

Agenda Item 8: Leases

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IPSASB Meeting

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Material Presented for Decision at this Meeting

Decision Items

- Agenda Item 8.2.1—Lessor—Applicability of grant of a right to the operator model in IPSAS 32 to lessor accounting (right-of-use model)
- Agenda Item 8.2.2—Lessor—IPSAS 13, IFRS 16 and right-of-use model recognition and requirements (including property and vehicle leases)
- Agenda Item 8.2.3—Sale and leaseback transactions
- Agenda Item 8.2.4—Leases that transfer ownership
- Agenda Item 8.2.5—Lessee—Recognition Exemptions

Material Presented for Decision at this Meeting

Other supporting items

- Agenda Item 8.3.1—Leases in the public sector—Fact patterns
- Agenda Item 8.3.2—Lessor accounting—History of IASB's project

Sale and leaseback transactions (Agenda Item 8.2.3)

- **IFRS 16**

- **Sale?**

- **Yes**, if it satisfies the performance obligation requirements in IFRS 15
 - **No**, if it does not satisfy the performance obligation requirements 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**

Risks and rewards of ownership approach

- **IPSAS 23**

Present obligation approach

Sale and leaseback transactions (Agenda Item 8.2.3)

Step 1

Option 1

Do not include any requirement now
(current situation in IPSAS 13)

Option 2

Include requirements based on
current IPSASs (IPSAS 9 and 23)

Step 2

Include the performance obligation
approach later (consequential
amendment of the new IPSAS on
Revenue)

Sale and leaseback transactions (Agenda Item 8.2.3)

Decision required

Does the IPSASB support the adoption of Option 1 or Option 2 in the Exposure Draft on Leases?

Leases that transfer ownership (Agenda Item 8.2.4)

- Clarification on leases that transfer ownership (TBG request)
- IPSAS 13 and IFRS 16 (lessor accounting) follows a risks and rewards approach (finance and operating lease)
- Right-of-use model in lessor accounting needs a previous assessment on whether it is a financed sale of the underlying asset
- The IASB considered whether to include requirements in IFRS 16 to distinguish a lease from the sale or purchase of an asset

Leases that transfer ownership (Agenda Item 8.2.4)

- The IASB did not include requirements in IFRS 16 to distinguish a lease from the sale or purchase of an asset because:
 - There was little support from stakeholders for including such requirements
 - The accounting for leases that are similar to the sale or purchase of the underlying asset would be similar to that for sales and purchases applying the respective requirements of IFRS 15 and IAS 16
 - IFRS 16 applies to contracts that convey the right to use an underlying asset for a period of time and does not apply to transactions that transfer control of the underlying asset to an entity—such transactions are sales or purchases within the scope of other Standards (for example, IFRS 15 or IAS 16)

Leases that transfer ownership (Agenda Item 8.2.4)

- **IFRS 15** *Performance obligation approach*
- **IPSAS 9** *Risks and rewards of ownership approach*
- **IPSAS 23** *Present obligation approach*

Staff's proposal

- Not to include guidance on leases that transfer ownership
- Consistent with IASB's approach

Leases that transfer ownership (Agenda Item 8.2.4)

- However, guidance in IPSAS 9 might:
 - Not be sufficient; or
 - Lead to different conclusions if IFRS 15 was applied.
- Paragraph 32 of IFRS 16 provides additional subsequent measurement requirements for lessees for leases that transfer ownership
- Staff did not identify a public sector specific reason that warrants departure from IFRS 16 in the subsequent measurement of the right-of-use asset in leases that transfer ownership.

Leases that transfer ownership (Agenda Item 8.2.4)

Decision required

Does the IPSASB want to:

- a) Provide guidance on leases that transfer ownership in the Exposure Draft on Leases?
- b) Provide additional guidance on leases that transfer ownership in IPSAS 9?
- c) Retain the paragraph 32 of IFRS 16 in the Exposure Draft on Leases?

