

OTHER LEASE-TYPE ARRANGEMENTS

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IPSASB Meeting – September/2022

Task Force Chair's Observations from Task Force Discussions

- **Two Task Force meetings in Q3 2022**
- **Scoping of arrangements that convey the right to use an underlying asset**
 - Staff and Task Force recommendation is the result of an extensive discussion
- **Remaining Issues from Request for Information**
 - Staff and Task Force recommendations best serves constituents concerns and project objectives
- **Sale and Leaseback Transactions:** identification of a public-sector specific case
- **Planning for Q4 2022:**
 - October Check-in meeting: Illustrative examples
 - December meeting: Approval of Exposure Draft

Task Force:

Lynn Pamment, IPSASB Member, Chair
Claudia Beier, IPSASB Member
Abdullah Al-Mehthil, IPSASB Member
Andrew van der Burgh, Technical Advisor

Scoping of Arrangements that Convey the Right to Use and Underlying Asset

A contract is an agreement between two or more parties that creates enforceable rights and obligations.

- Right to Obtain Economic Benefits or Service Potential from Use
- Right to Direct the Use

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**.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

Lease payments are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

- (a) Fixed payments (including in-substance fixed payments), less any lease incentives;
- (a) Variable lease payments that depend on an index or a rate;
- (b) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (c) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

- (a) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- (b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Scoping of Arrangements that Convey the Right to Use and Underlying Asset

A contract is an agreement between two or more parties that creates enforceable rights and obligations.

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.

IPSAS 43.AG3

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 Standard. Contracts, for the purposes of this 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**.

Scoping of Arrangements that Convey the Right to Use and Underlying Asset

Recommendation

- To retain the scope of IPSAS 43, *Leases* to binding arrangements that are, in substance, contracts because:
 - Non-binding arrangements
 - A lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not; and
 - The accounting model for non-binding arrangements in the future IPSAS on Revenue and Transfer Expenses would apply to arrangements where the entity does not both an enforceable right and enforceable obligation in the arrangement
 - Binding Arrangements
 - IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts;
 - Respondents to the Request for Information did not request such a change; and
 - It is consistent with IPSAS 41, *Financial Instruments*, which is only applicable to contracts.

Does the IPSASB agree with this recommendation?

Definition or Description of a Concessionary Lease


Recommendation

- To provide a description of a concessionary lease
 - Of the different types of leases at below-market terms;
 - It prevents an apparent contradiction of labeling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration;
 - It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described; and
 - The measurement for arrangements that convey the right to use an underlying asset without consideration is proposed to be the same as arrangements that convey the right to use an underlying asset with consideration at below-market terms, i.e., at present value of market lease payments.

Does the IPSASB agree with this recommendation?

Sale and Leaseback at Below-Market Terms

Recommendation

- To amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback is not linked to a prepayment.
 - Agreed sale/purchase price of the underlying asset  its fair value



- No prepayment of the leaseback;
- May be an embedded concession in the leaseback

Does the IPSASB agree with this recommendation?

Linkages with Measurement Project

Recommendation

- To measure right-of-use assets held by a lessee at the present value of market lease payments instead of fair value and current operational value because of:
 - Increased difficulty in applying fair value as defined in the future IPSAS on Measurement (highest and best use); and
 - Current operational value would:
 - Reduce consistency in practice; and
 - Increase the amount of judgment required unnecessarily.

Does the IPSASB agree with this recommendation?

Arrangements Allowing Right-of-Use

Recommendation

- To **add** basis for conclusions in IPSAS 43 and **publish** a Feedback Statement/Staff Questions & Answers on how arrangements allowing the right-of-use fit in IPSASB's literature
 - Current IPSAS already provide sufficient guidance

IPSAS 9, *Revenue from Exchange Transactions*

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

IPSAS 31, *Intangible Assets*

IPSAS 32, *Service Concession Arrangements: Grantor*

IPSAS 43, *Leases*

Does the IPSASB agree with this recommendation?

Shared Properties with or without a Lease Arrangement in Place

Recommendation

- To **add** basis for conclusions in IPSAS 43 and **publish** a Feedback Statement/Staff Questions & Answers on how these arrangement fit in IPSASB's literature
 - Current IPSAS already provide sufficient guidance

IPSAS 9, *Revenue from Exchange Transactions*

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

IPSAS 43, *Leases*

Does the IPSASB agree with this recommendation?

Access Rights

Recommendation

- To **add** basis for conclusions in IPSAS 43 and **publish** a Feedback Statement/Staff Questions & Answers on how access rights fit in IPSASB's literature
 - Current IPSAS already provide sufficient guidance

IPSAS 9, *Revenue from Exchange Transactions*

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

IPSAS 31, *Intangible Assets*

IPSAS 32, *Service Concession Arrangements: Grantor*

IPSAS 43, *Leases*

Does the IPSASB agree with this recommendation?

Social Housing Rental Arrangements

Recommendation

- To **add** basis for conclusions in IPSAS 43 and **publish** a Feedback Statement/Staff Questions & Answers on how social housing rental arrangements fit in IPSASB's literature
 - Current IPSAS already provide sufficient guidance

IPSAS 9, *Revenue from Exchange Transactions*

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

IPSAS 43, *Leases*

Does the IPSASB agree with this recommendation?