

Respondents' Editorials to Authoritative and Non-Authoritative Text of ED 84 for Final Pronouncement and Staff and Task Force's Recommendations

#	Respondents' Issues	Staff and Task Force's Recommendations
1.	IPSAS 43	
1.1.	In the Illustrative Examples and more specifically with regards to IE10A on Lessor measurement, we are unsure why the period of time mentioned in the last two paragraphs of the Analysis section is not consistent throughout the example. In other words, in the Analysis section of IE10A, we would suggest replacing "per month" and "monthly" with "per annum" and "annual" for internal consistency purposes within the example. (R02)	To delete the sentence "The non-exchange component of CU1,500,000 per month is disclosed in accordance with IPSAS 23" because the disclosure is related to lessee, not lessor. To replace the word "monthly" with the word "annual".
1.2.	"IPSAS 43, para. IE11 Example 25: "CU 340,801 (CU 1,800,000-CU1,259,204)" should read "CU 340,801 (CU 1,800,000-CU1,459,200)". (R06)	To amend IE11 as suggested.
1.3.	"(...) we do not fully grasp to what the end of the sentence ("[...] including the level of consideration being exchanged.") refers to. In our opinion, determining the level of consideration being exchanged is the basis for assessing whether the transaction is at market terms or at below-market terms. (R02) "We would also suggest that paragraphs 18C and 18D should be reordered to flow better. Indeed, we think that a last paragraph stating "firstly" may create confusion as to the order of the steps to follow to determine the substance of the transaction." (R02)	To delete the wording "including the level of consideration being exchanged" and to replace paragraph 18D with new paragraphs 18D and 18E.
1.4.	"IPSAS 43.117A states: Leases Previously Classified as Operating Leases 117A. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall: (a) Recognize a lease liability at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.	To amend proposed paragraph IPSAS 43.117A(b) for the Final Pronouncement

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	<p>(b) Recognize a right-of-use asset at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall, on a lease-by-lease basis, measure that right-of-use asset at its carrying amount as if this Standard had been applied since the commencement date, but using the payments for the lease at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.</p> <p>Unlike IPSAS 43.112(b) which offers two measurement options, IPSAS 43.117A(b) prescribes a single way to measure the right-of-use asset on transition from a lease previously classified as an operating lease applying IPSAS 13. We therefore suggest that latter paragraph should be revised to read, "..... The lessee shall measure that right-of-use asset at its carrying amount as if this Standard had been applied since the commencement date, but using payments for the lease at market rates based on the current use of the underlying asset, discounted using the lessee's incremental borrowing rate at the date of initial application." (R03)</p>	
1.5.	<p>"IPSAS 43.117D states: 117D. A lessee may elect not to apply the requirements in paragraph 117A to concessionary leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall include the cost associated with those concessionary leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.</p> <p>This paragraph omits IPSAS 43.114(c)(i) reading "Account for those leases in the same way as short-term leases as described in paragraph 7; and". We note that a lessee will still apply IPSAS 43.7 if it makes the election in IPSAS 43.117D, so we cannot see why IPSAS 43.114(c)(i) is not reflected in IPSAS 43.117D." (R03)</p>	<p>To amend proposed paragraph IPSAS 43.117D for the Final Pronouncement.</p>
1.6.	<p>"IPSAS 43.117E states: Leases Previously Classified as Finance Leases 117E. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for concessionary leases that were classified as finance leases applying IPSAS 13, at the date of initial application the lessee shall:</p>	<p>No action required at Standard level because the proposed paragraph IPSAS 43.117E(b) for concessionary leases is broadly consistent with paragraph IPSAS 43.115 for leases at market terms, where there is no reference to "in place of the lease asset" before "right-of-use asset" in the last sentence of paragraph IPSAS 43.115.</p>

