

# Accounting for Leases in the Public Sector

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# Presenters

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Director

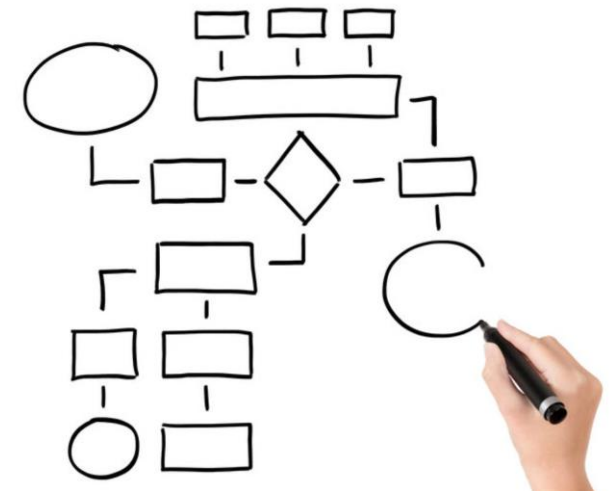


Jamie Cattell – XRB Project  
Manager



# Accounting for leases in the Public Sector

- Setting the scene
- Proposed new lease accounting requirements – ED 75
- Why a new lease standard for the public sector?
- Request for Information: Concessionary Leases and Other Arrangements Similar to Leases – RFI
- Questions



# Setting the scene

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# Brief history of international leases projects



2010  
First exposure  
draft issued



2013  
Second  
exposure draft  
issued



2016  
IFRS 16 *Leases*  
issued



1 Jan 2019  
IFRS 16 *Leases*  
became  
effective



Companies have  
been applying  
IFRS 16 for past  
two years



2018  
First exposure  
draft (ED 64)  
issued



Jan 2021  
Second  
exposure draft  
(ED 75) and RFI  
issued



March 2022  
Final standard based  
on IFRS 16 expected  
to be issued

# Current status of IPSASB Leases project

In response to submission received on ED 64 *Leases* the IPSASB is taking a **two-phased approach**

**Phase One – ED 75:** Proposes a lease accounting model that is consistent with IFRS 16 for both lessees and lessors



**Phase Two – RFI:** To help advance its thinking on the accounting for concessionary lease and arrangements similar to leases, the IPSASB is seeking further information.



# Current accounting for leases in New Zealand



## PBE IPSAS 13 Leases (IPSAS issued 2006)

- The accounting for lease arrangements is based on the classification of a lease as either a finance lease or operating lease
  - **Finance lease** – a lease that transfers substantially all the risks and rewards of an asset. Title may or may not eventually be transferred
  - **Operating lease** – any lease that is not a finance lease

Accounting by lessees	Accounting by lessors
<b>Finance lease</b> <ul style="list-style-type: none"><li>• At lease inception an asset and lease liability is recognised</li><li>• Subsequently minimum lease payments are apportioned between the finance charge and the reduction of the lease liability</li></ul>	<b>Finance lease</b> <ul style="list-style-type: none"><li>• At lease inception a lease receivable is recognised</li><li>• The underlying leased asset is derecognised</li><li>• Subsequently the lease receipts are apportioned between finance income and the reduction of the lease receivable</li></ul>
<b>Operating lease</b> <ul style="list-style-type: none"><li>• Lease payments are generally expensed on a SL basis</li><li>• Note disclosure of operating lease commitments</li></ul>	<b>Operating lease</b> <ul style="list-style-type: none"><li>• The underlying leased asset remains on the lessors balance sheet</li><li>• Lease income is generally recognised on a SL basis</li></ul>

# IPSASB ED 75 *Leases*

Proposed new lease accounting requirements

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# ED 75 *Leases*



- Issued January 2021
- **For lessees** proposes a right-of-use model, consistent with ED 64 and IFRS 16
- **For lessors** proposes to substantially carry forward the risks and rewards model, consistent with IPSAS 13 and IFRS 16
- Comment period to NZASB closes 22 April and to IPSASB closes 17 May

