

# IPSASB Exposure Draft (ED) 64 Leases

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## Session outline

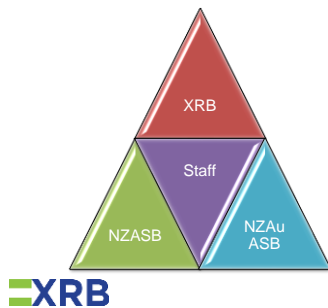
- Introducing IPSASB ED 64 *Leases*
- Outline of the main proposals in ED 64
  - Right-of-use model for **lessees**
  - Right-of-use model for **lessors**
  - Accounting for **concessionary leases**
- How to provide feedback
- Questions/comments



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## The External Reporting Board (XRB)

- The XRB is an independent Crown Entity responsible for developing and issuing accounting and auditing & assurance standards in New Zealand
- The XRB's Organisation Structure



- New Zealand Accounting Standards Board (NZASB)
- New Zealand Auditing and Assurance Standards Board (NZAuASB)

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## Development of PBE Standards

- PBE Standards are based predominantly on IPSAS
- IPSASs are issued by the IPSASB and are developed for public sector entities
- When developing IPSASs the IPSASB issues consultation documents to seek public feedback
- It is important we receive feedback from NZ constituents as a final IPSAS will likely form the basis of a new PBE Standard
- The NZASB will be making a submission on ED 64

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## Development of PBE Standards

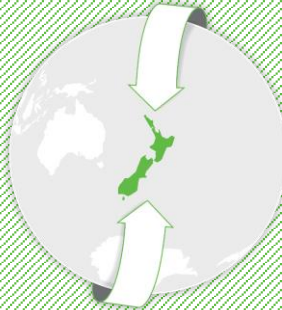
- IPSASB issues Standard
- NZASB develops PBE Standard
  - makes changes to IPSAS for not-for-profit entities
  - issues domestic ED and seeks feedback on proposals
  - considers feedback received
  - issues PBE Standard



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**XRB** ensures New Zealand has a strong and respected voice on the global stage.

We contribute and influence international standard-setting boards as standards are developed



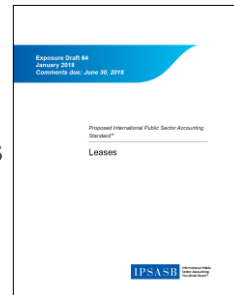
We take international standards and adjust them for New Zealand

We are a "honest broker" on the international stage, providing contributions which are both principles-based and pragmatic  
We are proud to have lead the world in public sector financial reporting for more than 30 years

**For a small country, New Zealand punches above its weight**

## Introducing ED 64 *Leases*

- IPSASB commenced its *Leases* project in March 2017
- Objective to propose new lease accounting requirements covering both lessors and lessees
- Will replace IPSAS 13 *Leases*
- Two main drivers for project
  - Convergence with IFRS 16 *Leases* to the extent appropriate
  - To address any public sector specific issues
- ED 64 issued end of January 2018 with five month comment period