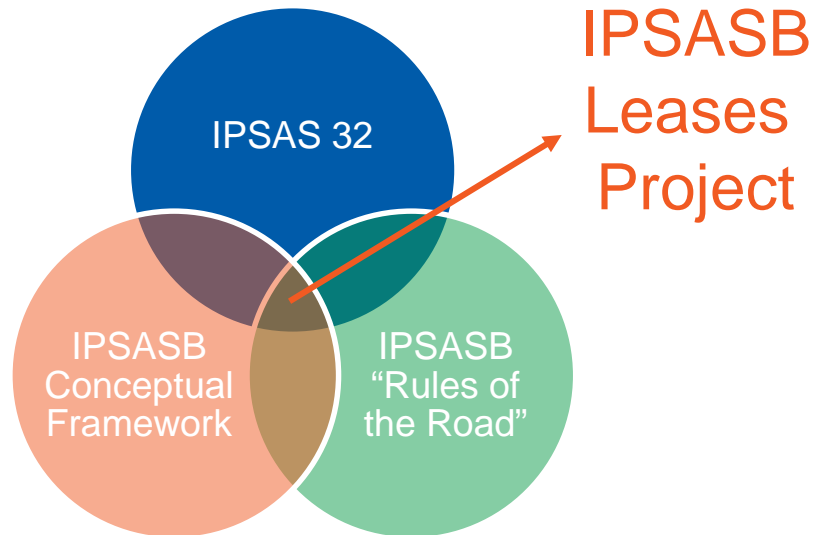
Lessee—Recognition exemptions (Agenda Item 8.2.5)

Decision required

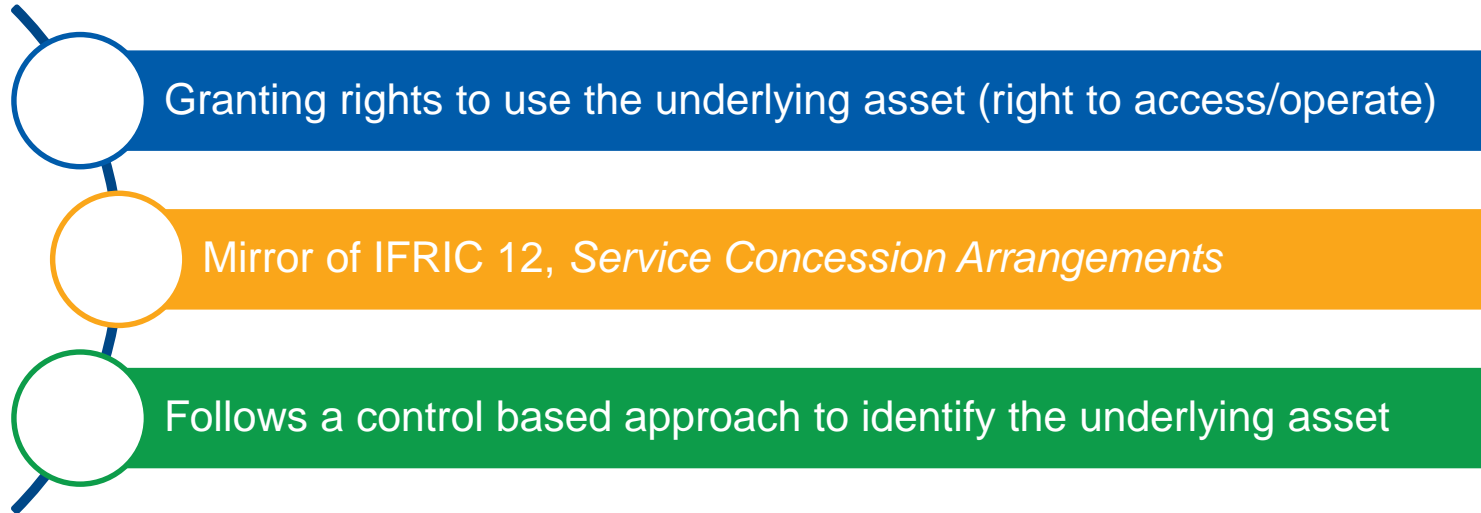
Does the IPSASB support the proposed Basis for Conclusions' paragraphs on recognition exemptions, including threshold of leases for which the underlying asset is of low value in the Exposure Draft on Leases?