Exposure Draft 75  
January 2021  
Comments due: May 17, 2021

IPSAS<sup>®</sup>

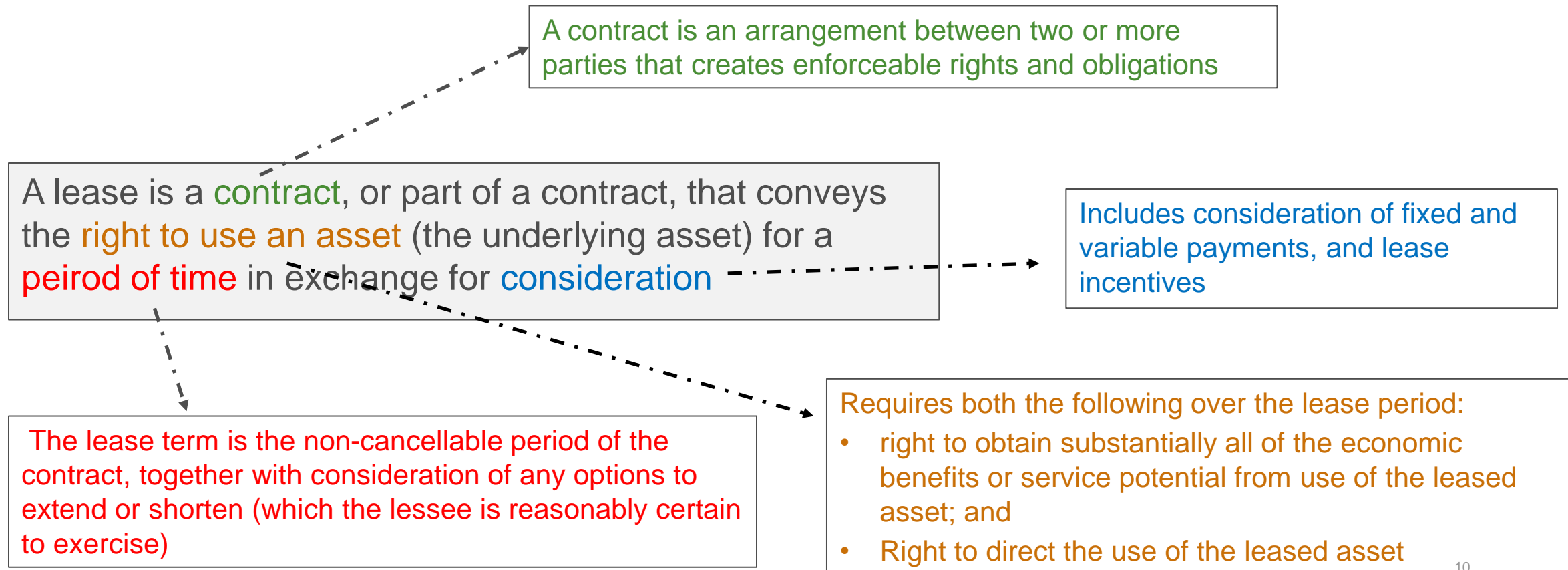
*Proposed International Public Sector Accounting Standard<sup>®</sup>*

Leases

**IPSASB** International Public  
Sector Accounting  
Standards Board<sup>®</sup>

# ED 75 Leases – Scope

The proposed standard generally applies to all leases



# ED 75 proposals for lessee accounting

ED 75 proposes a right-of-use model (ROU) for lessees (consistent with IFRS 16)

- At the commencement of the lease, the lessee recognises:
  - A **right-of-use asset** – they control the right to use the underlying asset
  - A **lease liability** – they have a present obligation to make future lease payments in accordance with the lease contract
- In subsequent periods:
  - The ROU asset is **depreciated** over the term of the lease
  - Lease payments are apportioned between the **finance charge** and the **reduction of the lease liability**

Impact: Most lease obligations are recognised on the balance sheet – the operating/finance lease distinction is removed

# Lessee accounting – proposed ROU Model

## Lessees ROU model

### Recognition at lease commencement date

DR ROU Asset

CR Lease Liability

(Present value of total expected lease payments)

### Subsequent accounting

DR Lease Liability

DR Interest expense

CR Bank

(Reduce the lease liability for lease payments)

DR Depreciation

CR ROU Asset

(Straight line depreciation of the ROU asset)

# ED 75 *Leases* – scope exemptions

## Recognition exemptions (lessee)

- A lessee may elect not to apply the ROU model to:
    - (a) Short-term leases
    - (b) Leases for which the underlying asset is of low value
  - For leases that qualify for the recognition exemption, lease payments are instead expensed through the P&L
- 
- No specific guidance is proposed in the ED for concessionary leases – being addressed through RFI

