

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: July 22, 2021

Agenda Item 2

For:

- ☐ Approval
☒ Discussion
☐ Information

LEASES

Project summary	Develop a new leases standard aligned with IFRS 16, <i>Leases</i> to replace IPSAS 13, <i>Leases</i> . Develop additional guidance identifying and addressing lease related accounting issues associated with lease-type arrangements.	
Task Force members	<ul style="list-style-type: none"> Lynn Pamment, IPSASB Member (Task Force Chair) [TBD] 	
Meeting objectives	Topic	Agenda Item
Project management	Leases: Project Roadmap	2.1.1
	Instructions up to Previous Meeting	2.1.2
	Decisions up to Previous Meeting	2.1.3
Decisions required at this meeting	Exposure Draft 75: Review of Responses and Project Direction	2.2.1
	Service Potential (SMC 3)	2.2.2
	Definition of a Lease: Contract and Binding Arrangement	2.2.3
	Scope: Concessionary Leases	2.2.4
	Project Management	2.2.5
Other supporting items	Supporting Document 1 – Analysis of Respondents by Region, Function and Language	2.3.1

LEASES: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
December 2020	<ol style="list-style-type: none"> 1. Approve Exposure Draft 75, Leases 2. Approve Request for Information, Concessionary Leases and Other Arrangements Similar to Leases
March 2021	<ol style="list-style-type: none"> 1. Document out for comment
June 2021	<ol style="list-style-type: none"> 1. Document out for comment
July Check-In 2021	<ol style="list-style-type: none"> 1. Exposure Draft 75: Review of Responses and Project Direction 2. Service Potential (SMC 3) 3. Definition of a Lease: Contract and Binding Arrangement 4. Scope: Concessionary Leases 5. Project Management
September 2021	<ol style="list-style-type: none"> 1. ED 75: COVID-19 Requirements 2. ED 75: Definition of a Lease: Concept of Consideration (nature and level) and Identifying a Lease 3. ED 75: Discount rate 4. ED 75: Fair Value Definition (SMC 2)
December 2021	<ol style="list-style-type: none"> 1. ED 75: Intermediate lessor 2. ED 75: Lease Liability in a Sale and Leaseback 3. RFI: High-level review of responses 4. First Review of [draft] IPSAS [XX], <i>Leases</i>
March 2022	<ol style="list-style-type: none"> 1. ED 75: Low value assets 2. ED 75: Manufacturer lessor 3. RFI: [Issues to be identified from the review of responses] 4. Second Review of [draft] IPSAS [XX], <i>Leases</i>
June 2022	<ol style="list-style-type: none"> 1. Third Review of [draft] IPSAS [XX], <i>Leases</i> 2. Approval of [draft] IPSAS [XX], <i>Leases</i> 3. RFI: [Issues to be identified from the review of responses] 4. First Review of [draft] ED [XX], <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
September 2022	<ol style="list-style-type: none"> 1. RFI: [Issues to be identified from the review of responses] 2. Second Review of [draft] ED [XX], <i>Concessionary Leases and Other Arrangements Similar to Leases</i> 3. Approval of [draft] ED [XX], <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
December 2022	<ol style="list-style-type: none"> 1. Document out for comment
March 2023	<ol style="list-style-type: none"> 1. Document out for comment
June 2023	<ol style="list-style-type: none"> 1. ED [XX]: Review of Responses [Issues to be identified from the review of responses]
September 2023	<ol style="list-style-type: none"> 1. ED [XX]: Review of Responses [Issues to be identified from the review of responses] 2. First draft of [draft] IPSAS [XX], <i>Concessionary Leases and Other Arrangements Similar to Leases</i>

Agenda Item 2.1.1

December 2023	1. Approval of [draft] IPSAS [XX], <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
---------------	---

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
July 2021	<ol style="list-style-type: none">1. All instructions provided up until December 2020 were reflected in Exposure Draft 75, Leases.2. All instructions provided up until December 2020 were reflected in Request for Information, Concessionary Leases and Other Arrangements Similar to Leases	<ol style="list-style-type: none">1. All instructions provided up until December 2020 were reflected in Exposure Draft 75, Leases.2. All instructions provided up until December 2020 were reflected in Request for Information, Concessionary Leases and Other Arrangements Similar to Leases

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
December 2020	<ol style="list-style-type: none">1. All instructions provided up until December 2020 were reflected in Exposure Draft 75, Leases.2. All instructions provided up until December 2020 were reflected in Request for Information, Concessionary Leases and Other Arrangements Similar to Leases	<ol style="list-style-type: none">1. All instructions provided up until December 2020 were reflected in Exposure Draft 75, Leases.2. All instructions provided up until December 2020 were reflected in Request for Information, Concessionary Leases and Other Arrangements Similar to Leases

Exposure Draft 75: Review of Responses and Project Direction

Question

1. Does the IPSASB agree with Staff and Task Force Chair's recommendation to proceed with Exposure Draft (ED) 75, subject to addressing the issues raised by respondents identified in [Appendix B](#)?

Recommendation

2. Staff and Task Force Chair recommend the IPSASB to proceed with ED 75, subject to addressing the issues raised by respondents identified in [Appendix B](#).