## Introducing ED 64 *Leases*

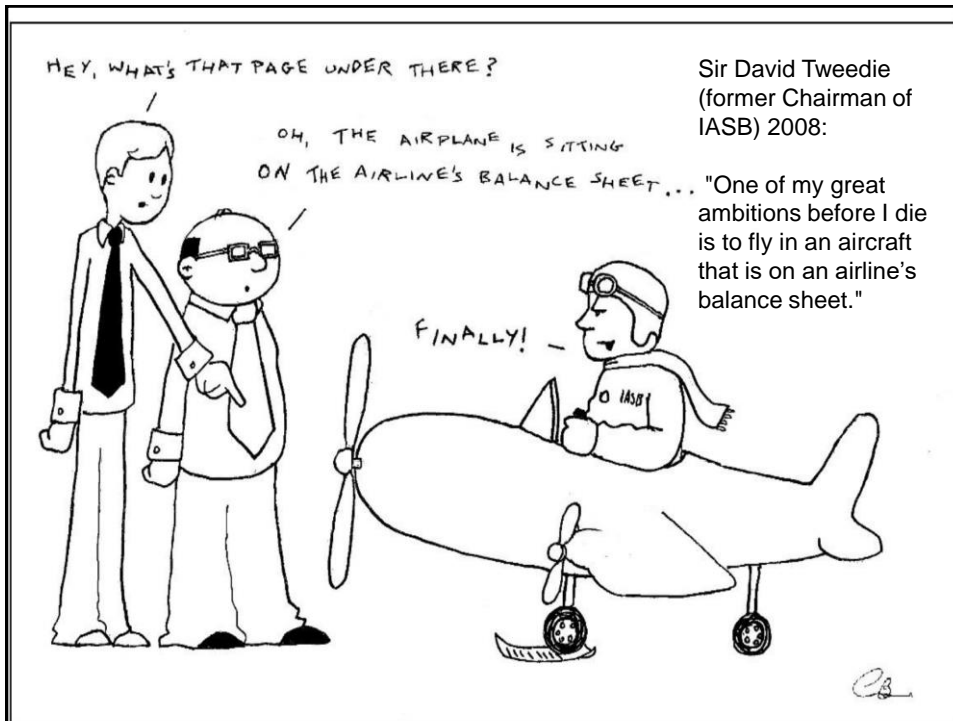
### Convergence with IFRS 16

- IFRS 16 *Leases* was issued by the IASB in January 2016
- The IASB's goal was to address criticism that previous lease accounting requirements:
  - Did not require lessees to recognise assets and liabilities arising from operating leases — this led to concerns about the lack of transparency of information about lease obligations
  - The operating/finance lease distinction allowed transactions that were economically similar to be accounted for very differently
  - Did not provide adequate information about a lessor's exposure to credit risk and asset risk



Key question in developing ED 64 — are there any public sector specific reasons to depart from IFRS 16?

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## Introducing ED 64 Leases

- Key proposals in ED 64:
  - A single right-of-use model for both lessees and lessors – removal of the finance/operating lease distinction
  - Lessee accounting substantially converged with IFRS 16
  - Departure from IFRS 16 (and IPSAS 13) for lessor accounting
  - New public sector specific requirements for concessionary leases

# Introducing ED 64 Leases

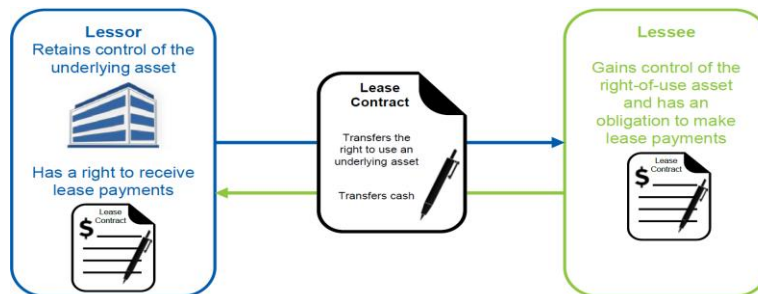
## Summary of ED 64 versus IFRS 16

	ED 64	IFRS 16
Lessee accounting	Right-of-use model	Right-of-use model
Lessor accounting	Right-of-use model	Retention of operating/finance lease classification
Concessionary leases	Public sector specific guidance	No specific guidance



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## What is the right-of-use model?



### Lessor

- Continues to recognise the underlying leased asset
- Recognises a lease receivable for its right to receive lease payments over the lease term
- Recognises liability (unearned revenue)

### Lessee

- Recognises a right-of-use asset representing the value of the lease contract
- Recognises a lease payable for its total lease payments over the lease term

## ED 64 definition of a lease and scope

- 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**

- Lessor recognition exemptions

- short-term leases

- Lessee recognition exemptions

- short-term leases & underlying asset is of low value

- A lease for zero or nominal consideration is, in substance, a grant so not in scope of ED 64



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## Right-of-use model for lessees



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## ED 64 Lessee accounting approach

Current accounting (IPSAS 13)	ED 64 (consistent with IFRS 16)
<b>Initial Recognition</b>	<b>Initial Recognition</b>
<b>Operating lease</b>	<b>Single right-of-use model</b>
No lease assets or lease liabilities recognised at lease commencement date	DR ROU asset CR Lease liability
<b>Finance Lease</b>	
DR Lease asset CR Lease liability	



