

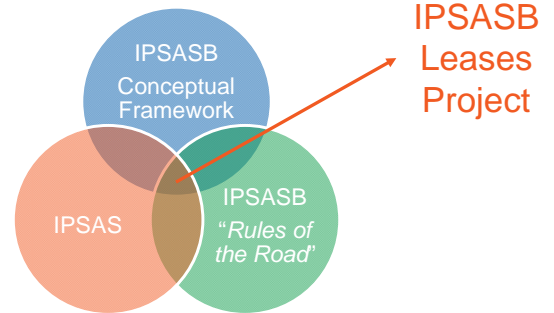
## EXPOSURE DRAFT 64, LEASES

The purpose of this Frequently Asked Questions (FAQ) is to explain in plain English some key proposals of Exposure Draft (ED) 64, *Leases*.

### FAQ # 1 – Why is the IPSASB departing from IFRS 16, *Leases* in lessor accounting?

Because quite often lessees and lessors are both public sector entities. Therefore, it is important for accountability and decision-making purposes for both to account on a consistent basis.

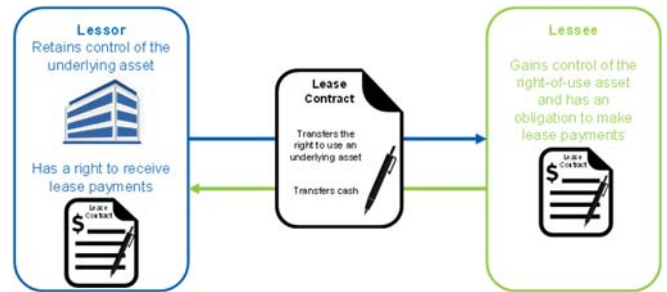
Additionally, the risks and rewards incidental to ownership model that exists in IFRS 16 is not consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) and IPSAS on asset recognition and derecognition as it is required by the IPSASB Policy Paper "[Process for Reviewing and Modifying IASB Documents](#)", also known as "*Rules of the Road*".



### FAQ # 2 – Why is the IPSASB proposing the right-of-use model for lessor accounting?

Because it is consistent with:

- The *Conceptual Framework*;
- IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment*, IPSAS 29, *Financial Instruments: Recognition and Measurement* and IPSAS 32, *Service Concession Arrangements: Grantor*; and
- Lessee accounting requirements proposed in ED 64.

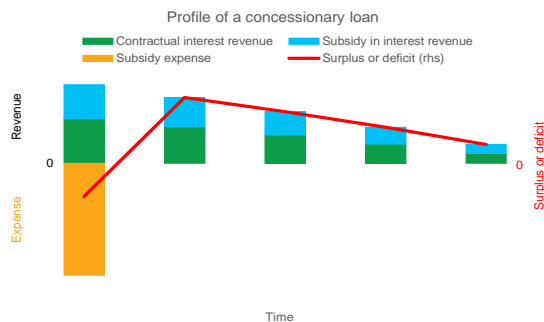


### FAQ # 3 – Why is the IPSASB proposing accounting requirements for concessionary leases?

Because in the public sector quite often public sector entities and international organizations enter into a lease at below market terms (a concessionary lease). In doing so, the IPSASB will also fill a gap in IPSASB's literature.

### FAQ # 4 – Why is the IPSASB proposing to recognize the subsidy in concessionary leases as expense on day-one and revenue over the lease term consistent with concessionary loans?

Because the IPSASB is of the view that the nature of the resource transferred (cash or right-of-use asset) does not affect the economic substance of a subsidy. Consequently, whether an entity grants a loan or transfers a right-of-use asset at below market terms should not modify the accounting for the subsidy in concessionary leases. The IPSASB is also of the view that recognizing the



subsidy as day-one expense provides the most useful information for accountability purposes because it

shows the cost of the decision to grant the concession. On the other hand, recognizing the subsidy as revenue above the cash inflows represents the full economic value of the resource created (the right-of-use asset) and transferred to the lessee, which is higher than the future cash inflows (contractual lease payments). In a similar way, the lessee is also recognizing the subsidy as revenue above the future cash outflows in concessionary leases.

