

IPSASB's Exposure Draft Leases



Accounting Standards Board

Development of ED

- Leases project is convergence project with IFRS 16, *Leases*.
- IPSASB developed ED to propose new requirements for lease accounting.
- New requirements will replace IPSAS 13, *Leases*.
- Comment deadline:
 - Local deadline 15 June 2018
 - IPSASB: 30 June 2018

Why the IPSASB undertook the project?

- IPSAS 13 based on IAS 17 which was replaced by IFRS 16 in 2016.
- Existing lease requirements criticised:
 - Do not require lessees to recognise assets and liabilities arising from operating leases;
 - Two different accounting models for economically similar transactions; and
 - Do not provide sufficient information about lessor's exposure to risk (credit and asset risk).

What is the IPSASB proposing?

- Single **right-of-use model** for lease accounting to replace the risk and rewards incidental to ownership (R&R) model.
- New requirements for **concessionary leases**
 - there are leases entered into at below market terms
 - requirements are consistent with existing guidance on concessionary loans

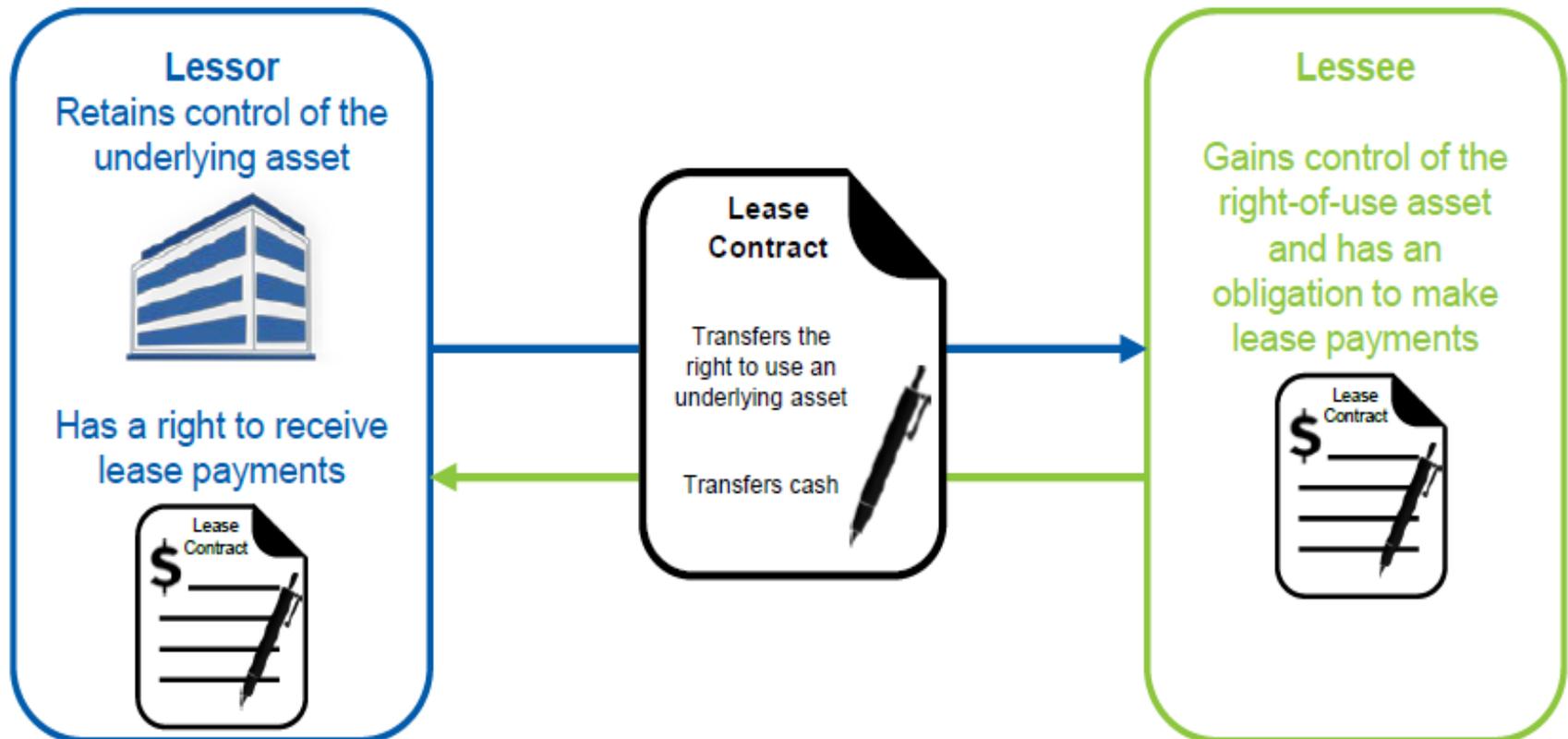
What is the IPSASB proposing?

