Agenda Item 5: Leases

João Fonseca
Manager, Standards Development and Technical Projects
IPSASB Meeting
Toronto, Canada
December 5–8, 2017
Objective of Session & Material Presented

- Agenda Item 5.2.1—Restructuring of the Exposure Draft 64, Leases
- Agenda Item 5.2.2—Lessor—Options to Account for the Subsidy Component in a Concessionary Lease
- Agenda Item 5.2.3—Lessor and Lessee—Presentation
- Agenda Item 5.2.4—Transitional Provisions
- Agenda Item 5.2.5—Amendments to Other IPSASs
- Agenda Item 5.2.6—Specific Matters for Comment
- Agenda Item 5.2.7—Approval of draft Exposure Draft 64, Leases and Exposure Period
- Agenda Item 5.3—Draft Exposure Draft 64, Leases
Leases
Restructuring of the ED 64, *Leases* (Agenda Item 5.2.1)

1. Objective
2. Scope
3. Definitions
4. Recognition Exemptions
5. Identifying a Lease
6. Lease Term
7. Lessee
8. Lessor
9. Sale and Leaseback Transactions
10. Effective Date and Transition
Leases

Restructuring of the ED 64, Leases (Agenda Item 5.2.1)

- **Staff’s recommendation**
  - To adopt the new structure of draft ED 64

- **Matter for consideration**
  - Does the IPSASB agree with staff’s recommendation to adopt the new structure of draft ED 64?
Leases

Lessor—Options to account for the subsidy component in a concessionary lease

- Background: Economics of a lease under the right-of-use model

### Diagram:

**Lessor**

1. **Step 1**
   - The identified asset
   - Simultaneous creation and transfer of right-of-use asset to the lessee.

2. **Step 2**
   - The lease contract

3. **Step 3**
   - Type of lease
   - Is the lease at market terms or at below market terms?

4. **Step 4**
   - Lease terms
   - At market terms:
     - Economic value
     - Cash
   - At below market terms:
     - Economic value
     - Cash

5. **Step 5**
   - Recognition

**Lessee**

- Lessee transfers cash to the lessor.

**Decision Points**

- **Revenue or liability?**
- **Expense?**

**Accounting Entries**

- **At market terms:**
  - Lease receivable
  - Right-of-use asset
- **At below market terms:**
  - Lease receivable
  - Liability (unearned revenue)

**Liability and Revenue**

- Expense
- Revenue or liability

(Agenda Item 5.2.2)
Leases

Lessor—Options to account for the subsidy component in a concessionary lease

(Agenda Item 5.2.2)

1. Should the lessor account for the subsidy component in a concessionary lease?
   - Yes
     - Debit entry: Expense on day one
   - No
     - Transaction price (Option 1)

2. Credit entry: Does the lessor have a performance obligation related to the subsidy component of the credit entry?
   - Yes
     - Liability (unearned revenue) (Option 2)
   - No
     - Net assets/equity (Option 3)

3. What is the label of the subsidy component of the credit entry?
Leases

Lessor—Options to account for the subsidy component in a concessionary lease

(Agenda Item 5.2.2)

- **Results of the analysis: Focus on measurement basis**

Step 1—Should the lessor account for the subsidy component in a concessionary lease?

<table>
<thead>
<tr>
<th>Options</th>
<th>Measurement basis</th>
<th>Recognition of subsidy component</th>
<th>Consistency lessee accounting and in sale and leaseback transaction</th>
<th>Consistency with IPSASB’s literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Price (Option 1)</td>
<td>Historical cost</td>
<td>×</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Liability unearned revenue (Option 2)</td>
<td>Fair value</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Net assets/equity (Option 3)</td>
<td>Fair value</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Leases  
Lessor—Options to account for the subsidy component in a concessionary lease  

(Agenda Item 5.2.2)

- **Results of the analysis: Focus on measurement basis**
  Step 1—Should the lessor account for the subsidy component in a concessionary lease?

- **Staff’s recommendation**
  - Recognize the subsidy component in concessionary leases—Do not adopt Option 1

- **Matter for consideration**
  - Does the IPSASB agree with staff’s recommendation to recognize the subsidy component in concessionary leases—Do not adopt Option 1?
Leases

Lessor—Options to account for the subsidy component in a concessionary lease

(Agenda Item 5.2.2)

• Results of the analysis

Step 2—Does the lessor have a performance obligation related to the subsidy component of the credit entry?

<table>
<thead>
<tr>
<th>Options</th>
<th>Consistency with IPSASB’s literature</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conceptual framework</td>
</tr>
<tr>
<td></td>
<td>Revenue</td>
</tr>
<tr>
<td>Liability unearned revenue (Option 2)</td>
<td>✓</td>
</tr>
<tr>
<td>Net assets/equity (Option 3)</td>
<td>✓</td>
</tr>
</tbody>
</table>
**Results of the analysis**

Step 2–Does the lessor have a performance obligation related to the subsidy component of the credit entry?

**Staff’s view**

– Yes, a performance obligation exists to provide access to the underlying asset regardless of the amount of cash being transferred.