Background

3. On January 15, 2021, the IPSASB issued [ED 75, Leases](#). The aim of ED 75 is to develop a new Leases Standard aligned with IFRS 16, *Leases* to replace IPSAS 13, *Leases*. The IPSASB also issued at the same time the [Request for Information \(RFI\), Concessionary Leases and Other Arrangements Similar to Leases](#).
4. ED 75 and the RFI received [48](#) and [36](#) responses, respectively. As agreed by the IPSASB at the March 2021 meeting, the first review of responses to the RFI will be analyzed at the December 2021 meeting.
5. The IPSASB Chair, the Leases Task Force Chair, the IPSASB Program and Technical Director, and the IPSASB Deputy Director agreed that staff will present the review of responses to ED 75 at the July 2021 Check-In meeting with a project direction recommendation.
6. Staff highlights that responses to ED 75 are generally structured as follows:
 - (a) Lessee accounting model;
 - (b) Lessor accounting model; and
 - (c) Other sections of the ED 75.
7. The comments supported the proposed accounting models for lessees and lessors, with minor points noted for further consideration.
8. This led Staff to split the analysis of SMC 1 into three parts, as follows:
 - (a) Lessee Accounting Model—the right-of-use model;
 - (b) Lessor Accounting Model—the risks and rewards model; and
 - (c) Other sections of the ED 75—issues raised by respondents identified as themes below.
9. This agenda item provides the IPSASB with the analysis of responses to ED 75 and the main themes identified by respondents related to ED 75.
10. Detailed response information on ED 75 is listed in [Agenda Item 2.3.1](#), including:
 - (a) [Appendix A](#): the analysis of responses received by region, function, and language;
 - (b) [Appendix B](#): the list of organizations or individuals that responded; and
 - (c) [Appendix C](#): the summary of responses of each Specific Matter for Comment (SMC).

Analysis

Lessee and Lessor Accounting models

11. The majority of respondents agree or partially agree with the ED 75 proposals for alignment with IFRS 16 and consequently for the right-of-use model for lessees¹ and risks and rewards model for lessors (see [Appendix C](#) of Agenda Item 2.3.1).
12. Some respondents who agree with ED 75 noted that their thinking was generally consistent with IPSASB's reasoning set out in the Basis for Conclusions (BC) to ED 75. Other respondents agreed with ED 75 without providing additional reasons.
13. Staff note that the ED 75 proposals for lessor accounting have much stronger support from respondents when comparing with the ED 64 proposals, which received mixed support (see [Agenda Item 11.2.2](#) of the IPSASB 2018 meeting). This is partially explained because some respondents that had initially supported ED 64 proposals for lessor accounting changed their views and now support ED 75 proposals.
14. [Appendix A](#) presents the respondents' reasons that partially agree and disagree with ED 75 lease accounting models and staff's comments.

Other sections of the ED 75, SMC 2 and SMC 3

15. Regarding the other sections of the ED 75, SMC 2 and SMC 3, [Appendix B](#) presents the themes identified by Staff in the responses to ED 75.
16. Staff will bring these issues to the IPSASB according to the proposed timeline in [Agenda Item 2.1.1](#) and explained in [Agenda Item 2.2.5](#).

Staff and Task Force Chair's Recommendation

17. Staff and Task Force Chair recommend the IPSASB to proceed with ED 75 subject to addressing the issues raised by respondents identified in [Appendix B](#) because:
 - (a) Respondents strongly supported ED 75; and
 - (b) The issues raised by respondents that disagree with ED 75:
 - (i) Are not public sector specific that warrant departure from IFRS 16, *Leases*; and
 - (ii) Were considered by the IPSASB during the development of ED 75 as set out in its Basis for Conclusions.

Decision Required

18. Does the IPSASB agree with the Staff and Task Force Chair's recommendation?

¹ This feedback was also consistent with ED 64 lessee accounting model aligned with IFRS 16, which was also supported.

Appendix A—Respondents’ Reasons that Partially Agree and Disagree with the Lessee and Lessor Accounting Models Proposed in ED 75 and Staff’s Comments

Resp.	Response	Reasons	Staff’s comments
R1, R23	Partially agree	<p>(a) Exemption should be added for public sector entities to provide relief from applying the proposed accounting requirements for leases between entities of the public sector² because of cost-benefit reasons;</p> <p>(b) Accounting asymmetry between lessee and lessor (R23);</p> <p>(c) The underlying asset is recognized neither in the lessor’s nor in the lessee’s financial statements in the case of a finance lease from the lessor’s perspective</p> <p>(d) Divergence with Government Finance Statistics (GFS) in lessee accounting; and</p> <p>(e) Scope of public debt for lessees.</p>	<p>(a) The costs of developing a specific model to account for these intra group transactions do not outweigh the benefits. In addition each entity’s general purpose financial statements should faithfully represent the transactions and financial position of that entity and this may not be the case if ED75 is not adopted.</p> <p>(b) And (c) There is no necessity to have symmetry of accounting between lessee and lessor as they are separate reporting entities. At consolidated level all transactions will be eliminated.</p> <p>(d) The determination of public debt under GFS is not impacted because changes proposed are to IPSAS, not GFS.</p> <p>(e) The additional liabilities in the statement of financial position of public sector entities better reflect the economics of leases and the approach is consistent with the Conceptual Framework and IPSAS.</p>
R06, R10, R21, R39, R42	Disagree	<p>(a) The Leases project should have a single step (R06, R10, R21).</p> <p>(b) Different lease accounting models for lessors and lessees (R06, R10, R21).</p> <p>(c) Continue adopting IPSAS 13 (R39).</p> <p>(d) Characteristics of public sector (R42).</p> <p>(e) Proposed model for lessees is too complicated, costly and concentrated on the statement of financial position (R21).</p>	<p>(a) Staff agrees with the IPSASB’s decision to have a phased approach to the Leases project.</p> <p>(b) There is no necessity to have symmetry of accounting between lessee and lessor as they are separate reporting entities. At consolidated level all transactions will be eliminated.</p> <p>(c) IPSASB considered but rejected this option in its decision to approve ED75.</p> <p>(d) The lease transactions within the scope of IFRS 16 also exist in the public sector.</p> <p>(e) The benefits of the proposals in ED 75 outweigh the costs of the revised accounting. No public sector specific reasons to depart from IFRS 16 have been identified.</p>

