Agenda Item 9: Leases

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IPSASB Meeting

December 10–13, 2019

Abu Dhabi, United Arab Emirates

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?

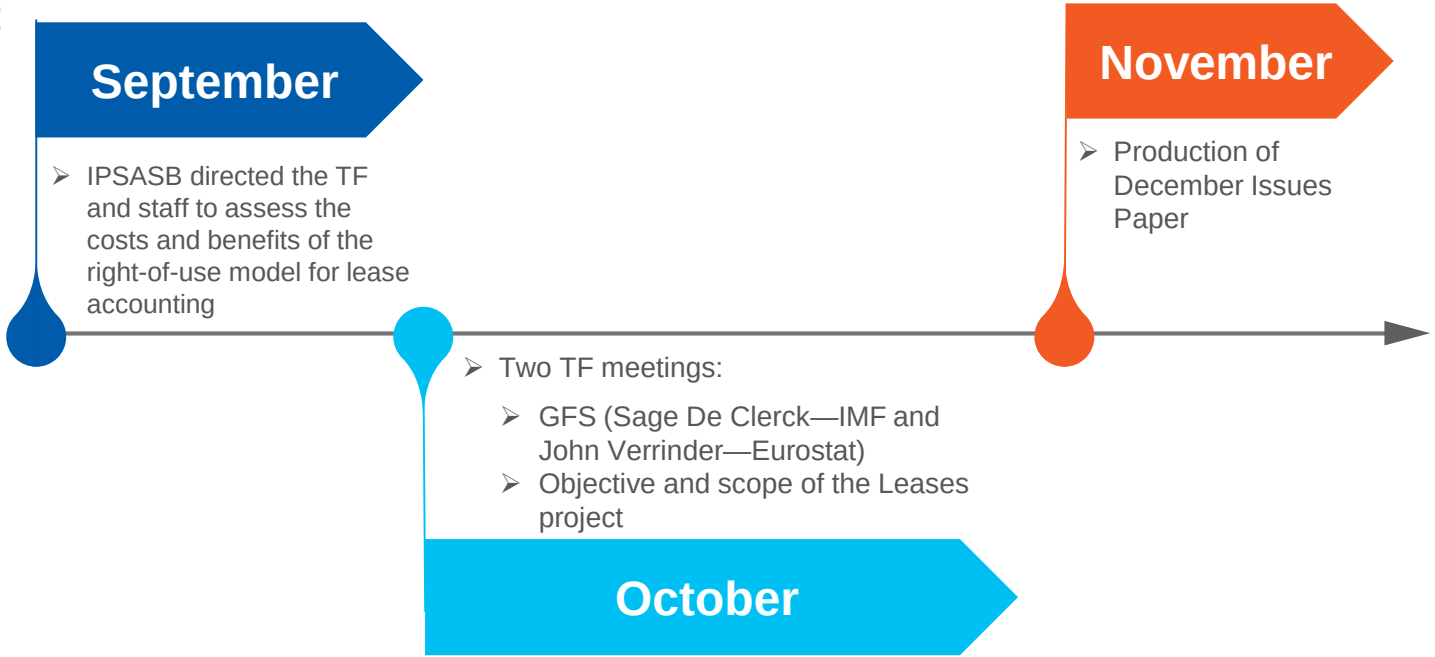
Outline

- Task Force report back to IPSASB
- What is the objective and scope of the Leases project?
- Framework of analysis of IPSAS 13, *Leases*, IFRS 16, *Leases*, and Exposure Draft 64 based, *Leases*
- Concessionary leases
- Retain or replace IPSAS 13?
- If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3?