Lessor Accounting—Context of Development of Options

- Methodology of Analysis—Boundaries



Lessor Accounting—Impact of IPSAS 32

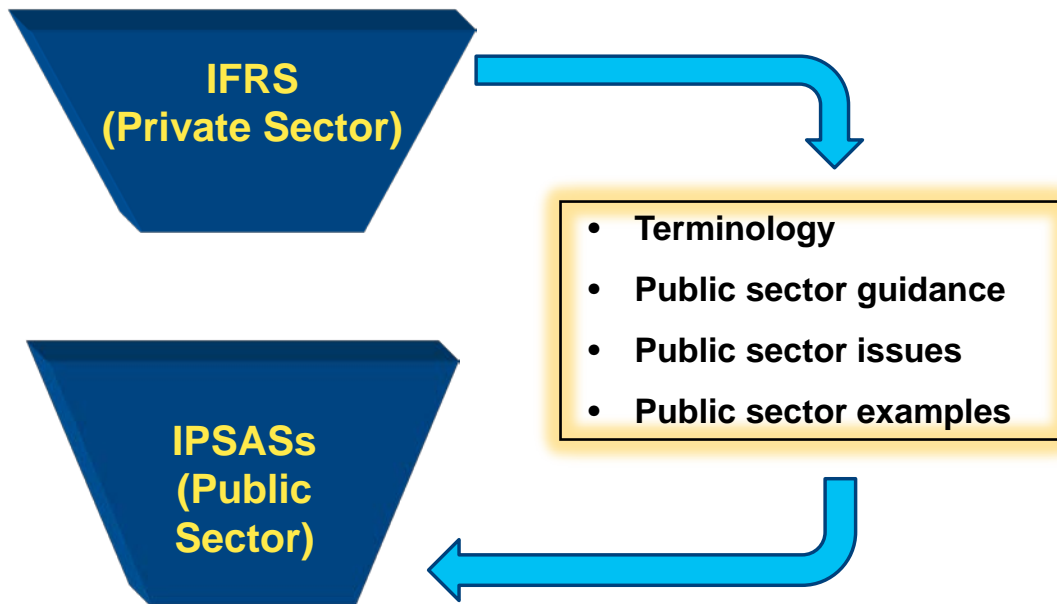


Lessor Accounting—Impact of Conceptual Framework

- Follows a control based approach for assets
- Assets are not recognized as portions (rights)
- Derecognition criteria (existence of uncertainty)

Lessor Accounting—Rules of Road

- Methodology of Analysis—“Rules of the Road”