² R1 and R23 recommend that the standard would only be mandatory to lease arrangements between public and private entities.

Appendix B—Themes Identified in the Responses to ED 75

Themes	Issue
COVID-19 requirements	Whether the COVID-19 requirements should be in ED 75 and how.
Definition of a lease (I)	Whether the definition of a lease should encompass binding arrangements in the sense of ED 70.
Definition of a lease (II)	Whether consideration is only cash.
Definition of a lease (III)	What is the amount of consideration to meet the definition of a lease?
Discount rate	Whether ED 75 should provide more guidance on how to calculate the discount rate in lessee accounting.
ED 75 scope on concessionary leases	Whether ED 75 should include an explicit scope exclusion on concessionary leases.
Fair Value Definition (SMC 2)	Whether to retain the IPSAS13/IFRS 16 fair value definition in ED 75 for lessor accounting.
Intermediate lessor	Whether ED 75 should provide more guidance on intermediate lessor.
Lease Liability in a Sale and Leaseback	Whether ED 75 should include a proposed IASB amendment to IFRS 16 (ED Lease Liability in a Sale and Leaseback) published in November 2020.
Low value assets	Whether ED 75 should include a specific amount to identify leases of low value assets.
Manufacturer lessor	Whether ED 75 should include the manufacturer lessor requirements.
Service Potential (SMC 3)	Whether to refer to service potential, where appropriate, in the application guidance section of ED 75 on identifying a lease.

Service Potential (SMC 3)

Question

1. Does the IPSASB agree with the Staff and TF Chair recommendation to proceed with the proposals in ED 75 and include the term “service potential” in addition to “economic benefits”, where appropriate, when identifying a lease?

Recommendation

1. Staff and Task Force Chair recommend the IPSASB to proceed with the proposals in ED 75 and include the term “service potential” in addition to “economic benefits”, where appropriate, when identifying a lease.

Background

2. ED 75, *Leases*, included the following Specific Matter for Comment (SMC):

Specific Matter for Comment 3:

The IPSASB decided to propose to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46–BC48). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Analysis

3. Respondents overwhelmingly agreed or partially agreed with the proposal to include service potential, where appropriate, in the application guidance section of ED 75 on identifying a lease:

Table 1—Responses to SMC 3

Response	Respondents	
	#	%
Agree	46	96
Partially Agree	1	2
Disagree	0	0
Subtotal		
No Comment	1	2
Total	48	100

4. R08 partially agreed with ED 75 proposal because suggested adding the term “service potential” in several paragraphs of ED 75, as well as in the examples (see [Appendix A](#) for further details.)

Staff and Task Force Chair’s Recommendation

5. Staff and Task Force Chair recommend the IPSASB to proceed with the proposals in ED 75 and include the term “service potential” in addition to “economic benefits”, where appropriate, when identifying a lease because it was supported by respondents. [Appendix A](#) details all the paragraphs analyzed in ED 75 and Staff and Task Force Chair’s recommendation.

Decision Required

6. Does the IPSASB agree with the Staff and Task Force Chair’s recommendation?

Appendix A – Additional ED 75 Paragraphs Analyzed with the Term “economic benefits”

(For a full read of the paragraphs, please click [here](#) to access)

Paragraph #	Text	Staff's recommendation
AG 38(b)	“Significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit <u>or service potential</u> for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;”	To include the term “service potential”
AG 42(a)	“Significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit <u>or service potential</u> for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable”	To include the term “service potential”
Example 1A	(a) “Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the cars over the five-year period of use.”	To include the term “service potential”
Example 1B	“Accordingly, Customer does not direct the use, nor have the right to obtain substantially all of the economic benefits <u>or service potential</u> from use, of an identified car or an engine. Supplier directs the use of the rail cars and engine by selecting which cars and engine are used for each particular delivery and obtains substantially all of the economic benefits <u>or service potential</u> from use of the rail cars and engine.”	To include the term “service potential”
Example 3A	(a) “Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the fibres over the 15-year period of use.”	To include the term “service potential”
Example 4	Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of Office Unit A over the five-year period of use. Customer has exclusive use of Office Unit A throughout the period of use. Although a portion of the cash flows derived from services sold or provided from Office Unit A will flow from Customer to Supplier, this represents consideration that Customer pays Supplier for the right to use the office unit. It does not prevent Customer from having the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of Office Unit A.	To include the term “service potential”.
Example 5	(a) “Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the truck over the period of use. Customer has exclusive use of the truck throughout the period of use.”	To include the term “service potential”
Example 6A	“Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the ship over the period of use. Its cargo will occupy substantially all of the capacity of the ship, thereby preventing other parties from obtaining economic benefits <u>or service potential</u> from use of the ship.”	To include the term “service potential”
Example 6B	(a) “Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the ship over the five-year period of use.”	To include the term “service potential”