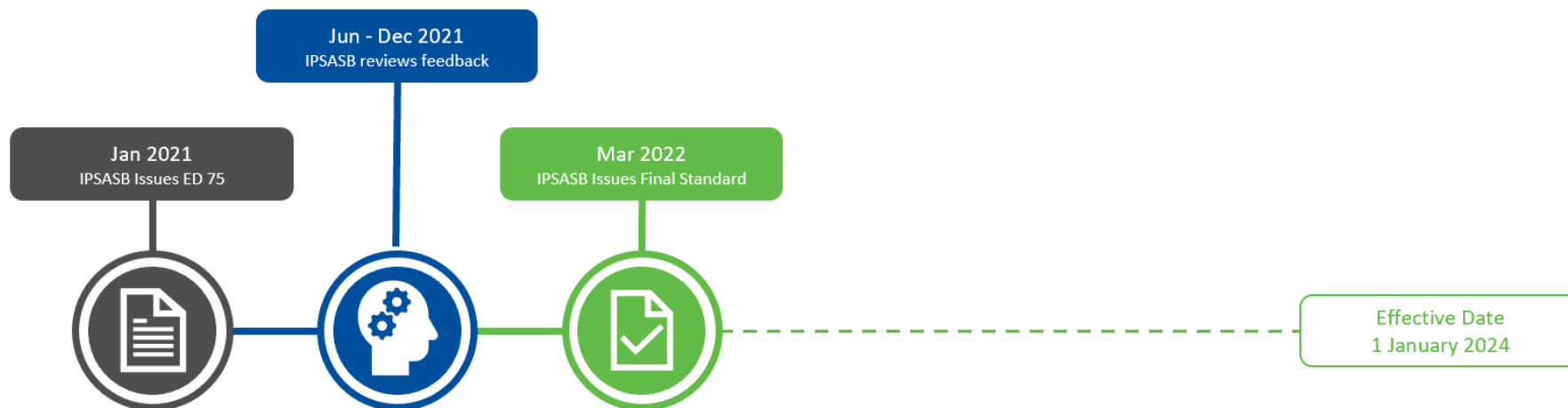
# ED 75 proposals for lessor accounting

ED 75 proposes to substantially carry forward the lessor accounting in IPSAS 13 (consistent with IFRS 16) – no substantial changes to current practice

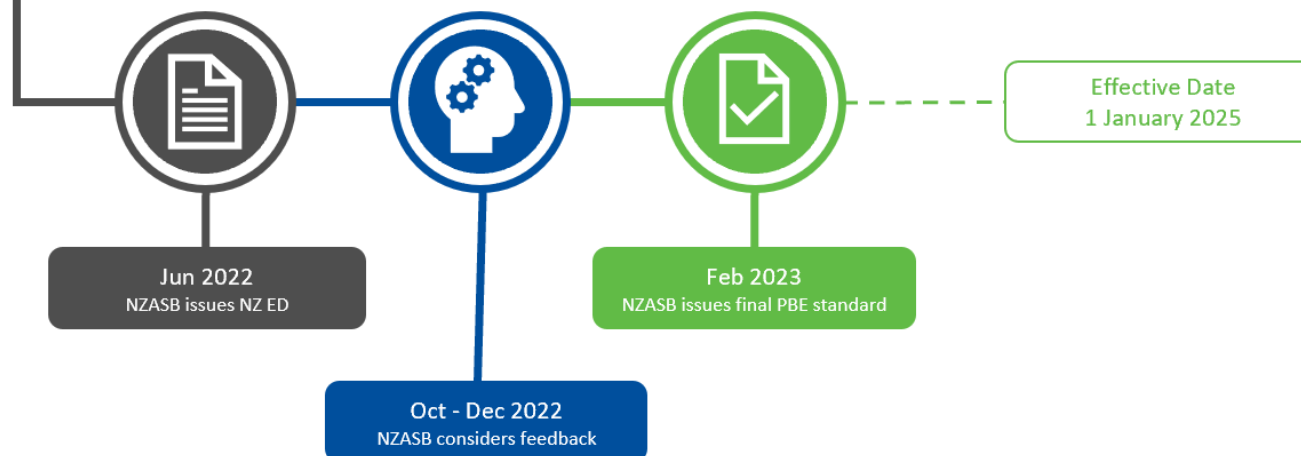
ED 75 propose some changes to the lessor model:

- Initial direct costs definition
- Lease modifications
- Subleases
- Disclosures

Impact: Will result in a lack of symmetry between lessee and lessor accounting for the same arrangements.



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# Why a new lease standard for the public sector?

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# Why a New Leasing Standard in the Public Sector?