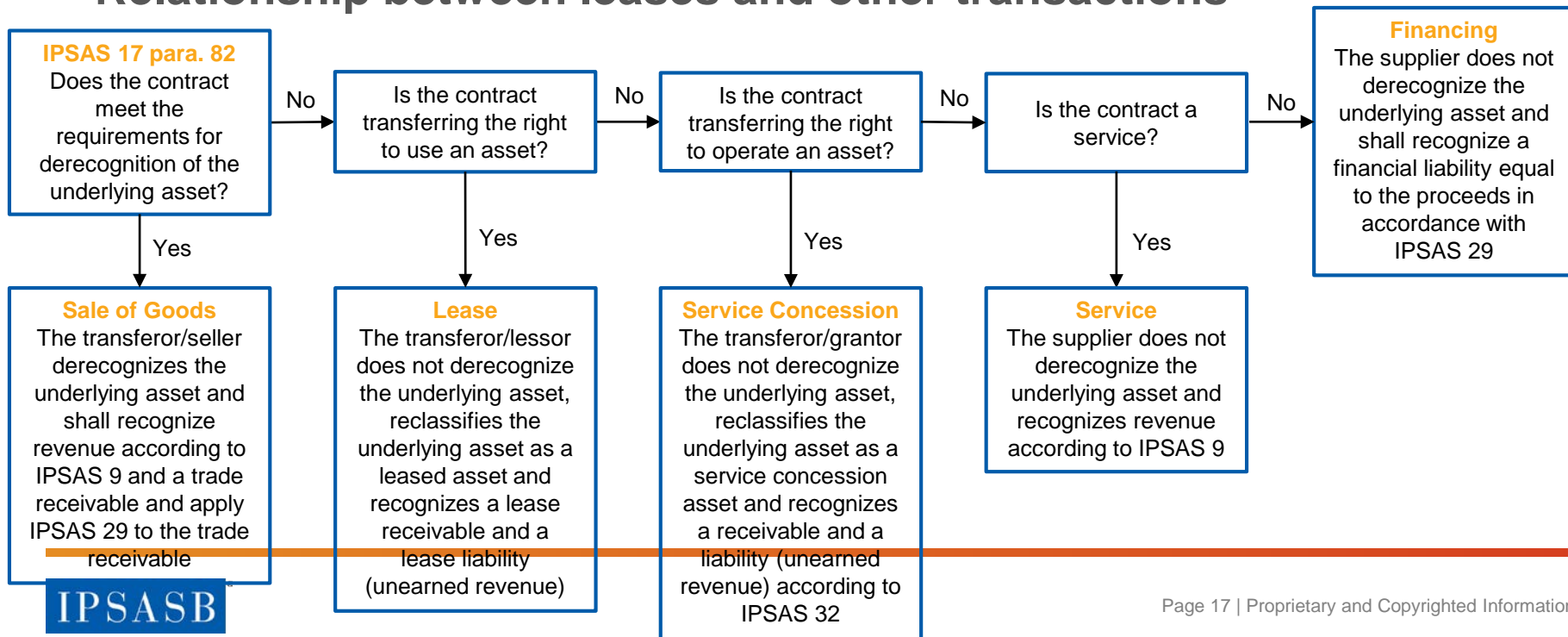
All decisions will be made in the context of considering:

- ✓ Consistency with Conceptual Framework
- ✓ Internal consistency with existing IPSASs

Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

• Relationship between leases and other transactions



Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

• Lease and Service Concession—Rights and Obligations

Rights and obligations	Lease		Service Concession	
	Lessor	Lessee	Grantor	Operator
“Core rights” of the lessor/grantor inherent to the underlying asset				
Title to the underlying asset (legal ownership)	X		X	
Right to sell the underlying asset with the agreement attached	X		X	
Right to sell or re-lease/service concession the underlying asset at the end of the agreement term	X		X	
Right to use the underlying asset at the end of the agreement term	X		X	

Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

• Lease and Service Concession—Rights and Obligations

Rights and obligations	Lease		Service Concession	
	Lessor	Lessee	Grantor	Operator
Other rights and obligations of the lessee/operator				
Right to operate the underlying asset during the agreement		X		X
Obligation to maintain the underlying asset during the agreement		X		X
Right to charge users		X		X
Obligation to return the underlying asset at the end of the agreement term		X		X
Obligation to pay for the use of the asset		X		X

Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

• Lease and Service Concession—Rights and Obligations

Rights and obligations	Lease		Service Concession	
	Lessor	Lessee	Grantor	Operator
Specific rights related to the type of agreement				
Right to determine how to use the underlying asset (services provided, users of the services and management of the asset)		X	X	
Right to determine how it generates future economic benefits (price)		X	X	

Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

• Analysis of Accounting Requirements

	Underlying Asset		Lease Receivable	Deferred inflows of resources related to unearned revenue
	Recognition	Measurement		
Right-of-use model	Historical cost not derecognized	Historical cost and Market value (with restrictions)	Recognized	
IPSAS 32	Consistent			
Conceptual Framework	Consistent			Allowed
IASB's Exposure Drafts	Different economic nature and predictive value	Not consistent	Consistent	

Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

- **Analysis of Accounting Requirements-Conclusions**

- 1) Consistent with the right to operate model in IPSAS 32;
- 2) Staff did not identify an economic reason not to adopt the right-of-use model to lessor accounting;
- 3) Consistent with the Conceptual Framework; and
- 4) Additional guidance on the distinction between a lease and service concessions may be needed in IPSASB's literature.

