

## Agenda Item 6: Leases

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IPSASB Meeting

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# Objective of Session & Material Presented

- **Objective**
  - **Approve** the project brief on leases
- **Material Presented**

Agenda Item 6.1    Project Brief, *Leases*

# IFRS 16, *Leases*

- **The need for change**

- US\$3.3 trillion of lease commitments\*, of which 85% do not appear on the balance sheet
- Difficult to:
  - Understand the entity's assets and liabilities; and
  - Compare entities that lease assets with those that buy assets.

\* Listed companies using IFRS or US GAAP – Source: IASB

# IFRS 16, *Leases*

## • What's changed?

	Lessee	Lessor
<b>Accounting model</b>	<ul style="list-style-type: none"> <li>• <b>New</b> single accounting model—<i>right-of-use model</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Retains</b> the dual accounting model</li> </ul>
<b>Focus</b>	<ul style="list-style-type: none"> <li>• Lease versus Service</li> </ul>	<ul style="list-style-type: none"> <li>• Operating lease versus Finance lease</li> </ul>
<b>Financial reporting</b>	<ul style="list-style-type: none"> <li>• <b>All</b> leases on balance sheet (with exceptions)</li> <li>• <b>Separate presentation:</b> <ul style="list-style-type: none"> <li>(a) Interest and amortization in income statement</li> <li>(b) Principal and interest in the cash flow statement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Improved</b> disclosures:           <ul style="list-style-type: none"> <li>(a) Table of lease income</li> <li>(b) Exposure to residual asset risk</li> <li>(c) Assets subject to operating leases</li> </ul> </li> </ul>

# IFRS 16, *Leases*

## • What's changed?

### Definition of a lease

- **Same** definition as in IAS 17
- **New** guidance based on control
  - Right to obtain **economic benefits** from use; and
  - Right to **direct the use**

### Exceptions in lessee accounting

- **Short-term** leases (12 months or less)
- Leases of **low value assets** (on absolute basis as new)

### Sale and leaseback

- **Sale**, if it satisfies the performance obligation (PO) in IFRS 15, *Revenue from Contracts with Customers*
- **Not a sale**, if it does not satisfy the PO in IFRS 15

# IFRS 16, IPSAS 32 and IFRIC 12

- Service versus Lease versus Service concessions

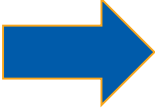
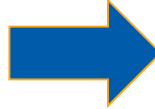
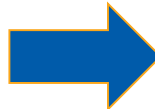
Criteria	Service	Lease	Service concessions
Control of an asset	Supplier: Yes Customer: No	Lessor: Yes Lessee: No	Grantor: Yes Operator: No
Control the use of an asset	Supplier: Yes Customer: No	Lessor: No Lessee: Yes	Grantor: Yes Operator: No
Access to operate an asset	Supplier: Yes Customer: No	Lessor: No Lessee: Yes	Grantor: No Operator: Yes

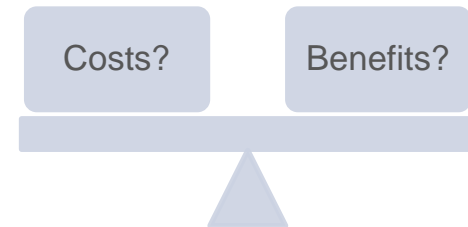
# IFRS 16, IPSAS 32 and IFRIC 12

## • Service versus Lease versus Service concessions

Item of statement of financial position	Service	Lease	Service concessions
Underlying asset	Supplier: Yes Customer: No	Lessor: Yes Lessee: No	Grantor: Yes Operator: No
Receivable (net investment in the lease)		Lessor: Yes (finance lease)	
Right-of-use asset		Lessor: No Lessee: Yes	
Financial asset/liability (unconditional right to receive/pay cash)			Grantor: Yes (L-FI) Operator: Yes (A-FI)
Intangible asset (right to charge users)			Grantor: Unearned revenue Operator: Yes

## Key issue #1—IFRS convergence

- IPSAS 13 is converged with IAS 17  Assumption that it is transaction-neutral
- Can the same assumption be made for IFRS 16?
- New IPSAS or revised IPSAS 13  “One-off” implementation costs
- No convergence  Ongoing consolidation issues with commercial public sector entities that apply IFRS 16





## Key issue #2—Identification of a lease

- IFRS 16:
  - Same definition of a lease as in IAS 17
  - Extensive guidance on identification of a lease based on control
  - Control has two elements:
    - A “benefits” element (right to obtain economic benefits from use); and
    - A “power” element (right to direct the use)
- **To what extent** can this model be applicable to the public sector?
- Further guidance required?

# Key issue #3—Impact of revised lessee accounting model

- **Budget**

- **Same impact** in jurisdictions that **apply** “pure” accrual budgeting based on IPSASs
- **Variable impact** in jurisdictions that **do not apply** “pure” accrual budgeting based on IPSASs—impact depends on the extent they use accrual information in budget

- **Fiscal targets**

- **Affected**, in jurisdictions that use accrual-basis IPSASs as the accounting basis
- **Not affected**, in jurisdictions that use Government Finance Statistics (GFS) reporting guidelines as the accounting basis

- Consequential amendments to other IPSASs

- Effective date

## Key issue #4—Sale and leaseback transactions

- **Sale?**

- **Yes**, if it satisfies the PO in IFRS 15
- **No**, if it does not satisfy the PO in IFRS 15

- **IASB's view:**

- This requirement “will be beneficial for both preparers and users of financial statements because it will increase comparability between sales entered into as part of a sale and leaseback transactions and all other sales.”

- *IPSAS 9, Revenue from Exchange Transactions, and IPSAS 23, Revenue from Non-exchange Transactions (Taxes and Transfers)* under revision

# Key issue #5—New disclosures in lessor accounting model

- **New disclosures:**
  - Different components of lease revenue recognized during the reporting period;
  - Residual asset risk;
  - Assets subject to operating leases;
  - Maturity analyses; and
  - Changes in net investment in finance leases.
- **To what extent** these new disclosures are appropriate for public sector entities?

# GFS reporting guidelines

- **Classification** based on economic ownership
- Three types of leases:
  - Operating leases
  - Resource leases
  - Financial leases
- Same recognition and measurement as in IPSAS 13 and IAS 17
- Staff's recommendation: **not to consider** GFS further in this project

# Project timetable—Summary

Meeting		Objective
2016	March	Approval of Project Brief
	June	Major issues
	September	Approval of Exposure Draft
2017	June	Review of Responses
	September	Review of Responses
	December	Approval of revised IPSAS 13 or new IPSAS

## Approval of Project Brief

- The IPSASB is asked to **approve** the project brief or **provide** alternative directions