Agenda Item 2.2.2

Paragraph #	Text	Staff's recommendation
Example 7	(a) "Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the aircraft over the two-year period of use."	To include the term "service potential"
Example 8	Customer does not control the use of the factory because it does not have the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the factory. ... Either the fact that Customer does not have the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the factory, or that Customer does not have the right to direct the use of the factory, would be sufficient in isolation to conclude that Customer does not control the use of the factory.	To include the term "service potential"
Example 9A	(a) "Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the solar farm over the 20-year period of use."	To include the term "service potential"
Example 9B	Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the identified power plant over the three-year period of use.	To include the term "service potential"
Example 9C	(a) "Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the power plant over the 10-year period of use."	To include the term "service potential"
Example 10B	(a) Customer has the right to obtain substantially all of the economic benefits <u>or service potential</u> from use of the server over the three-year period of use.	To include the term "service potential"
Example 13	<i>"Lessee expects to consume the right-of-use asset's future economic benefits <u>or service potential</u> evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis."</i>	To include the term "service potential"
Example 14A	<i>"Lessee expects to consume the right-of-use asset's future economic benefits <u>or service potential</u> evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis."</i>	To include the term "service potential"

Definition of a Lease: Contract and Binding Arrangement

Question

1. Does the IPSASAB agree with Staff and Task Force Chair's recommendation to proceed with the proposal in ED 75 and retain the reference to the defined term "contract" in the definition of a lease?

Recommendation

2. Staff and Task Force Chair recommend the IPSASB to proceed with the proposal in ED 75 and retain the reference to the defined term "contract" in the definition of a lease. Once the Revenue project has reached a final position on binding arrangements and enforceability, consequential amendments to Leases that arise from those decisions should be considered.

Background

3. ED 75, *Leases* proposed the following definitions:

"A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration."

"A contract, for the purpose of this [draft] Standard, is an agreement between two or more parties that creates enforceable rights and obligations³"

4. Additionally, ED 75.AG3 states that:

AG.3. "An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for the purposes of this [draft] Standard. Contracts, for the purposes of this [draft] Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- The remedy for non-performance is enforceable by law."

5. ED 75.BC40–BC41 explain the reasons for using the defined term contract instead of binding arrangement in the definition of a lease as follows:

BC40. The IPSASB noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts, but do enter into arrangements that have the substance of contracts. These arrangements may be known by another term, e.g., a "government order." To assist entities in identifying contracts, which either have the substance or legal form of a contract, the IPSASB considered it appropriate to issue additional Application Guidance explaining the factors an entity should consider in assessing whether an arrangement is contractual or non-contractual.

BC41. Consideration was given to whether the term "binding arrangement" should be used to describe the arrangements highlighted in paragraph AG3. The term "binding arrangement" is defined in IPSAS 32, *Service Concession Arrangements: Grantor* as contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract. For example, an arrangement between two government departments that do not have the power to contract may be a binding arrangement. The IPSASB concluded that the term "binding arrangements," as used in IPSASs, embraces a wider set of arrangements than those identified in paragraph AG3 and therefore concluded that it should not be used in this [draft] Standard.

³ The definition of contract is included in this Exposure Draft for information purposes. When the final IPSAS on Leases is published, the definition of contract will be replaced with a cross-reference to the final IPSAS on *Revenue with Performance Obligations*, which is the IPSAS where the definition of contract will be located.

Analysis

6. Although the majority of respondents agree with ED 75 proposals, some respondents disagree with limiting the definition of a lease to contracts because it would scope out from the final IPSAS on Leases types of arrangements that are not contracts, but are prevalent in the public sector because:
 - (a) There might not be willing parties into the arrangement (R09, R32); or
 - (b) Many public sector entities do not have the power to enter into contracts but enter into binding arrangements that confer similar rights and obligations on the parties as if they were a form of contract (R04, R31).
7. The IPSASB decided to adopt a phased approach to the Leases project by dealing with:
 - (a) Lease accounting model(s) for both lessees and lessors based on the same definition of leases as in IFRS 16 in Phase One—by publishing ED 75, *Leases*; and
 - (b) Public sector specific issues, such as concessionary leases, access rights, and other types of arrangements in the public sector in Phase Two—by publishing the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*.
8. Staff notes that the public sector specific issues raised by respondents in paragraph 6 will be addressed in Phase Two of the Leases project.
9. On the other hand, the IPSASB still has underway the Revenue project where the definition of a binding arrangement and its application guidance are still under development. The final decision on these might have an impact on Leases, as well as in other parts of the IPSASB's literature.
10. Staff highlights that the definitions of a lease in IPSAS 13, *Leases* and ED 75 are substantively consistent. This was also acknowledged by the IASB when comparing the IAS 17 and IFRS 16 definitions of a lease in the Effects Analysis of IFRS 16, *Leases* (see page 11). The main change of IFRS 16 (and ED 75) is the new application guidance setting out how to apply the definition.
11. As part of Phase One of the Leases project, the IPSASB did not intend to modify the definition of a lease to encompass other types of arrangements in the public sector in order to be consistent with IPSAS 13, IFRS 16 and paragraph 20 of IPSAS 28, *Financial Instruments: Disclosure* (where ED 75.AG3 was drawn from).