**Staff’s recommendation**

– To adopt Option 2.
Leases (Agenda Item 5.2.2)

Lessor—Options to account for the subsidy component in a concessionary lease

• **Results of the analysis**
  
  Step 3—What is the label of the subsidy component of the credit entry?
  
  - IPSAS 1 needs to be amended
  - New permanent item in net assets/equity

• **Staff’s recommendation**
  
  – If the IPSASB chooses Option 3, staff recommends to label the subsidy component of the credit entry as “settlement of the concessionary component in a lease”.

• **Matter for consideration**
  
  – Does the IPSASB want to label the subsidy component of the credit entry as “settlement of the concessionary component in a lease”?
Leases

Lessor and Lessee—Presentation
(Agenda Item 5.2.3)

• Lessor – Display (para. 47–50)
  – Underlying assets according to the economic nature (IFRS 16)
  – Symmetrical requirements of lessee accounting, where appropriate.

• Matter for consideration
  – Does the IPSASB agree with the display requirements for lessors in draft ED 64?
Leases

Lessor and Lessee—Presentation (Agenda Item 5.2.3)

• Lessor – Note disclosure (para. 51–60)
  – IFRS 16 requirements on finance leases and operating leases, where appropriate
  – Symmetrical requirements of lessee accounting, where appropriate.
  – Disclosures requirements for concessionary leases based on IPSAS 30, Financial Instruments: Disclosure

• Matter for consideration
  – Does the IPSASB agree with the disclosure requirements for lessors in draft ED 64?
Leases

Lessor and Lessee—Presentation (Agenda Item 5.2.3)

- **Lessee – Display (para. 97–100)**
  - IFRS 16 guidance amended for IPSASB’s literature

- **Matter for consideration**
  - Does the IPSASB agree with the display requirements for lessees in draft ED 64?
Lessor and Lessee—Presentation (Agenda Item 5.2.3)

- Lessee – Note disclosure (para. 51–60)
  - IFRS 16 requirements adapted to IPSASB’s literature
  - Disclosures requirements for concessionary leases based on IPSAS 30, *Financial Instruments: Disclosure*

- Matter for consideration
  - Does the IPSASB agree with the disclosure requirements for lessees in draft ED 64?
Leases

Transitional Provisions
(Agenda Item 5.2.4)

• **Lessors**
  
  – Mirror requirements for lessees to the extent possible
  
  – Specific transitional requirements for concessionary leases on an exception basis (see Appendix C of Agenda Item 5.2.2)

• **Lessees**
  
  – IFRS 16 modified to IPSASB’s literature
  
  – Specific transitional requirements for concessionary leases on an exception basis

• **Matter for consideration**
  
  – Does the IPSASB agree with the amendments to other IPSASs in draft ED 64?
Amendments to Other IPSASs (Agenda Item 5.2.5)

- **Two types of amendments**
  - IFRS 16 related amendments to IPSASs that are drawn from IFRSs
  - IPSAS specific amendments to other IPSASs
    - Lessor accounting
    - Concessionary leases

- **Publication of full marked up IPSAS 16, Investment Property**

- **Matter for consideration**
  - Does the IPSASB agree with the amendments to other IPSASs in draft ED 64?
Specific Matters for Comment in ED 64 (Agenda Item 5.2.6)

- ED 64 includes three SMCs related to major IPSASB’s decisions
  - Departure from IFRS 16 lessor accounting model (SMC 1);
  - IPSASB’s lessor accounting model (SMC 2); and
  - Accounting for the non-exchange component in concessionary leases for lessors (SMC 3) (see Appendix for Options 2 and 3).

- Matter for consideration
  - Does the IPSASB agree with the three recommended SMCs included in draft ED 64?
Specific Matters for Comment in ED 64 (Agenda Item 5.2.6)

- **SMCs decided by IPSASB during the project (see draft text in appendix)**
  - Manufacturer lessor
  - Lessor: Recognition exemption of leases of low-value assets

- **Staff’s view:**
  - The above issues are a consequence of IPSASB’s decisions included in the three SMCs in ED 64

- **Matter for consideration**
  - Does the IPSASB agree not to include the above SMCs in draft ED 64?
Leases

Approval of draft Exposure Draft 64, *Leases* (Agenda Item 5.2.7)

- **Section-by section review of draft ED 64 on an exception basis**
  - Core Text of draft ED 64 (Pages 6–34)
  - Application Guidance (Pages 35–48)
  - Basis for Conclusions (Pages 107–125)
  - Implementation Guidance (Pages 126–129)
  - Illustrative Examples (Pages 130–168)

- **Matter for consideration**
  - Does the IPSASB agree to vote to approve draft ED 64?
Exposure Period (Agenda Item 5.2.7)

- Standard consultation period for EDs is four months
- Staff’s view and recommendation
  - Four months is appropriate for a document of this size and complexity
  - January 31, 2018 – Expected publication date
  - May 31, 2018 – Comment end date

- Matter for consideration
  - Does the IPSASB agree with a May 31, 2018 comment closing date?