Lessor—Right-of-use model (Agenda Item 8.2.1)

Appendix A

- **Analysis of Accounting Requirements-Conclusions**

- 1) Reinforces accountability and decision making in the public sector because the underlying asset is always recognized in the lessor's financial statements;
- 2) Enhances consolidation procedures within the public sector for public sector entities that apply IPSAS;
- 3) Prevents the non-recognition of the underlying asset in both the lessee's and the lessor's financial statements, unlike IFRS 16; and
- 4) Prevents distortion of the financial statements in cases where the public sector entity is both a lessee and a lessor in different lease contracts.

Lessor—Right-of-use model (Agenda Item 8.2.1)

- **Appendix B**

- Concerns of IASB's Constituents are addressed

- **Appendix C**

- The advantages of the right-of-use model reflect the disadvantages of the risks and rewards model:
 - Objectives of financial reporting
 - Qualitative Characteristics
 - Consistency with Other IPSAS
 - Public Sector specific reasons
 - Other reasons (centralized lessors and information asymmetry)
 - Consolidation (public sector entities that apply IPSASs VS commercial public sector entities that apply IFRSs)

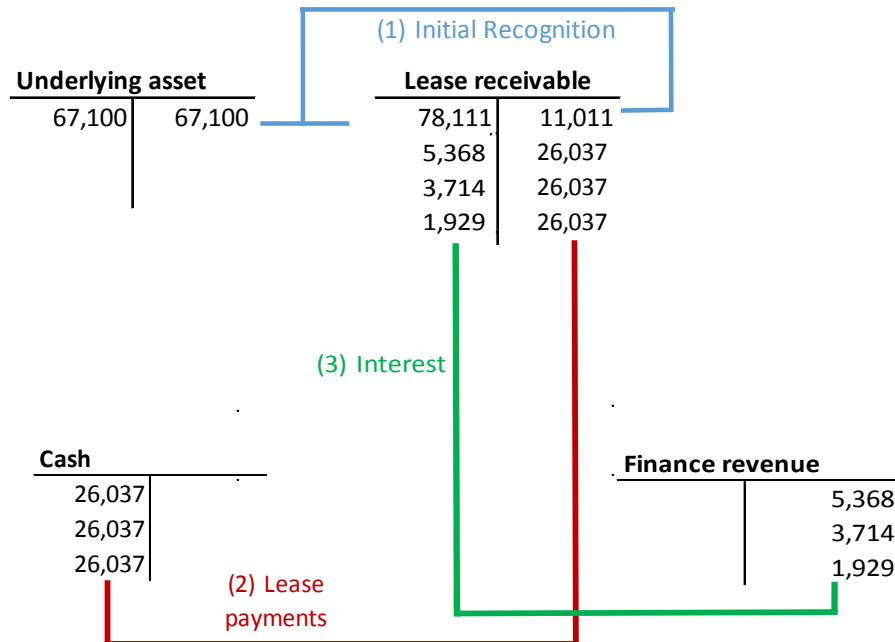
Lessor—Right-of-use model (Agenda Item 8.2.1)

- **TBGs views**

- The diverging criteria between service concession and leases can be an obstacle in applying the grantor model to a lease contract because they are not always crystal clear;
- Adopt a receivable and a residual asset approach to lessor accounting.

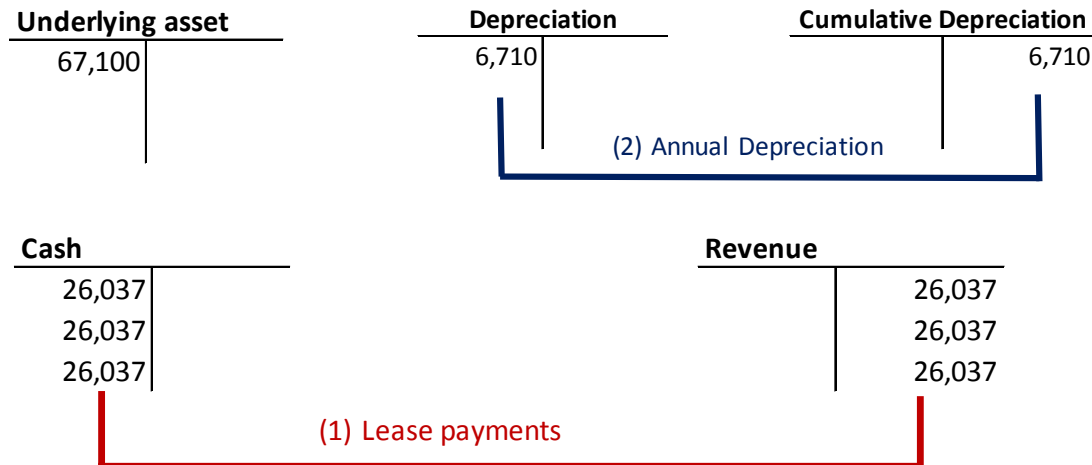
Lessor—IPSAS 13, IFRS 16 and right-of-use model recognition requirements (Agenda Item 8.2.2)