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## ED 64 lessee accounting approach

Current accounting (IPSAS 13)	ED 64 (consistent with IFRS 16)
<b>Subsequent treatment</b>	<b>Subsequent treatment</b>
<b>Operating lease</b>	
DR Lease expense CR Bank	
<b>Finance Lease</b>	<b>Single right-of-use model</b>
DR Lease liability	DR Lease liability
DR Interest	DR Interest
CR Bank	CR Bank
DR Depreciation	DR Depreciation
CR Lease asset	CR ROU asset

Under ED 64 no lease expense recognised, instead the ROU asset is depreciated over the lease term.

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## Lessee example

### Lessee enters into 10 year building lease

- Lease payments are \$100,000 per year
- At the commencement date, lessee determines that the lease term is 10 years, and classifies the lease as operating
- For simplicity assume the discounting of lease liability (interest rate implicit in the lease) results in a interest expense of \$10,000 per year
- Applies the cost model and depreciates the right-of-use asset over 10 years straight line



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## Lessee example

### Current accounting — lease classified as operating

#### Recognition at lease commencement date

No lease assets or lease liabilities are recognised on statement of financial position

#### Subsequent year accounting

DR Lease expense \$100,000  
CR Bank \$100,000  
Lease payments recognised in surplus or deficit on a straight line basis

Note disclosure of total operating lease commitment of \$1 million (\$100,000 @ 10 years)



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## Lessee example

### ED 64 — ROU model

#### Recognition at lease commencement date

DR ROU Asset 900,000  
CR Lease Liability 900,000  
(Present value of total expected lease payments)

#### Subsequent year accounting

DR Lease Liability \$90,000  
DR Interest expense \$10,000  
CR Bank \$100,000  
(Reduce the lease liability for lease payments)  
DR Depreciation \$90,000  
CR ROU Asset \$90,000  
(Straight line depreciation of the ROU asset)



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## Right-of-use model for lessors



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## ED 64 lessor accounting approach

### IPSASB's basis for departing from the IFRS 16 'risks and rewards incidental to ownership' model:

- Leases are in substance financing transactions, and therefore the lessor should recognise a receivable for lease payments due
- The underlying leased asset and the right-of-use asset (the lease contract) should be accounted for separately
- A lease conveys the right to use an underlying asset for a period of time and does not transfer control of the underlying asset to an entity – the underlying asset should remain on the lessors statement of financial position
- The lessor has not lost control of the asset and the CF criteria for derecognition has not been met (i.e. the lessor has not sold the asset)



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## ED 64 lessor accounting approach

### IPSASB's basis for departing from the IFRS 16 'risks and rewards incidental to ownership' model (continued):

- To satisfy the objectives of PFM — the lessor should report complete information about the resources entrusted to it for delivery of services to the public
- Applying different models for lessees and lessors would give rise to practical issues in the public sector:
  - Consolidation issues where the lessor and the lessee are part of the same economic entity
  - The use of different accounting models may make leasing transactions less understandable to some users, and make analysis of the financial position of public sector entities difficult



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## Lessor accounting approaches

Current accounting (IPSAS 13 & IFRS 16)	ED 64 (New public sector specific approach)
<b>Initial Recognition</b>	<b>Initial Recognition</b>
<b>Operating lease</b>	<b>Single right-of-use model</b>
Lessor continues to recognise underlying leased asset	Lessor continues to recognise underlying leased asset
No lease assets or lease liabilities recognised at lease commandment date	DR Lease receivable
	CR Lease liability (unearned revenue)
<b>Finance Lease</b>	Both the receivable and liability are measured at the present value of lease payments expected over the lease term
Lessor derecognises carrying amount of underlying leased asset	
DR Lease receivable	
CR Underlying asset	



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## Lessor accounting approaches

