Agenda Item 5: Leases

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Objective of Session & Material Presented

Agenda Item 5—Leases

- **Agenda Item 5.1**
  - Responses to IPSASB’s Exposure Draft (ED) 64, *Leases*—New Strategy to Move the Leases Project Forward and Main Issues on Lease Accounting

- **Agenda Item 5.2**
  - **Appendix A**: Comparison between Concessionary Loan and Concessionary Lease on the Accounting of the Subsidy

- **Agenda Item 5.3**
  - **Appendix B**: IPSASB Due Process Checklist

- **Agenda Item 5.4**
  - **Appendix C**: Links to Other Documents
Overview of ED 64, *Leases*

- Single right-of-use model for lease accounting

- Concessionary leases

  *Leases at below market terms*
ED 64: A high level preliminary review of responses

- Overall support for lessee accounting
- Lessor accounting and concessionary leases:
  - Lack of a unified view
  - Opposing views on the same issues
  - Different proposals
  - Inconsistent views
Leases

New strategy to move Leases project forward

- IPSASB September 2018 meeting
  - Tentative decision on lessee accounting
  - New project timetable and approach
  - Obtain CAG’s views on the Leases project at the December meeting

Question for the CAG

- From a project management perspective, is there any other action in developing the Leases project the IPSASB should consider in the public interest?
Main issues on lessor accounting and concessionary leases

Double-counting in ED 64 lessor accounting?

**ED 64**
- Continue to recognize and measure the underlying asset according to the applicable IPSAS
- Recognize a lease receivable and a liability (unearned revenue)

**Some respondents believe:**
- There is double-counting
- Double-counting inappropriately grosses up or inflates lessor’s statement of financial position

**Respondents’ proposed solutions:**
- Offsetting the liability and the underlying asset
- Impair the underlying asset
Leases
Main issues on lessor accounting and concessionary leases

Double-counting in ED 64 lessor accounting?

Meaning of “Double-counting”, “Gross” and “Offset/net”

- **Double-counting:**
  - A single transaction (economic phenomenon) is recognized or counted *more than once*.
  - Is an *accounting error* because it leads to a misrepresentation of financial performance and financial position.

- “Gross” and “offset”/“net” is related to presentation of elements in the financial statements, and *do not give rise to accounting errors*

- “Double-counting” and “gross” *should not be used interchangeably*

**ED 64 View:**
There is no double-counting.
Main issues on lessor accounting and concessionary leases

Offsetting?

- Cash-flows
- Parties
- Exposures

Impairment of the underlying asset?

- Assessment according to the applicable IPSAS

ED 64 View:

No offsetting

Impairment or not
Main issues on lessor accounting and concessionary leases

Question for the CAG

- Does the CAG agree with the IPSASB that there is no double-counting in continuing to recognize both the underlying asset and to recognize a debit entry for the lease receivable on one side and a credit entry for the liability (unearned revenue) on the other side?
Recognize the subsidy in a concessionary lease?

ED 64
• Proposes to recognize the subsidy in a concessionary lease for both lessors and lessees.

Some respondents disagree:
• Cost-benefit reasons
• Recognize revenue above cash is not conceptually sound
• Concessionary lease is not comparable to a concessionary loan, especially leases for zero and nominal consideration (no financing element)
Recognize the subsidy in a concessionary lease?

Cost exceeds the benefits?
- Volume and financial significance of non-exchange transactions in the public sector
- Accountability and decision-making

Not conceptually sound?
- Consistent with accrual basis of accounting
- Accounts for the full economic value of the lease

ED 64 View:
- Benefits exceed cost
  - Conceptually sound
Main issues on lessor accounting and concessionary leases

Economics of the Subsidy

Comparison between concessionary loans and concessionary leases

ED 64 View:

Comparable transactions

Type of Resource

| Cash | In-kind |

Type of Subsidy

Price

Right-of-use Asset

Interest Rate

ED 64 View:
Comparison between concessionary loans and concessionary leases

Accounting of the Subsidy

ED 64 View:
Comparable accounting
Leases
Main issues on lessor accounting and concessionary leases

Question for the CAG

• Does the CAG agree with the IPSASB that the subsidy in a concessionary lease should be recognized in lessors’ and lessees’ financial statements?