IFRS 16 Finance Lease



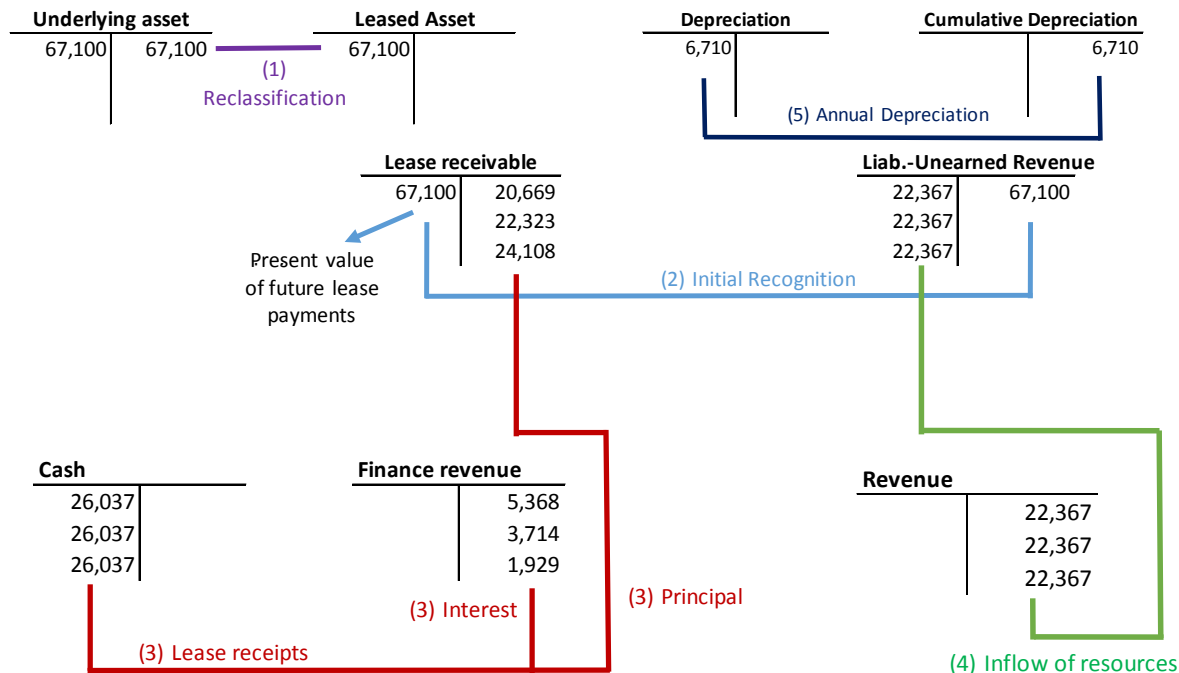
Lessor—IPSAS 13, IFRS 16 and right-of-use model recognition requirements (Agenda Item 8.2.2)

IFRS 16 Operating Lease



Lessor—IPSAS 13, IFRS 16 and right-of-use model recognition requirements (Agenda Item 8.2.2)

Right-of-use model



Lessor—IPSAS 13, IFRS 16 and right-of-use model recognition requirements (Agenda Item 8.2.2)

Decision required

- Does the IPSASB support adoption of the right-of-use model for lessor accounting or retention of the risks and rewards model in the new IPSAS on Leases?



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