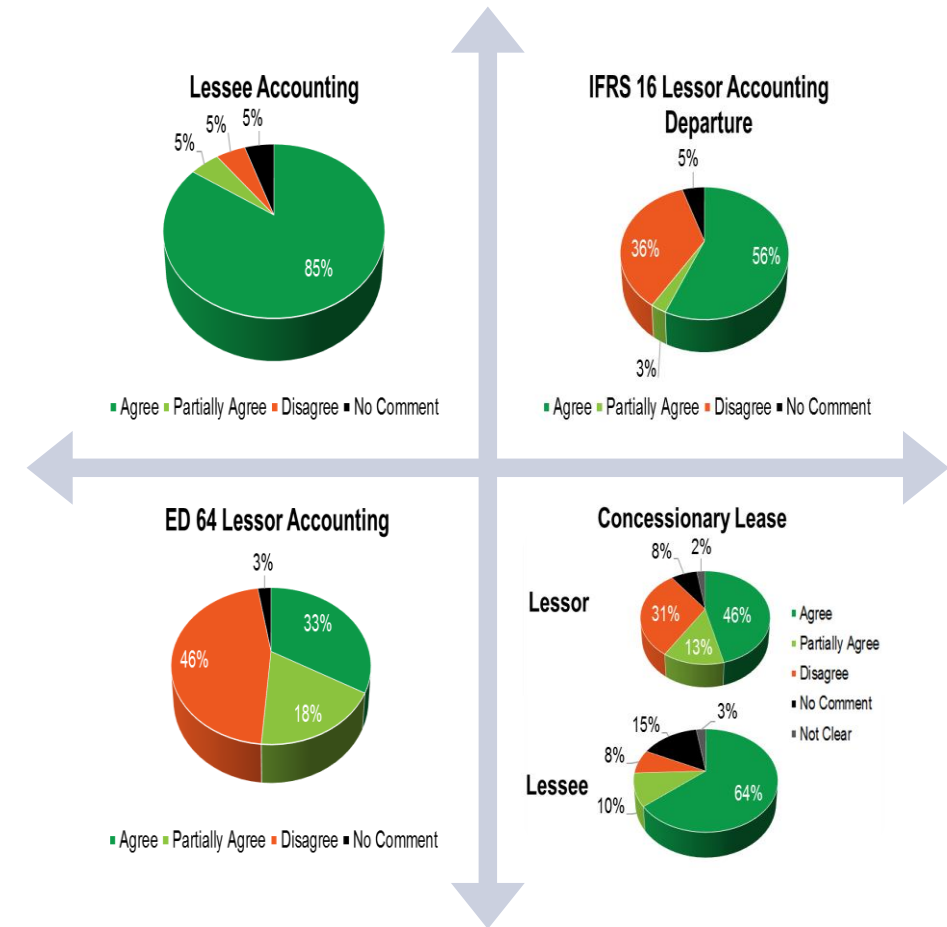
## Addresses criticism of the current risk and rewards model in IPSAS 13:

- Permitted 'off-balance sheet financing' of lease commitments classified as operating leases
- The operating/finance lease distinction allowed transactions that were economically similar to be accounted for differently
- Difficult to:
  - get an accurate and complete picture of the entity's assets and liabilities
  - compare entities that lease assets with those that buy assets

Impact: The proposed leasing requirements are expected to lead to increased transparency of public sector lease obligations and resources the lessee has the right to use

# Overview of responses to ED 64 *Leases*

- **Lessee accounting:**
  - Strong support for ‘right-of-use’ approach
- **Lessor accounting:**
  - Mixed feedback on proposals
- **Concessionary leases:**
  - Mixed feedback on proposals



# Brief comparison between ED 64 and ED 75

## ED 64, *Leases*

- **Lessee accounting**
  - Right-of-use model (based on IFRS 16)
  - Concessionary leases
- **Lessor accounting**
  - Right-of-use model
  - Concessionary leases

## ED 75, *Leases*

- **Lessee accounting**
  - Right-of-use model (based on IFRS 16)
- **Lessor accounting**
  - Risks and rewards model (based on IFRS 16)