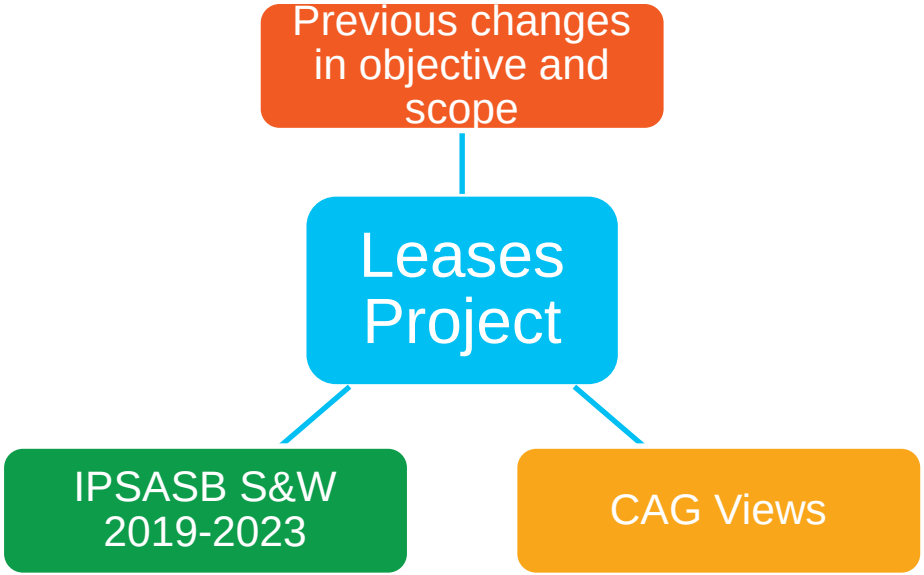
Task Force report back to IPSASB
Progress in Q4 2019

Task Force members:

- Mike Blake, Chair
- Claudia Beier
- Isabelle Sapet
- Lynn Pamment
- Jeanine Poggiolini
- Sarah Geisman



What is the objective and scope of the Leases project? (Agenda Item 9.2.1)



What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

Previous changes in objective and scope

Date	Decision
March 2016	• Inclusion of concessionary leases for lessors and lessees
June 2017	• Not to consider Government Finance Statistics in the Leases project
September 2017	• Not to adopt the lessor accounting requirements in IFRS 16, *Leases* (risks and rewards (R&R) model)
December 2018	• Consider Government Finance Statistics in lessee accounting • Preliminary decision to adopt right-of-use model for lessees • Reassess right-of-use model for lessors • Reassess concessionary leases for lessors and lessees • Not to include guidance on transfer of control of physical assets
March 2019	• Consider Government Finance Statistics in lessor accounting
September 2019	• To include guidance on transfer of control of physical assets • Reassess right-of-use (RoU) model for lessees • Revisit decision to depart from IPSAS 13

What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

Strategic Objective

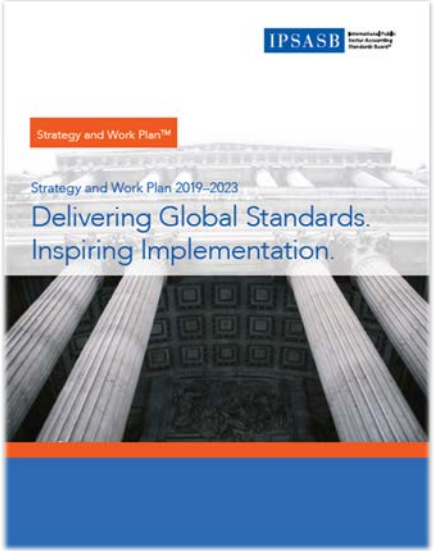
- Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

Strategic themes

- Theme A: Setting standards on public sector specific issues
- Theme B: Maintaining IFRS convergence