Staff and Task Force Chair's Recommendation

12. Staff and Task Force Chair recommend the IPSASB to proceed with the proposal in ED 75 and retain the reference to the defined term "contract" in the definition of a lease because:
 - (a) The Revenue project still has under development the definition of binding arrangement and any consequential amendment can be made with the publication of the final IPSAS on Revenue.
 - (b) Phase Two of the Leases project will address public sector specific issues; and
 - (c) It is consistent with current IPSAS 13 definition and will be consistent with IFRS 16 and IPSAS 28.

Decision Required

13. Does the IPSASB agree with the Staff and Task Force Chair's recommendation?

Scope: Concessionary Leases

Question

1. Does the IPSASAB agree with Staff and Task Force Chair's recommendation to proceed with ED 75 proposal and not to provide an explicit scope exclusion for concessionary leases?

Recommendation

2. Staff and Task Force Chair recommend the IPSASB recommendation to proceed with ED 75 proposal and not to provide an explicit scope exclusion for concessionary leases.

Background

3. ED 75, *Leases* proposes not to provide an explicit scope exclusion for concessionary leases. According to ED 75.BC38, "the IPSASB decided not to provide that explicit scope exclusion because:
 - (a) [draft] IPSAS [X] (ED 75) is an IFRS aligned Standard, and IFRS 16 does not exclude concessionary leases from its scope; and
 - (b) Any issues in applying [draft] IPSAS [X] (ED 75) to concessionary leases, including the concession component, will be considered further in Phase Two of the Leases project (see paragraph BC21)."
4. Additionally, ED 75.BC39 states that: "In reaching this decision, the IPSASB noted that [draft] IPSAS [X] (ED 75) already addresses lease incentives paid by the lessor to the lessee to entice the lessee to enter into the lease. However, in this situation the lease incentives do not modify the nature of the lease as being a lease at market terms. The leases to be considered in Phase Two of the Leases project are concessionary leases where the lessor has the intention of providing a concession that modifies the nature of the lease into a lease at below-market terms."

Analysis

5. Although the majority of respondents agree with ED 75 proposal, some respondents propose that concessionary leases should be scoped out because:
 - (a) The separation of the lease component requirement cannot be applied to leases with no consideration or the exchange is insignificant (R02);
 - (b) It would help clarify whether ED 75 (measured at cost) or IPSAS 23 (measured at fair value) applies to concessionary leases (R28);
 - (c) It would help clarify whether ED 75 or the future IPSAS based on the RFI apply to concessionary leases (R29);
 - (d) It would help clarify that "leases for nil consideration" are not in scope (R29, R32); and
 - (e) "Preparers of financial statements may have to change their accounting treatment of concessionary leases in order to comply with IPSAS [X] (ED 75) following Phase One, and later on have to again have to change their accounting treatment of concessionary leases in order to comply with the IPSAS standard issued following Phase 2 of IPSASB's project on leases." (R33)
6. Staff highlights that IPSAS 13, *Leases* does not provide an explicit scope exclusion for concessionary leases. This means that by not providing an explicit scope exclusion for concessionary leases in new

IPSAS on Leases, it is consistent with IPSAS 13. Further, it is also consistent with IFRS 16 that remains silent on the matter. Whilst concessionary leases may be more prevalent in the public sector, they do also exist in the private sector.

7. The IPSASB made it clear in the Basis for Conclusions that concessionary leases will be addressed in Phase Two of the leases project. In this context, concessionary leases will be addressed in a holistic perspective drawn from IPSASB constituents' experience with "leases for nil consideration" and "leases at below market terms, but with significant consideration".

Staff and Task Force Chair's recommendation

8. Staff and Task Force Chair recommend the IPSASB proceed the ED 75 proposal not to provide an explicit scope exclusion for concessionary leases in the final IPSAS on Leases because:
 - (a) No new thinking was provided by respondents that had not been considered by IPSASB when it formed its view in ED 75 to not provide an explicit scope exclusion for concessionary leases;
 - (b) This issue will be considered in Phase Two of the Leases project;
 - (c) The decision is consistent and aligned with the scope of IPSAS 13—therefore, no change in the current *status quo*; and
 - (d) This approach is aligned with the scope of IFRS 16—which is the objective of Phase One of the Leases project.

Decision Required

9. Does the IPSASB agree with the Staff and Task Force Chair's recommendation?

Project Management

Question

1. Does the IPSASB agree with Staff and Task Force Chair's recommendation on the approach to the Leases project management?

Recommendation

2. Staff and Task Force Chair recommend the IPSASB to finalize the IPSAS on Leases based on ED 75 (subject to the review of responses) and address the issues raised from the review of responses to the Request for Information according to the schedule in [Agenda Item 2.1.1](#).

