



Proposed Recommendations Document: 1.6 Financial and Operating Leases

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:

[C.5 Statistical Impact of the Change in Treatment of Operating Leases in Business Accounting: Economic Ownership in the Context of Financial and Operating Lease Transactions Pertaining, in Particular to Aircraft](#)

[Draft 2025 SNA](#) and [Draft BPM7](#)

Global Consultation(s):

BP Consultation: [October 2020](#); [August 2021](#)

Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):

BOPCOM: [October 2020](#)

Discussions at GFSAC Meeting(s):

To be determined

Summary of Proposed Recommendations:

The recommendation (in accordance with the decision for the update to the *SNA* and *BPM*) is to maintain the current conceptual approach to distinguishing between financial and operating leases, as described in the *GFSM 2014* (paras. A4.4-A4.15). Accordingly, the economic ownership of the leased asset is based on whether the lessor transfers substantially all risks and rewards of ownership to the lessee (financial lease) or maintains these risks and rewards (operating lease).

Conceptual changes in the international accounting standards in recent years have moved away from the risk and reward approach to economic ownership for lessees, introducing instead the concept of the right to control the use of an asset for more than one year. For the update of *GFSM 2014* it is proposed therefore to develop some practical guidance on the differences between the statistical and accounting lease concepts and how to use accounting data sources to distinguish between, and value, operating and financial leases in accordance with the GFSM. It is recommended to develop this practical guidance under *GFSM research project 1.27 Relationship between GFS and IPSAS*.

Background and Issues

1. On January 1, 2019, a new International Financial Reporting Standard (IFRS) 16 was released replacing the previous leasing standard, International Accounting Standard (IAS) 17. In January 2022, a

new International Public Sector Accounting Standard (IPSAS) for leases (IPSAS 43) replaced IPSAS 13 and is based on the same principles as IFRS 16. IFRS 16 and IPSAS 43 introduce a difference with the statistical recording of leases in the *2008 SNA*, *BPM6* and *GFSM 2014*, particularly concerning the concept of economic ownership.

2. Classification and treatment of leases in the statistical manuals (*2008 SNA*, *BPM6*, and *GFSM 2014*) and the previous accounting standards IAS 17 and IPSAS 13 were closely aligned. In both the statistical manuals and the previous accounting standards, lease arrangements relating to fixed assets are either determined to be operating leases or financial leases¹ based on an assessment of the economic ownership of the leased assets. In the case of operating leases, the legal and economic owner are the same, whereas in a financial lease the legal owner (lessor) has transferred the control, measured by the risks and rewards related to ownership of the assets to the economic owner (lessee).

3. However, lessees preparing financial statements according to the IFRS 16 or IPSAS 43 standards will not distinguish between operating and financial leases but account for all leases over 12 months in the same way. For these leases the lessees will recognize in their balance sheet a “right-to-use” asset and a lease liability. However, lessors under IFRS 16 / IPSAS 43 will continue to distinguish between financial and operating leases based on an assessment of the control over the asset. Applying IFRS 16/IPSAS 43 results in lessor accounting being asymmetric from lessees accounting for all leases with a duration of more than one year.

4. The asymmetry in IFRS 16 / IPSAS 43 between lessee and lessor accounting poses some challenges for adoption by statistical compilers as a key accounting principle of the SNA is symmetrical quadruple entry accounting, which requires assets to only be recorded on the balance sheet of one party and that any flows between parties are recorded equally in the accounts of both parties.

5. In addition, adopting the IFRS 16 / IPSAS 43 approach for lessees in the statistical manuals would require moving away from the distinction between legal and economic ownership principles of economic ownership based on a risks and reward approach, as outlined in *2008 SNA* (paras. 3.21-3.29) and adopted in *GFSM 2014* (para. 3.39-3.41).

6. [BPM Guidance note C.5](#) explores the above issues with respect to the change in the accounting standards and specifically considers whether a distinction between operating and financial leases might be made based on a “one-year rule”. That is all leases with a duration of less than one year to be considered operating leases and those with a longer duration be to be considered as financial leases.

7. After due consultation on the guidance note the decision reached was that there would be no change in the draft *2025 SNA* and *BPM7* with respect to the concept of economic ownership and the identification of operating and financial leases. However, additional practical guidance would be developed on the compilation of lease arrangements and differences between the accounting and statistical standards.

¹ Although the statistical manuals use the term financial lease, IPSAS and IFRS use the term “finance lease” to refer to the same type of lease arrangements. Therefore, references in this document to financial leases refer both to the finance leases of IPSAS/IFRS and to the financial leases of the statistical manuals.

Proposed Recommendations

8. The proposed recommendation is to maintain the current approach described in the *GFSM 2014* (paras. A4.4-A4.15) for distinguishing between financial and operating leases based on whether the lessor has conveyed substantially all risks and rewards of ownership of the asset to the lessee (financial lease) or retained them (operating lease). This recommendation is aligned with the treatment agreed for the draft *SNA 2025* and *BPM7* and is consistent with the GFS principles of economic ownership (*GFSM 2014* paras. 3.38-3.41).

9. Given differences between the latest international accounting standards (for lessees) and the statistical guidance it is also recommended to develop practical guidance on data sources and compilation methods, along with clarifications on the differences between the accounting and statistical standards. It is proposed that this guidance can be developed as part of *GFSM Update research project 2.27 Relationship between GFS and IPSAS*. That research project would propose what text would be included in the updated GFSM and what should be included as a separate compilation note.

Rationale for Proposed Recommendations

10. The proposed recommendations will maintain harmonization between the updated *GFSM* and the 2025 *SNA* and *BPM7*, a key objective of the *GFSM 2014* update process.

11. The proposed recommendations recognize the practical challenges that may be faced when using accounting data on leases to compile GFS. This problem is not unique to GFS but is faced by other statistical compilers and therefore the proposed compilation guidance may beneficially be developed with similar compilation guidance being developed as part of the *SNA* and *BPM* update.

Proposed Text for GFSM Update

12. Conceptual changes to the current text on financial and operating leases in the *GFSM 2014* are not proposed under this research project. However, the development under *GFSM Update research project 2.27 (Relationship between GFS and IPSAS)* of additional practical guidance on the differences between *IPSAS 43 Leases* and the GFS could lead to revisions in the updated GFSM.