Current accounting (IPSAS 13 and IFRS 16)	ED 64 (New public sector specific approach)
<b>Subsequent treatment</b>	<b>Subsequent treatment</b>
<b>Operating lease</b>	<b>Single right-of-use model</b>
DR Bank	DR Bank
CR Lease revenue	CR Lease receivable
	CR Interest revenue
<b>Finance Lease</b>	DR Lease liability (unearned revenue)
DR Bank	CR Lease revenue
CR Lease receivable	
CR Interest revenue	
No lease revenue recognised, any gain or loss is accounted for when the underlying leased asset is derecognised	The lessor continues to recognise the underlying asset and lease revenue is recognised over the lease term



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## Lessor example

Same example, but from lessor perspective —10 year building lease

- Lessor agrees to provide the lessee with the right-to-use the building for 10 years for \$100,000 per year
- For simplicity assume the discounting of lease receivable (interest rate implicit in the lease) results in interest revenue of \$10,000 per year



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## Lessor example

Current accounting — lease classified as operating

### Recognition at lease commencement date

Underlying leased asset remains on the statement of financial position

No lease assets or lease liabilities are recognised on statement of financial position

### Subsequent year accounting

DR Bank \$100,000

CR Lease revenue \$100,000

Lease revenue recognised in surplus or deficit on a straight line basis over the lease term



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# Lessor example

## ED 64 — ROU model

### Recognition at lease commencement date

Underlying leased asset remains on the statement of financial position

DR Lease receivable \$900,000  
CR Unearned revenue \$900,000

Total value of the lease contract (the right to receive lease payments) recognised on the statement of financial position



### Subsequent year accounting

DR Bank \$100,000  
CR Lease receivable \$90,000  
DR Interest income \$10,000

To reduce lease receivable for lease receipts

DR Unearned revenue \$90,000  
CR Lease revenue \$90,000  
Lease revenue recognised over lease term

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# Accounting for concessionary leases



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## Concessionary leases

- Concessionary lease - a lease at below market terms
- Includes an exchange component and a non-exchange component
- Measured at fair value — based on estimating the value of the lease if on market terms
- Accounted for in a similar way to concessionary loans
- Avoids understatement of the right-of-use asset on B/S
- Ensures the subsidy received is recognised in P&L



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## Concessionary lease example — Lessee

### Lessee enters into 10 year building lease

- Market lease payments are \$100,000 per year and contractual lease payments are \$50,000 (subsidy of \$50,000)
- For simplicity assume discounting of lease liability results in an interest expense of \$5,000 per year
- Assume IPSAS 23 requires the subsidy to be recognised as a day one gain (no present obligation)
- Lessee applies the cost model and depreciates the right-of-use asset straight line over 10 years



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## Lessee concessionary lease – ED 64

### Recognition at lease commencement date

DR ROU Asset	900,000
CR Lease Liability	450,000
CR Subsidy (revenue)	450,000

(Non-exchange component recognised as a day one gain in surplus or deficit)

### Subsequent year accounting

DR Lease Liability	\$45,000
DR Interest expense	\$5,000
CR Bank	\$50,000

(Reduce the lease liability for lease payments)

DR Depreciation	\$90,000
CR ROU Asset	\$90,000

(Straight-line depreciation of the ROU asset measured at fair value)



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## Lessor example

Same example, but from lessor perspective —10 year building lease provided in concessionary terms

- Lessor agrees to provide the lessee with the right-to-use the building for 10 years for \$50,000 per year (market terms \$100,000 per year)
- For simplicity reasons assume the discounting of the lease receivable results in interest revenue of \$5,000 per year
- Assume the subsidy is recognised as a day one expense in surplus or deficit



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## Lessor concessionary lease – ED 64

### Recognition at lease commencement date

Underlying leased asset remains on the statement of financial position

DR Lease receivable \$450,000  
DR Subsidy expense \$450,000  
CR Unearned revenue \$900,000

Non-exchange component recognised as a day one loss in surplus or deficit

### Subsequent year accounting

DR Bank \$50,000  
CR Lease receivable \$45,000  
CR Interest income \$5,000

To reduce lease receivable for lease receipts

DR Unearned revenue \$90,000  
CR Lease revenue \$90,000

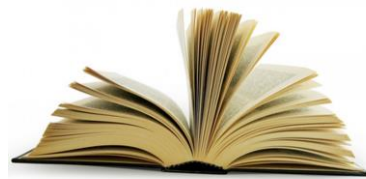
Lease revenue recognised at fair value of lease over the lease term