Background

3. On January 15, 2021, the IPSASB issued [ED 75, Leases](#). The aim of ED 75 is to develop a new Leases standard aligned with IFRS 16, *Leases* to replace IPSAS 13, *Leases*. The IPSASB also issued at the same time the [Request for Information \(RFI\), Concessionary Leases and Other Arrangements Similar to Leases](#).
4. At the June 2021 meeting, the IPSASB decided to adjust the schedule for the Leases project (see [IPSASB Work Program](#)). The key dates and main issues are as follows:

Meeting	Main Issue
December 2021	Start of the review of responses to the RFI
June 2022	Approval of the final IPSAS based on ED 75, subject to the review of responses
September 2022	Approval of the ED on public sector specific issues
December 2023	Approval of the final IPSAS based on ED on public sector specific issues

Analysis

5. As a result of the review of responses to ED 75, Staff identified 11 issues raised by respondents (see [Appendix B](#) of Agenda Item 2.2.1). Three of those issues are addressed in this July 2021 Check-In meeting as follows:
 - (a) [Agenda Item 2.2.2](#) – Service Potential (SMC 3)
 - (b) [Agenda Item 2.2.3](#) – Definition of a Lease: Contract and Binding Arrangement
 - (c) [Agenda Item 2.2.4](#) – Scope: Concessionary Leases

Staff and Task Force Chair's Recommendation

6. Staff and Task Force Chair recommend the IPSASB to address the:
 - (a) Remaining issues related to ED 75 according to the schedule in [Agenda Item 2.1.1](#) to finalize the IPSAS on Leases based on ED 75; and
 - (b) Issues raised from the review of responses to the RFI according to the schedule in [Agenda Item 2.1.1](#).

Decision Required

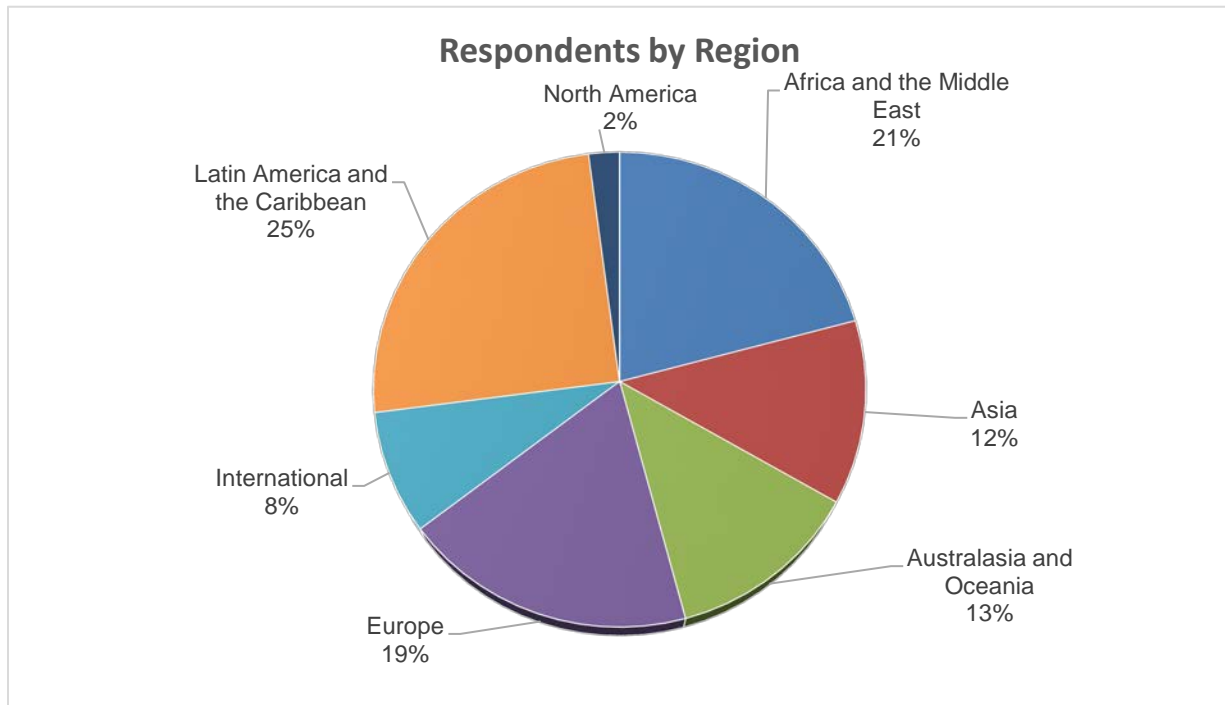
7. Does the IPSASB agree with the Staff and Task Force Chair's recommendation?

