Agenda Item 6: Leases

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Manager, Standards Development and Technical Projects
IPSASB Meeting
New York, USA
March 8-11, 2016
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?

<table>
<thead>
<tr>
<th></th>
<th>Lessee</th>
<th>Lessor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting model</strong></td>
<td>• <strong>New</strong> single accounting model—<em>right-of-use model</em></td>
<td>• <strong>Retains</strong> the dual accounting model</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>• Lease versus Service</td>
<td>• Operating lease versus Finance lease</td>
</tr>
<tr>
<td><strong>Financial reporting</strong></td>
<td>• <strong>All</strong> leases on balance sheet (with exceptions)</td>
<td>• <strong>Improved</strong> disclosures:</td>
</tr>
<tr>
<td></td>
<td>• <strong>Separate presentation:</strong></td>
<td>(a) Table of lease income</td>
</tr>
<tr>
<td></td>
<td>(a) Interest and amortization in income statement</td>
<td>(b) Exposure to residual asset risk</td>
</tr>
<tr>
<td></td>
<td>(b) Principal and interest in the cash flow statement</td>
<td>(c) Assets subject to operating leases</td>
</tr>
</tbody>
</table>

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*IPSASB*
IFRS 16, Leases

**What’s changed?**

**Definition of a lease**
- **Same** definition as in IAS 17
- **New** guidance based on control

**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

- **Right to obtain** economic benefits from use; and
- **Right to** direct the use
## Leases

### IFRS 16, IPSAS 32 and IFRIC 12

- **Service versus Lease versus Service concessions**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Service</th>
<th>Lease</th>
<th>Service concessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control of an asset</td>
<td>Supplier: Yes, Customer: No</td>
<td>Lessor: Yes, Lessee: No</td>
<td>Grantor: Yes, Operator: No</td>
</tr>
<tr>
<td>Control the use of an asset</td>
<td>Supplier: Yes, Customer: No</td>
<td>Lessor: No, Lessee: Yes</td>
<td>Grantor: Yes, Operator: No</td>
</tr>
<tr>
<td>Access to operate an asset</td>
<td>Supplier: Yes, Customer: No</td>
<td>Lessor: No, Lessee: Yes</td>
<td>Grantor: No, Operator: Yes</td>
</tr>
</tbody>
</table>
### Leases

**IFRS 16, IPSAS 32 and IFRIC 12**

#### Service versus Lease versus Service concessions

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

**Notes:**

- **Service:** Supplier: Yes, Customer: No
- **Lease:** Lessor: Yes, Lessee: No
- **Service concessions:** Grantor: Yes, Operator: No

**Grantor:** Yes (L-FI), Operator: Yes (A-FI), 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?
Leases

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

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Objective</th>
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<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
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<tr>
<td>March</td>
<td>Approval of Project Brief</td>
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<tr>
<td>June</td>
<td>Major issues</td>
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<td>September</td>
<td>Approval of Exposure Draft</td>
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<td>June</td>
<td>Review of Responses</td>
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<td><strong>2017</strong></td>
<td></td>
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<tr>
<td>September</td>
<td>Review of Responses</td>
</tr>
<tr>
<td>December</td>
<td>Approval of revised IPSAS 13 or new IPSAS</td>
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Leases

Approval of Project Brief

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