Criteria to select projects

- Prevalence
- Consequences
- Urgency
- Feasibility

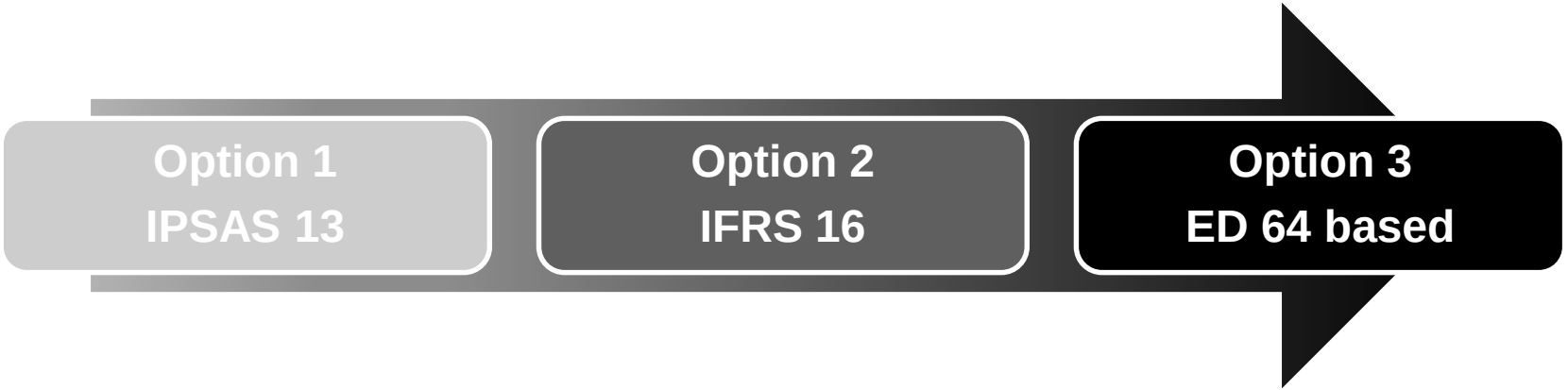


What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

CAG Views

- Lease accounting is a very challenging topic with a diversity of views
- Support for extending the project timeline to ensure that all views receive due consideration
- Accounting for concessionary leases raises significant measurement challenges

What is the objective and scope of the Leases project? (Agenda Item 9.2.1)



What is the objective and scope of the Leases project? (Agenda Item 9.2.1)

- **Decision required from IPSASB**
  - Revisit the objective and scope of the Leases project in the context of criteria that explicitly reflect the framework provided by the IPSASB S&W 2019-2023?

Framework of analysis of IPSAS 13, IFRS 16, and ED 64 based (Agenda Item 9.2.2)

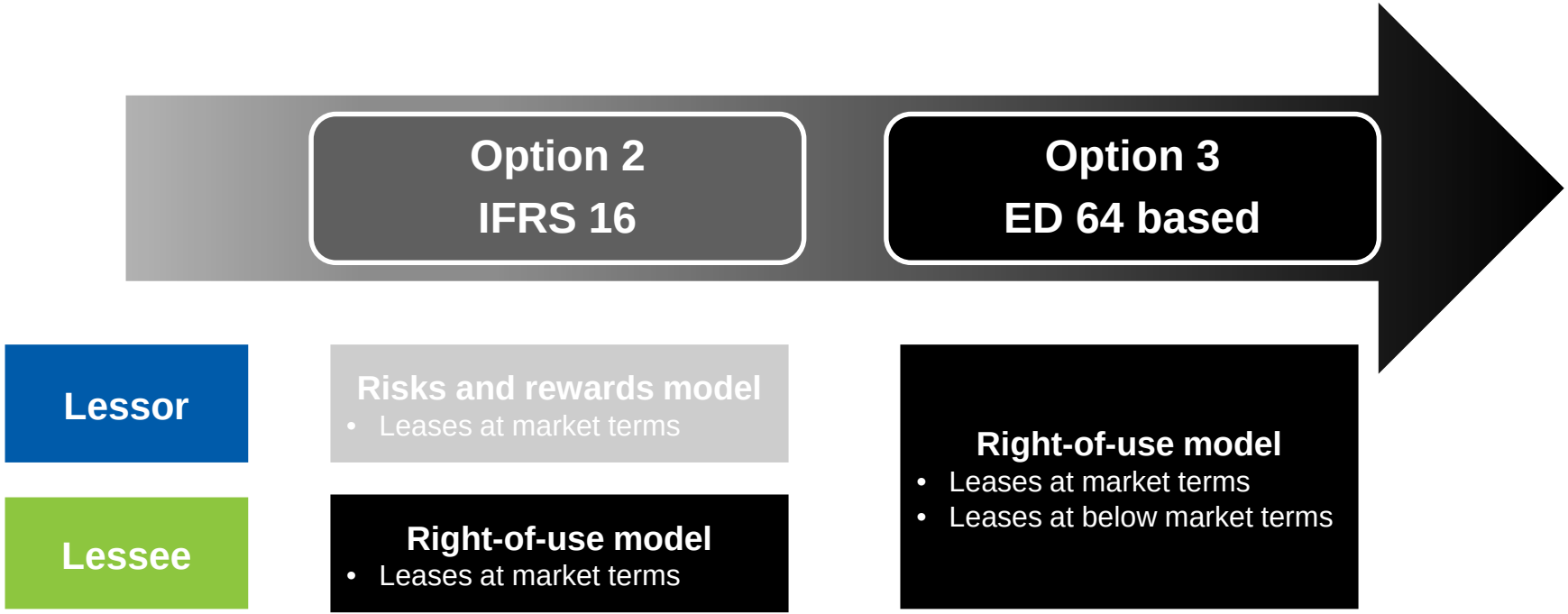
Factors \ Options	No change		Change			
	Option 1 IPSAS 13		Option 2 IFRS 16		Option 3 ED 64 based	
	R&R		RoU	R&R	RoU	
	Lessee	Lessor	Lessee	Lessor	Lessee	Lessor
PFM benefits						
Implementation costs / challenges						
GFS alignment impact						
IPSASB Conceptual Framework						
IFRS alignment					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

[Traffic lights]

Framework of analysis of IPSAS 13, IFRS 16, and ED 64 based (Agenda Item 9.2.2)

- **Decision required from IPSASB**
  - Agree with the framework to analyze the options?