Supporting Document 1 – Analysis of Respondents by Region, Function and Language

Appendix A: Analysis of Respondents by Region, Function and Language

Geographic Breakdown

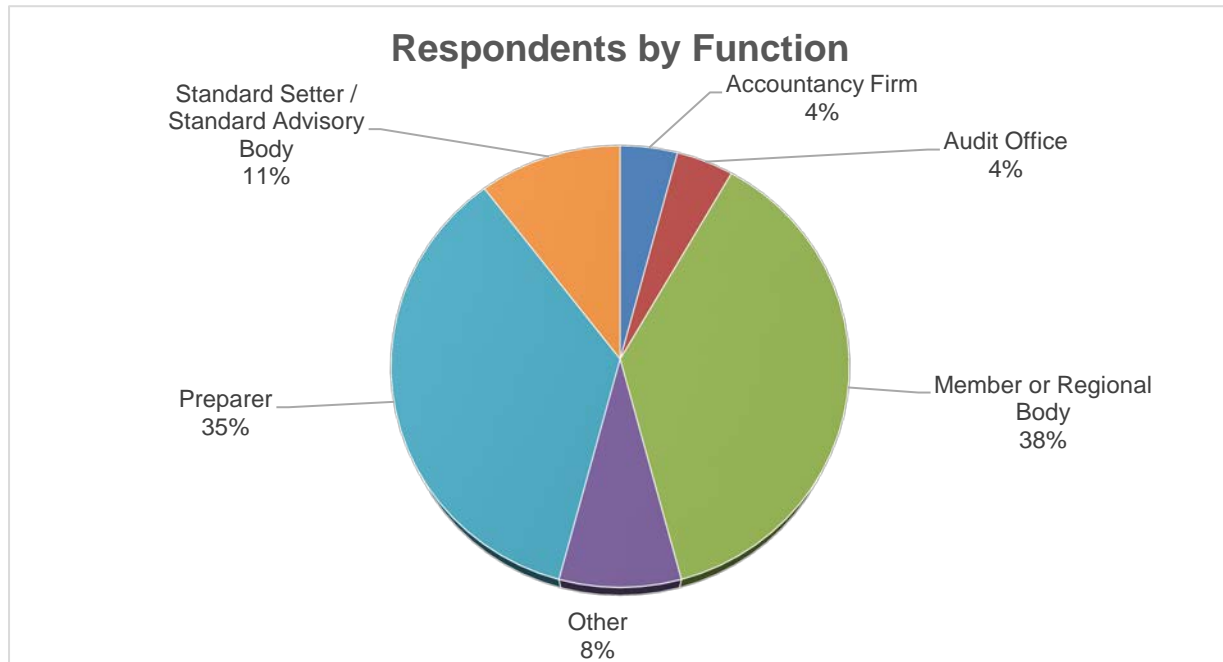
Region	Comment letter(s)	Total Respondents
Africa and the Middle East	R08, R09, R15, R17, R20, R22, R24, R26, R46, R48	10
Asia	R11, R12, R13, R14, R16, R18	6
Australasia and Oceania	R02, R04, R05, R28, R29, R31	6
Europe	R01, R06, R07, R10, R19, R21, R23, R34, R47	9
Latin America and the Caribbean	R03, R27, R35, R36, R37, R38, R39, R40, R41, R42, R43, R44	12
North America	R45	1
International	R25, R30, R32, R33	4
Total		48



Agenda Item 2.3.1

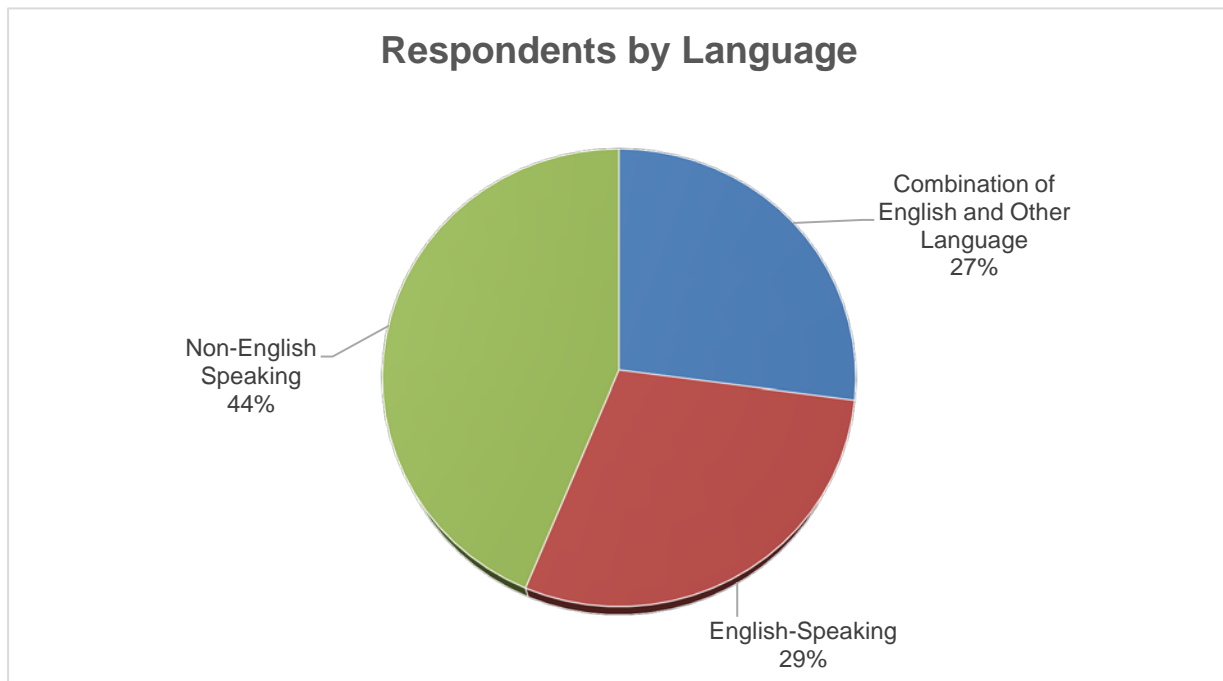
Functional Breakdown

Function	Comment letter(s)	Total Respondents
Accountancy Firm	R32, R33	2
Audit Office	R04, R31	2
Member or Regional Body	R03, R05, R07, R11, R12, R14, R15, R16, R17, R18, R19, R20, R21, R22, R24, R26, R27, R46	18
Preparer	R02, R08, R23, R28, R30, R35, R36, R37, R38, R39, R40, R41, R42, R43, R44, R45, R47	17
Standard Setter / Standard Advisory Body	R01, R09, R13, R29, R48	5
Other	R06, R10, R25, R34	4
Total		48