- IPSASB decided to converge with IFRS 16 lessee accounting because:
 - no public sector issues warranting departure

What is the IPSASB proposing?

- IPSASB decided to depart from R&R model in IFRS 16 for lessor accounting:
 - Inconsistencies between R&R model and the IPSASB's Conceptual Framework and control-based applied in other IPSASs (e.g. service concessions)
 - Convergence would give rise to public sector specific issues. For e.g. inconsistent accounting if lessee and lessor are p/sector entities.

What is the right-of-use model?



Source: IPSASB

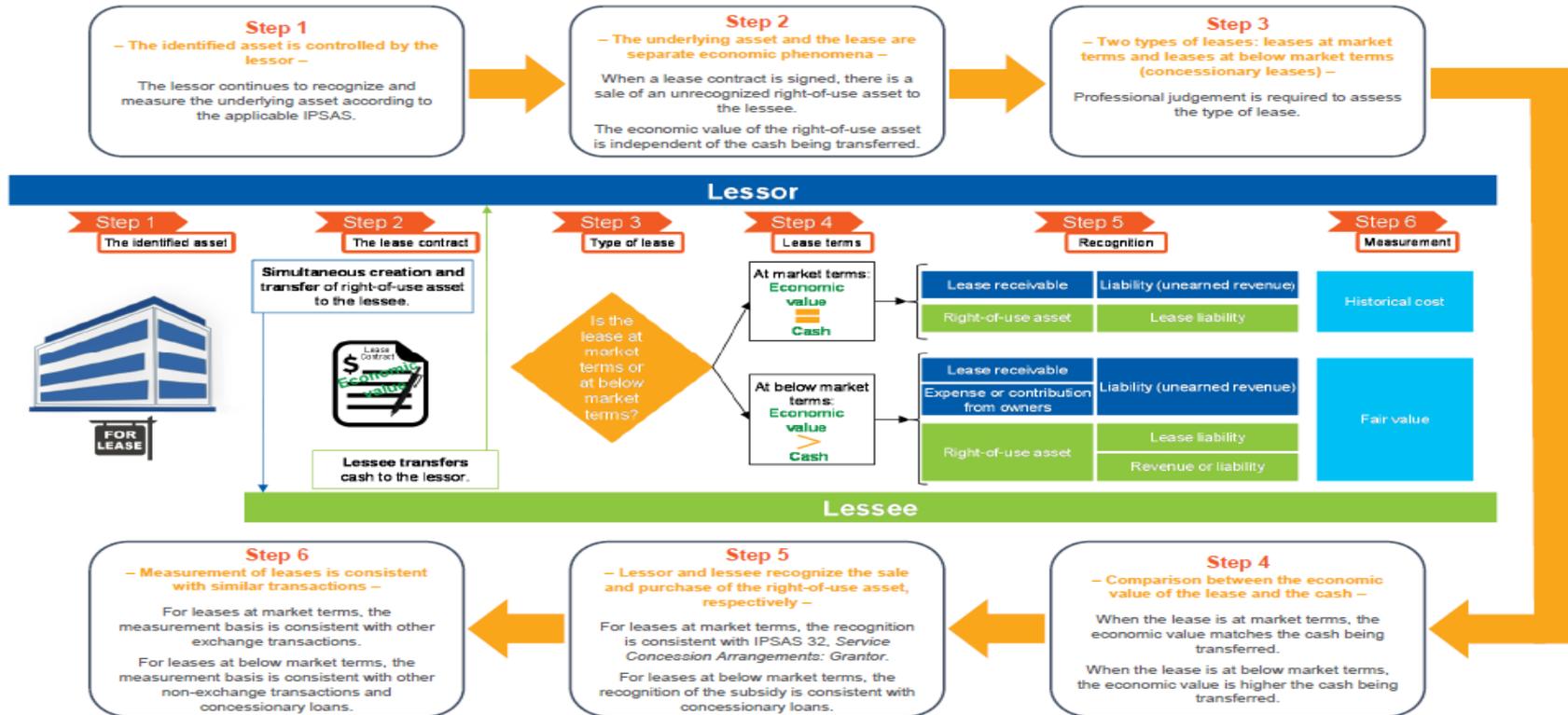
What is the right-of-use model?

