type: none"> • Debit: Right-of-use asset • Credit: Lease liability 	<ul style="list-style-type: none"> • Debit: Right-of-use asset • Credit: Lease liability

Which option should the IPSASB develop: Option 2– IFRS 16 or Option 3–ED 64? (Agenda Item 11.2.6)

Factors \ Options	Change/Continue with Leases project			
	Option 2 IFRS 16		Option 3 ED 64	
	RoU	R&R	RoU	
	Lessee	Lessor	Lessee	Lessor
PFM benefits	Green	Yellow	Green	Yellow
Implementation costs / challenges	Red	Yellow	Red	Red
GFS alignment impact	Red	Yellow	Red	Red
IPSASB Conceptual Framework	Green	Red	Green	Green
IFRS alignment	Green	Green	Green	Red
Feasibility of Leases project	Green	Green	Green	Yellow

Which option should the IPSASB develop: Option 2–IFRS 16 or Option 3–ED 64? (Agenda Item 11.2.6)

- **Staff's views:**

- PFM benefits not clear for both Options 2 and 3;
- Option 3 entails greater implementation costs/challenges than Option 2;
- Option 2 requires more effort from a GFS perspective than Option 3, but can be resolved;
- Option 2 is aligned with IFRS, but it is less consistent with the IPSASB Conceptual Framework, and there might be also a variability of views on an ED based on IFRS 16 that the IPSASB will need to manage;
- Options 3 will be more challenging from a project management perspective because of the variability in views on ED 64 lessor accounting proposals, which make the timeline unpredictable;

Which option should the IPSASB develop: Option 2—IFRS 16 or Option 3—ED 64? (Agenda Item 11.2.6)

- **Staff's recommendation:**
 - **Option 2—IFRS 16 (RoU model for lessees and R&R model for lessors)**
 - It is less costly/challenging to implement;
 - It is aligned with the IPSASB's Strategy & Work Plan strategic theme of Maintaining IFRS Alignment, which was the original objective of the Leases project; and
 - It is the most feasible option as allows greater certainty on the:
 - Timeline: and
 - Outcome for a new IPSAS on Leases.

Which option should the IPSASB develop: Option 2–IFRS 16 or Option 3–ED 64? (Agenda Item 11.2.6)

- **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)?



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