# Request for Information – Concessionary Leases and Other Arrangements Similar to Leases

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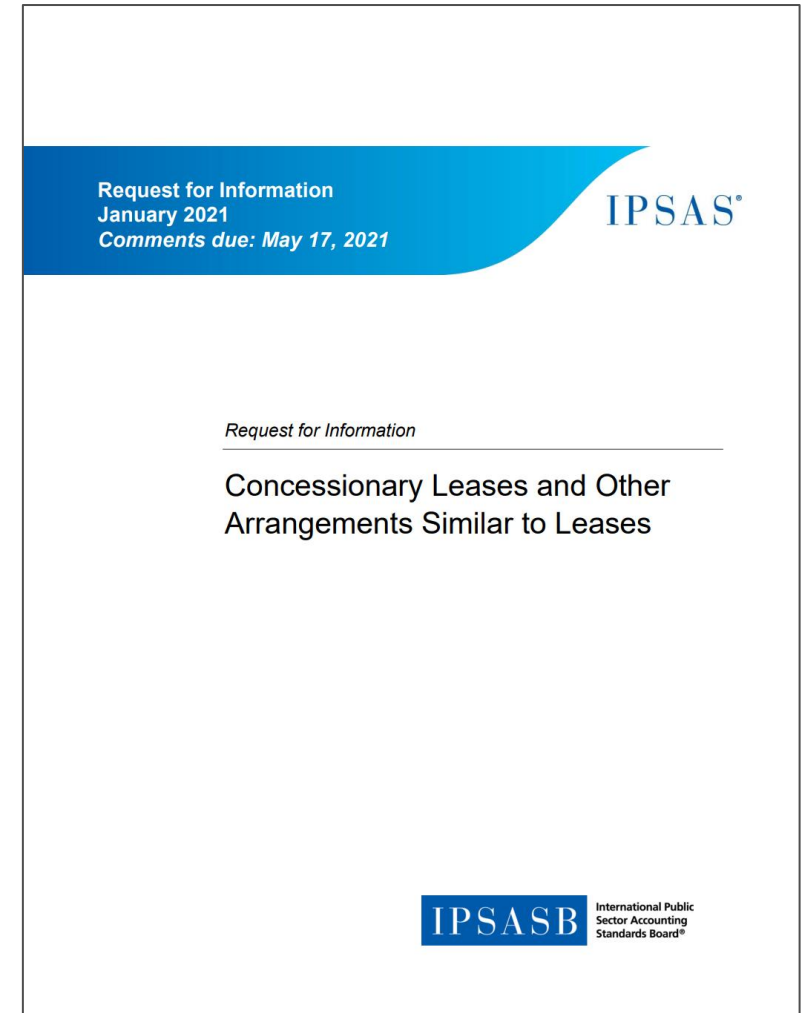
# Overview of the RFI

## Objective

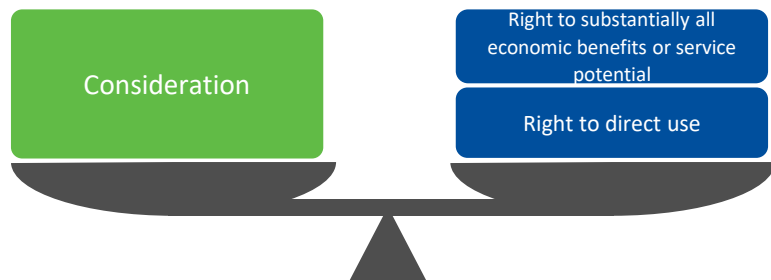
- Gather information on concessionary leases and other “lease-like” arrangements common in the public sector

## Specific types of arrangements

- Concessionary leases
- Leases for zero or nominal consideration
- Access rights
- Arrangements allowing right-of-use
- Social housing rental arrangements
- Shared properties with or without a lease arrangement in place



# Concessionary leases and leases for zero or nominal consideration

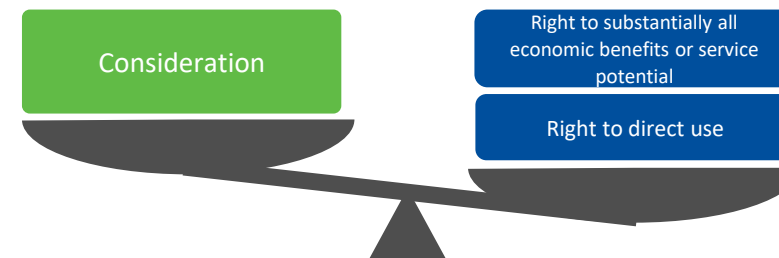


## Lease

- Right to control the use of an asset transferred for a period of time
- In exchange for consideration (**market value**)

## Concessionary lease

- Right to control the use of an asset transferred for a period of time
- In exchange for consideration (**less than market value**)



## Lease for zero or nominal consideration

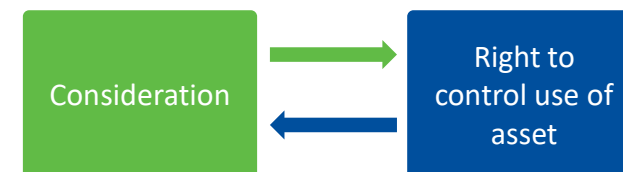
- Right to control the use of an asset transferred for a period of time
- In exchange for *nominal consideration* (e.g. \$1) or *no consideration*



# Access rights and arrangements allowing right-of-use

## Lease

- **Right to control the use of an asset** transferred for a period of time
- In exchange for consideration



Access rights or Right-of-Use arrangements instead involve transferring a **portion of these rights**.