Linguistic Breakdown

Language	Comment letter(s)	Total Respondents
English-Speaking	R02, R03, R04, R05, R09, R15, R19, R25, R26, R28, R29, R31, R34, R48	14
Non-English Speaking	R01, R06, R08, R11, R12, R13, R16, R21, R23, R27, R35, R36, R37, R38, R39, R40, R41, R42, R43, R44, R45	21
Combination of English and Other Language	R07, R10, R14, R17, R18, R20, R22, R24, R30, R32, R33, R46, R47	13
Total		48



Agenda Item

2.3.1

Appendix B – List of Respondents

Comment Letter #	Respondent	Country	Function
01	Conseil de Normalisation des Comptes Publics (CNoCP)	France	Standard Setter / Standard Advisory Body
02	Auckland Council	New Zealand	Preparer
03	Institute of Chartered Accountants of Jamaica	Jamaica	Member or Regional Body
04	Office of the Auditor-General of New Zealand	New Zealand	Audit Office
05	CPA Australia	Australia	Member or Regional Body
06	Staff ETH Board	Switzerland	Other
07	Accountancy Europe	Belgium	Member or Regional Body
08	Accrual Accounting Center	Saudi Arabia	Member or Regional Body
09	South African Accounting Standards Board	South Africa	Standard Setter / Standard Advisory Body
10	Task Force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII	Regional / International	Other
11	The Malaysian Institute of Certified Public Accountants (MICPA)	Malaysia	Member or Regional Body
12	Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
13	Korea Institute of Public Finance (KIPF)	Korea	Accountancy Firm
14	Controller General of Accounts of India	India	Member or Regional Body
15	Botswana Institute of Chartered Accountants (BICA)	Botswana	Member or Regional Body
16	Malaysian Institute of Accounting (MIA)	Malaysia	Member or Regional Body
17	The National Board of Accountants and Auditors (NBAA)	Tanzania, United Republic of	Audit Office
18	Institute of Chartered Accountants of India	India	Member or Regional Body
19	Chartered Institute of Public Finance and Accountancy (CIPFA)	United Kingdom	Member or Regional Body
20	Association of Chartered Certified Accountants (ACCA) & Pan African Federation of Accountants (PAFA)	Regional / International	Member or Regional Body
21	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	Member or Regional Body
22	Institute of Chartered Accountants	Ghana	Member or Regional Body
23	General Directorate of Public Finances	France	Member or Regional Body
24	The Institute of Chartered Accountants of Nigeria	Nigeria	Member or Regional Body
25	International Consortium on Governmental Financial Management (ICGFM)	Regional / International	Other
26	Chartered Accountants Academy	Zimbabwe	Member or Regional Body

Agenda Item

2.3.1

Comment Letter #	Respondent	Country	Function
27	CoFC	Brazil	Member or Regional Body
28	The New Zealand Treasury	New Zealand	Member or Regional Body
29	External Reporting Board	New Zealand	Standard Setter / Standard Advisory Body
30	United Nations Office for Project Services	Regional / International	Preparer
31	David Hardidge	Australia	Audit Office
32	Ernst & Young	Germany	Accountancy Firm
33	Deloitte	Netherlands	Accountancy Firm
34	Manj Kalar	United Kingdom	Other
35	Ecuador	Ecuador	Preparer
36	Dominican Republic	Dominican Republic	Preparer
37	Chile	Chile	Preparer
38	El Salvador	El Salvador	Preparer
39	Guatemala	Guatemala	Preparer
40	Peru	Peru	Preparer
41	Honduras	Honduras	Preparer
42	Paraguay	Paraguay	Preparer
43	Uruguay	Uruguay	Preparer
44	Panama	Panama	Preparer
45	Mexico	Mexico	Preparer
46	Public Accountants and Auditors Board (PAAB)	Zimbabwe	Member or Regional Body
47	European Commission	Regional / International	Preparer
48	Public Sector Accounting Standards Board (PSASB)	Kenya	Standard Setter / Standard Advisory Body

Appendix C: Summary of Responses for Each Specific Matter for Comment (SMC)

Specific Matter for Comment 1:

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21–BC36). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37–BC60)? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 2:

The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, *Leases*, which differs from the definition proposed in ED 77, *Measurement*⁴ (see paragraphs BC43–BC45). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Specific Matter for Comment 3:

The IPSASB decided to propose to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46–BC48). Do you agree with the IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

SMC*	Agree		Partially agree		Disagree		No comment	
Comment letters	#	%	#	%	#	%	#	%
1 – Lessee accounting	40	83%	2	4%	5	11%	1	2%
1 – Lessor accounting	40	83%	2	4%	4	9%	2	4%
1 – Other sections of ED 75	Miscellaneous issues raised by respondents on ED 75							
2 – Fair value definition	36	75%	0	0%	10	21%	2	4%
3 – Service potential	46	96%	1	2%	0	0%	1	2%

* Note: SMC 1 was divided in two parts because many respondents provided their comments on lessee accounting model, lessor accounting model and other sections of the ED 75 separately. Staff also noticed that many respondents provided minor comments on the lease accounting models proposed, without disagreeing with the models proposed. These minor comments will be analyzed together with the other issues raised by respondents. The summary of responses is a draft based on preliminary review of comment letters and is subject to change based on detailed review at a later date according to the project timeline. Percentages have also been rounded to total 100%.

⁴ The fair value definition under development in ED 77, *Measurement* is aligned with the fair value definition in IFRS 13 *Fair Value Measurement*.