- The **right-of-use model** is based on the principle that lease contracts simultaneously:
 - (a) Create an asset (right-of-use asset) separate from the underlying asset;
 - (b) Transfer the right to use an underlying asset (right-of-use asset) from lessor to lessee, not the underlying asset itself; and
 - (c) Finance a right to use an underlying asset.

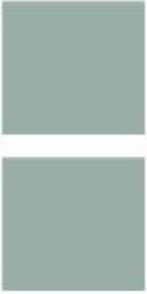
What is the right-of-use model?

- The **right-of-use model** distinguishes the:
 - (a) Underlying asset from the right-of-use asset as separate economic phenomena; and
 - (b) Control of the underlying asset held by the lessor from the control of the right-of-use asset held by the lessee.

What is the right-of-use model?



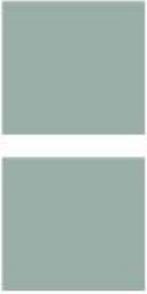
Source: IPSASB



Scope

Scope includes:

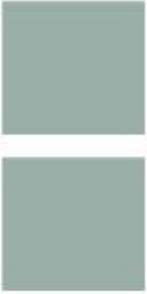
- Leases at below market terms (concessionary leases).
- Right-of-use assets in a sublease.
- Leases at market terms.



Scope

■ Scope excludes leases of:

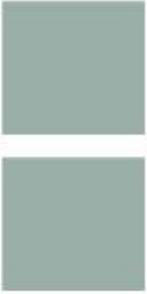
- Exploring for or use of minerals, oil, natural gas etc.
- Biological assets within the scope of IPSAS 27.
- Service concession arrangements within the scope of IPSAS 32.



Scope

Scope excludes leases of:

- Licences of intellectual property granted by lessor within the scope of IPSAS 9.
- Rights held by lessee under licencing agreements within the scope of IPSAS 31.
 - However, lessee may elect to apply ED for such rights.



Definition of a lease

- 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.

Proposed accounting: lessee

Accounting for the lease—General guidance						
Classification		Lease at market terms		Lease at below market terms		
Recognition		Right-of-use asset	Lease liability	Right-of-use asset	Lease liability	Revenue or liability
Measurement	Initial	Lease liability	Present value of lease payments	Present value of market lease payments	Present value of contractual lease payments	Difference between right-of-use asset and lease liability
	Sub.		Cost or fair value	Amortized cost	Cost or fair value	
			Interest rate implicit in the lease or lessee's incremental borrowing rate	Lessee's incremental borrowing rate or market interest rate		
						If liability, revenue in accordance with IPSAS 23

Source: IPSASB

Proposed accounting: lessee

Lessee accounting will change significantly, except for **short-term leases** and **low-value asset leases**:

	IPSAS 13	Proposed accounting
Right-of-use asset	Recognise underlying asset if finance lease	Recognise right-of-use asset
Lease liability	Do not recognise lease liability if operating lease	Recognise lease liability
Short-term lease (= < 12 months)	No recognition exemption	Recognition exemption: Account for lease as expense on straight line basis over lease term or other system basis
Low-value underlying asset leases		

Proposed accounting: lessor

Accounting for the lease—General guidance						
Classification		Lease at market terms		Lease at below market terms		
Recognition		Lease receivable	Liability (unearned revenue)	Lease receivable	Expense or contribution from owners	Liability (unearned revenue)
Measurement	Initial	Present value of lease payments	Lease receivable, plus adjustments	Present value of contractual lease payments	Difference between liability (unearned revenue) and lease receivable	Present value of market lease payments, plus adjustments
		Interest rate implicit in the lease		Market interest rate		Market interest rate
	Sub.	Amortized cost	Substance of the lease contract	Amortized cost		Substance of the lease contract

Source: IPSASB

Proposed accounting: lessor

Lessor accounting will change significantly, except for **short-term leases**:

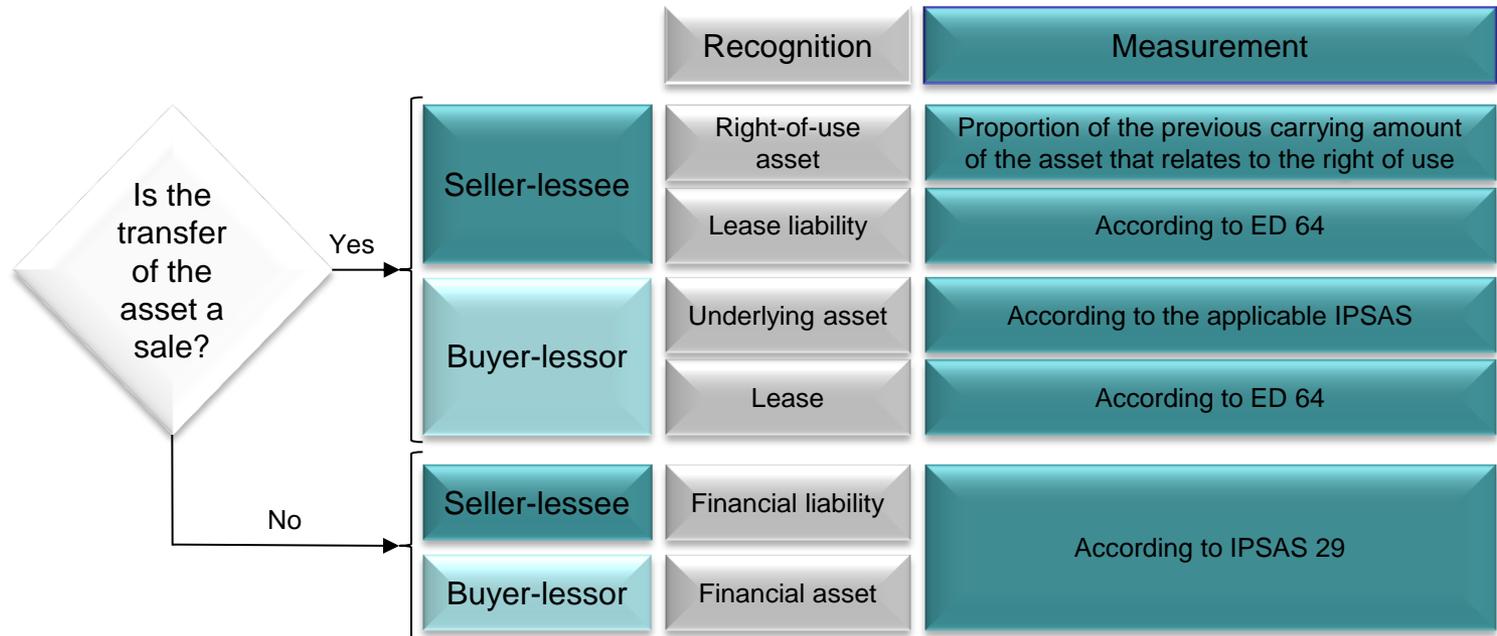
	IPSAS 13	Proposed accounting
Underlying asset	Derecognise underlying asset if finance lease	Continue to recognise underlying asset
Liability (unearned revenue)	Do not recognise liability	Recognise liability for unearned revenue
Lease receivable	Do not recognise lease receivable if operating lease	Recognise lease receivable
Short-term lease (= < 12 months)	No recognition exemption	Recognition exemption: Account for lease as revenue on straight line basis over lease term or other system basis



Sale and leaseback transactions

- ED proposes to
 - recognise right-of-use assets and related liabilities for all sale and leaseback transactions
 - account for concessionary leasebacks in accordance with requirements of concessionary leases
- Unlike IPSAS 13, these proposals provide less incentive for entities to enter into sale and leaseback transactions

Sale and leaseback transactions



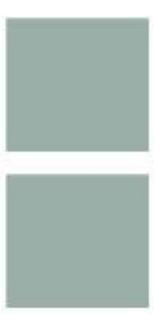
Source: IPSASB



Feedback on proposals?

- SMC 1 – proposal of the IFRS 16 right-of-use model for lessee accounting?
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SMC 2 – proposal to depart from IFRS 16 risks and rewards model for lessor accounting?



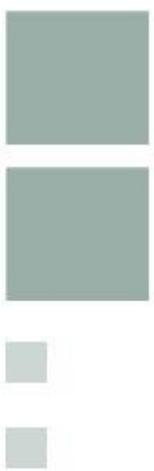
Submitting comments

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on these Exposure Drafts

www.asb.co.za

Submit your comments to

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THANK YOU





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