Concessionary Leases (Agenda Item 9.2.3)



Concessionary Leases (Agenda Item 9.2.3)

Option 3

ED 64 based

Lessor

Lessee

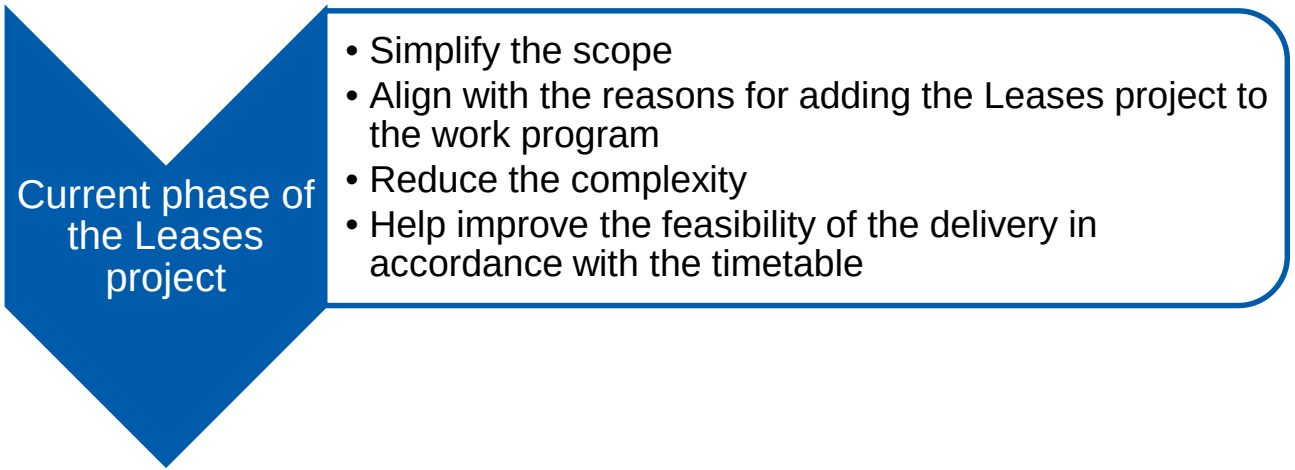
Right-of-use model

- Leases at market terms
- Leases at below market terms

- **Lessons learned from ED 64**
  - Substantially increased complexity
  - Respondents do not have an unified or consistent view on the appropriate accounting
  - Concessionary lease accounting dependent on the general model
  - Uncertain project timeline
  - Links to the Revenue project

Concessionary Leases (Agenda Item 9.2.3)

- **Staff's recommendation:**
  - Defer the work on concessionary leases



Concessionary Leases (Agenda Item 9.2.3)

- **Decision required from IPSASB:**
  - Agree with the staff's recommendation to defer the work on concessionary leases from the current phase of the Leases project?

Retain or replace IPSAS 13? (Agenda Item 9.2.4)

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

Retain or replace IPSAS 13? (Agenda Item 9.2.4)

- **Staff's recommendation:**
  - **Not to pursue Option 1—Retain 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

Retain or replace IPSAS 13? (Agenda Item 9.2.4)

- **Decision required from IPSASB:**
  - Agree with staff's recommendation not to pursue Option 1—Retain IPSAS 13?

If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3? (Agenda Item 9.2.5)

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

If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3? (Agenda Item 9.2.5)

- **Staff's recommendation:**
  - **Option 2—IFRS 16 (RoU model for lessees and R&R model for lessors)**
    - Has strong feasibility concerns with Option 3 because of the expected significant additional time that would be required to develop proposals which address ED 64 respondent issues with lessor accounting.
    - Option 2 requires re-exposure of another ED for lessor accounting (R&R model)
    - Feasibility should be the decisive criterion

If IPSAS 13 is to be replaced, what is the IPSASB emerging view: Option 2 or Option 3? (Agenda Item 9.2.5)

- **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) (RoU model for lessees and R&R model for lessors)?



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