## Access rights arrangement

- **Right to access the asset** transferred for a period of time
- In exchange for consideration
  - For example – the government may pay a private landowner to allow the public to pass over their land in order to reach a national park.



## Right-of-use arrangement

- **Right to use the asset for a specified purpose** transferred for a period of time
- In exchange for consideration
  - For example – the government may provide a social service using a privately owned community hall.
  - May or may not be a written arrangement



# Social housing rental arrangements

## Lease

- Right to control the use of an asset transferred *for a period of time*
- In exchange for consideration

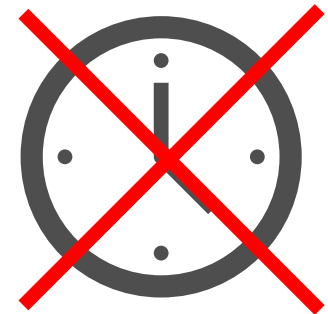


## Social housing rental arrangement

- Right to control the use of an asset transferred *for an undefined period of time*
- In exchange for consideration

Can be undefined for a number of reasons:

- Legislation may limit the powers of the public sector entity to terminate
- End term may not be specified in the tenancy agreement





# Shared properties with or without a lease-arrangement in place



## Lease

- Right to control the use of an asset transferred for a period of time
- In exchange for consideration

## Shared property arrangements

- Common in the public sector to have these types of arrangements which:
  - Co-locate activities in a single building
  - May or may not be in exchange for consideration
  - May or may not be documented in a formal lease contract
- Raises questions about the extent to which these arrangements can be considered leases



# What information is the RFI seeking?

The IPSASB is seeking information about the nature and key characteristics of concessionary leases and other arrangements similar to leases that are common in the public sector

## **1. Nature of the arrangement**

- How is the arrangement structured?
- What are the rights of both parties?
- Is there any consideration payable under the arrangement?
- Is it documented in a formal agreement?

## **2. How is the arrangement currently accounted for by both parties to the arrangement?**

- Is it reflected in the financial statements?
- Is it reflected as a note disclosure?
- Not reflected at all?

Responses to the RFI, which will be considered in Phase Two, will help the IPSASB to determine whether further accounting guidance is required, and, if so its nature and content.

# How can I comment on ED 75 or the RFI?



## Submit your comments to:

- The XRB by **22 April 2021**; or
- The IPSASB by **17 May 2021**



[XRB](#)

OR



[IPSASB](#)

# Further information

## Information available on the IPSASB website

- Full consultation documents
  - ED 75 *Leases*
  - RFI Concessionary Leases and Arrangements Similar to Leases
- Also
  - IPSASB ED 75 Webinar
  - At-a-Glance Summary: ED 75

AT A GLANCE  
January 2021

IPSASB

### Exposure Draft (ED) 75 Summary—*Leases*

[This summary provides an overview of ED 75, \*Leases\*.](#)

<b>Project Objective:</b>	This ED proposes new requirements for lease accounting aligned with IFRS 16, <i>Leases</i> to replace IPSAS 13, <i>Leases</i> . In developing ED 75, the IPSASB considered the public sector applicability of the principles drawn from IFRS 16, as well as the comments received on <a href="#">ED 64, <i>Leases</i></a> . ED 75 proposes an IFRS 16 aligned accounting model and principles for lessees and lessors.
<b>The Project Stage:</b>	The IPSASB issued ED 75 in January 2021.
<b>Next Steps:</b>	The IPSASB seeks feedback on ED 75 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that revises accounting requirements for leases.
<b>Comment Deadline:</b>	ED 75 is open for public comment until May 17, 2021.
<b>How to Respond:</b>	Respondents are asked to submit their comments electronically through the IPSASB website, using the <a href="#">“Submit a Comment”</a> link. Please submit comments in both a PDF and a Word file. All comments will be considered a matter of public record and will be posted on the website.



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