



**MINISTÈRE
DE L'ÉCONOMIE
DES FINANCES
ET DE LA RELANCE**

*Liberté
Égalité
Fraternité*

Le Président

**Conseil de normalisation
des comptes publics**

Paris, April 13, 2021

Mr Ross Smith
Technical director
International Public Sector Accounting
Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

Re: Response to Exposure Draft 75, Leases

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft 75, *Leases* published in January 2021 (ED75).

The CNoCP understands that the IFRS alignment process prevailed in the Leases project as compared to the former proposals in ED64. That being said, we are partial to the second phase of the project and to the Request For Information to gain insights into operations similar to leases that are specific to the public sector. We expect that this should help solving some implementation difficulties.

In 2018, upon commenting on ED64, we commended the IPSASB for the efforts put in setting requirements that would enhance symmetry between the lessor and the lessee on the recognition of the underlying asset. Unfortunately with the new proposals in ED75, users of financial statements cannot figure out how an underlying asset is recognised neither in the lessor's nor in the lessee's financial statements as currently proposed in the case of a finance lease from the lessor's perspective. Symmetry is actually critical to monitor the use of public resources and promote transparency in public finance management. Additionally, symmetry would allow for swift reporting under the national systems of accounts. As a last comment with respect to the comparison with ED64, we also welcomed efforts made in elaborating proposals for concessionary leases.

We therefore deeply regret that the proposals in ED64 for lessor accounting were fundamentally modified and that the standard-setting process did not allow for further public consultation on the consequences of that change of direction.

We are also concerned that the classification of the liability as financial or non-financial is not explicitly addressed in ED75.

As we originally proposed in 2018, we would appreciate if the Board could consider exempting public sector entities from applying the proposed accounting requirements for leases between entities of the public sector. The standard would then only apply mandatorily to lease arrangements between private and public entities. We believe that such an exemption would fit the cost-benefit constraint.

We would also recommend that the Board should underline in the core text that arrangements that transfer control of the underlying asset are out of scope in the future standard. Additional guidance on when arrangements transfer control of the underlying asset would also be welcome.

Eventually, we thought we would share the actual position in the French Central Government accounting standards: in the face of the complexity of the right of use model, and also because it may affect the scope of the public debt, we do not intend to change our current requirements based on IPSAS 13's distinction between operating and finance leases for both the lessor and the lessee.

We address each Specific Matter for Comment in the attached appendix.

Yours sincerely,

Michel Prada

APPENDIX

Specific Matter for Comment 1

The IPSASB decided to propose an IFRS 16-aligned Standard in ED 75 (see paragraphs BC21–BC36). Do you agree with how the IPSASB has modified IFRS 16 for the public sector (see paragraphs BC37–BC60)? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

As an overall comment, we strongly believe that the requirements in IFRS 16 with respect to lessee accounting are overly complex for public sector entities and that the costs of reporting financial information on that basis outweigh the benefits of such information.

Therefore, and as already stated in our comment letter to ED64 *Leases* in 2018, we would recommend that the Board should consider exempting public sector entities from applying the accounting requirements of the future standard for leases between entities of the public sector. The standard would then only apply mandatorily to lease arrangements between private and public sector entities.

On a more detailed level, we would recommend enhancing consistency between the definition of a lease in paragraph 5 and the “Identifying a Lease” section in paragraph 10. We would suggest aligning the definition on the wording in paragraph 10; the definition would then read as follows:

“A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset (the underlying asset) for a period of time in exchange for consideration.”

This inconsistency could have consequences on the implementation of the guidance in AG10 that states that the existence of the right to control the use should be asserted through the customer having both the right to obtain the economic benefits or the service potential and the right to direct the use of the asset. From a practical and implementation perspective, and especially when considering whether an arrangement is a lease, inconsistent references to the right to use make it difficult to decide whether the analysis should focus on the right to use, the right to control the use or the right to direct the use.

Specific Matter for Comment 2

The IPSASB decided to propose the retention of the fair value definition from IFRS 16 and IPSAS 13, Leases, which differs from the definition proposed in ED 77, Measurement (see paragraphs BC43–BC45). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

On this very specific matter, we note that paragraph BC44 states that the use of the new definition of fair value significantly changes the lease classification and the timing of recognising gains and losses

for sale and leaseback transactions. We would appreciate if the Board could be more specific as to the extent of “significantly” as compared to the benefit of having one same definition.

Additionally, we would suggest that one same word should not be used to reflect two different realities to avoid confusion for users and preparers.

Specific Matter for Comment 3

The IPSASB decided to propose to refer to both “economic benefits” and “service potential”, where appropriate, in the application guidance section of ED 75 on identifying a lease (see paragraphs BC46–BC48). Do you agree with the IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We agree with the proposal to add “service potential” to “economic benefits” when assessing whether a contract conveys the right to control the use of an identified asset, as this mirrors the description of a resource, basis of the definition of an asset in the Conceptual Framework; this enhances consistency within the IPSAS suite of standards.