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## Also in ED 64

- Sale and leaseback transactions
- Presentation and disclosure requirements for lessees and lessors
- Application guidance
- IPSASB Basis for Conclusions
- Illustrative examples



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# How to provide feedback



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## Upcoming NZASB Seminars

Wellington	Thursday 22 March 9.00am - 11.30am James Cook Grand Chancellor
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Christchurch	Thursday 28 March 12pm - 2.30pm The George Hotel
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Auckland	Friday 29 March 9.00am - 11.30pm Heritage Hotel
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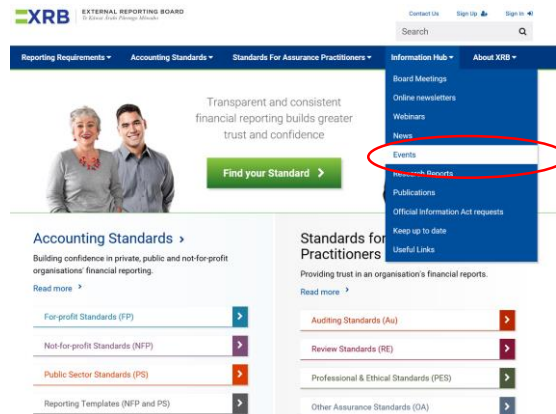


Register at — [www.xrb.govt.nz/information-hub/events/](http://www.xrb.govt.nz/information-hub/events/)

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# Upcoming NZASB Seminars

Register at — [www.xrb.govt.nz/information-hub/events/](http://www.xrb.govt.nz/information-hub/events/)



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# Responding to Exposure Draft

- Comments due to NZASB: 31 May 2018
- Comments due to IPSASB: 30 June 2018
- Documents on XRB website
  - Exposure Draft
  - IPSASB At a Glance
- Send comments to [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)
  - Answer all or some questions
  - Formal or informal comments in an email or letter



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# Responding to Exposure Draft

## Accounting Standards >

Building confidence in private, public and not-for-profit organisations' financial reporting.

[Read more >](#)

[For-profit Standards \(FP\)](#)

[Not-for-profit Standards \(NFP\)](#)

[Public Sector Standards \(PS\)](#)

[Reporting Templates \(NFP and PS\)](#)

[Accounting Standards in Development >](#)

## Standards in development

**XRB** NZ ACCOUNTING STANDARDS BOARD

[Open for comment >](#)

[Closed for comment >](#)

[Submissions by the NZASB >](#)

[NZASB Summary Work Plan >](#)



## Consultation documents

Exposure drafts (EDs) are early versions of accounting standards for general purpose financial reporting. These are issued for comment before the standard is finalised. Also, we list here from time to time Consultation Papers (CPs) and Discussion Papers (DPs), also open for comment.

You can view those:

- open for comment; and those
- closed for comment including related submissions.

[www.xrb.govt.nz](http://www.xrb.govt.nz)  
[enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz)



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# Responding to Exposure Draft

## Open for comment

[For-profit Standards \(FP\)](#) [Not-for-profit Standards \(NFP\)](#) [Public Sector Standards \(PS\)](#)

Before issuing a finalised accounting standard the NZASB and international standard-setting boards—such as the International Accounting Standards Board (IASB) and IPSASB—issue exposure drafts (EDs) of accounting standards, as well as Consultation Papers (CPs) and Discussions Papers (DPs) currently open for comment.

*These documents have no legal status.*

### Domestic EDs

ID	Title	Comments due
<b>NZASB 2018-2</b>	Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements	30 May 2018
<b>NZASB 2018-1</b>	RDR Proposals for NZ IFRS 16 and NZ IAS 7	23 April 2018

### IPSASB EDs and consultation papers

ID	Title	Comments due
<b>IPSASB ED 64</b>	Leases	31 May 2018
<b>IPSASB Consultation Document</b>	Proposed Strategy and Work Plan 2019–2023	13 Apr 2018



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# Questions/Comments



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*Te Kāwai Ārahi Pūrongo Mōwaho*

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