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	<p>(a) Measure the lease liability at the carrying amount of the lease liability immediately before that date measured applying IPSAS 13; and</p> <p>(b) Recognize a right-of-use asset and measure in accordance with paragraph 117A(b).</p> <p>For those concessionary leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.</p> <p>We suggest revising IPSAS 43.117E(b) to read, "Recognize, in place of the leased asset, a right-of-use asset measured in accordance with paragraph 117A(b)" for the sake of clarity and completeness." (R03)</p>					
1.7.	<p>"IPSAS 43. 18C states:</p> <p>18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates based on the current use of the underlying asset. At initial recognition, an entity, therefore, analyzes the substance of the lease granted or received into its component parts, and accounts for those components using the principles in paragraphs AG60–AG62.</p> <p>Given the dichotomy between how a lessee and a lessor should respectively account for concessionary leases (i.e. the present value of payments for the lease at market rates based on the current use of the underlying asset is only applicable to lessee accounting), it may not be clear to preparers that the test indicated by the underlined text is applicable to both lessees and lessors. This should be clarified." (R03)</p>	<p>No action required at Standard level because in IPSAS 43 the term "entity" is used to encompass lessee and lessor. The issue raised by respondent is not specific to concessionary leases. Only the accounting is different between lessees and lessors, but the assessment is the same for both.</p>				
1.8.	<p>"We suggest the following editorial corrections to the diagram below IPSAS 43.AG32B:" (R03)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;"> <p>The lease <u>contains both an exchange component and a non-exchange component.</u></p> </td> <td style="width: 50%; padding: 5px;"> <p>The lease <u>contains both exchange and non-exchange components.</u></p> </td> </tr> <tr> <td style="width: 50%; padding: 5px;"> <p>Difference between lease revenue and the expenses with</p> </td> <td style="width: 50%; padding: 5px;"> <p>Difference between lease revenue and the expenses</p> </td> </tr> </table>	<p>The lease <u>contains both an exchange component and a non-exchange component.</u></p>	<p>The lease <u>contains both exchange and non-exchange components.</u></p>	<p>Difference between lease revenue and the expenses with</p>	<p>Difference between lease revenue and the expenses</p>	<p>To amend diagram in proposed paragraphs IPSAS 43.AG32A accordingly. To delete the diagram IPSAS 43.AG32B because of its complexity and the accounting for concessionary leases is the same as for leases at market terms.</p>
<p>The lease <u>contains both an exchange component and a non-exchange component.</u></p>	<p>The lease <u>contains both exchange and non-exchange components.</u></p>					
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the underlying asset.	<u>associated</u> with the underlying asset.			
1.9.	<p>"However, it points out that in the diagram in AG32B the <i>recognition of the non-exchange component</i> is mentioned. However, according to this ED, the lessor does not have to recognize this part, but only to disclose it in the Notes, without specifying the amount. Thus, the current depiction may be confusing. The SRS-CSPCP therefore wishes that the diagram be altered or supplemented accordingly." (R05)</p>	<p>To delete the diagram IPSAS 43.AG32B because of its complexity and the accounting for concessionary leases is the same as for leases at market terms.</p>		
1.10.	<p>"IPSAS 43, para. 18D states: "an entity firstly assesses whether the substance of the concessionary lease is in fact a lease transaction, a concession or a combination thereof, by applying the principles in this Standard and paragraphs 39-58 of IPSAS 23 ..." IPSAS 23 does not use the term "concession", but it uses the expression "non-exchange component". ED84 does not define a concession either and IPSAS 43 paras. BC113-115 explain the rationale. However, even in the absence of a definition there should be consistent terminology, or IPSAS 23 should be amended accordingly. Furthermore, this is also to avoid confusion with "service concession" under IPSAS 32." (R06)</p>	<p>No action required at Standard level because the word "concession" is used in concessionary loans with the same meaning and in the new IPSAS 47.</p>		
1.11.	<p>"IPSAS 43, para. 26B explicitly requires that "the carrying value of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d)". A question arises as to whether the absence of a reference to IPSAS 43, paras. 25(a) and 25(b) should be read in the sense that they do not apply. This is important because para. 25(a) refers to para. 27, which is about the initial measurement of the lease liability, and paras. 27-28 exclude variable payments that do not depend on an index or rate from the measurement of the lease liability. While for the purpose of measuring the lease liability of a concessionary lease para. 29A refers to paras. 27-29, we suggest clarifying whether the silence on referring to para. 27 for the purpose of a right-of-use asset is intentional so that its measurement for a concessionary lease would also diverge on this point." (R06)</p>	<p>No action required as the measurement of the right-of-use asset acquired in a concessionary is not linked to the contractual payments, but its measurement is linked to the determination of the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date as required in proposed IPSAS 43.26A and explained in IPSAS 43.BC145-154.</p>		

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	"IPSAS 43, para. AG62b: "In an operating lease, the entity recognizes lease revenue in accordance with this Standard and may assess whether the underlying asset is impaired" would better read "and shall assess ..."' (R06)	Amend paragraph IPSAS 43. AG62(b)(iv) accordingly.			
1.12.	IPSAS 43, para. AG60: "Examples of concessionary leases include leases to international organizations or to other public sector entities with public policy objectives" should read "Examples of concessionary leases include leases to international organizations or to other public sector entities with public policy objectives granted <u>to or received by the lessee at below-market terms</u> ". (R06)	Amend paragraph IPSAS 43. AG60 accordingly.			
1.13.	<p>"To be consistent with the definition of terms as contained under paragraph 5 of IPSAS 43, <i>Leases</i>, we recommend the following revisions in the diagram:" (R07)</p> <table border="1" style="margin-left: 20px;"> <tr> <td style="padding: 5px;"> Gross investment in lease = lease payments <u>plus</u> unguaranteed residual value (paragraph 5) </td> <td style="text-align: center; vertical-align: middle; padding: 5px;">Less</td> <td style="padding: 5px;"> Unearned finance revenue = gross investment in lease, less <u>net investment in the lease</u> (present value of gross investment in lease) (paragraph 5) </td> </tr> </table>	Gross investment in lease = lease payments <u>plus</u> unguaranteed residual value (paragraph 5)	Less	Unearned finance revenue = gross investment in lease, less <u>net investment in the lease</u> (present value of gross investment in lease) (paragraph 5)	To delete the diagram IPSAS 43.AG32B because of its complexity and the accounting for concessionary leases is the same as for leases at market terms. Additional wording will increase the complexity of the diagram.
Gross investment in lease = lease payments <u>plus</u> unguaranteed residual value (paragraph 5)	Less	Unearned finance revenue = gross investment in lease, less <u>net investment in the lease</u> (present value of gross investment in lease) (paragraph 5)			
1.14.	"We recommend to be consistent whether or not to specify IPSAS titles in the additional Basis for Conclusions of IPSAS 43." (R07)	To add the IPSAS titles in the BC.			
1.15.	<p>"We recommend rephrasing Illustrative Example 10B-Lease Incentives for clarity, as well as removing the repeated terms "(Lessee)" and "(Lessor)" to be consistent with other illustrative examples, as follows:</p> <p><u><i>Example 10B–Lease Incentives</i></u></p> <p><u><i>Private sector entity Y (Lessor) has ten units for lease in a building for office operations for CU10,000 per month. Government agency X (Lessee) is interested to lease those ten units because it has been vacant for a prolonged period of time, and the entity has lesser credit risk. Government agency X ended up entering into the lease because private sector entity Y reduced the price of the lease payments by CY5,000 per month.</i></u>" (R07)</p>	To delete the word "lessee" and "lessor" used in the second time.			

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1.16.	"While it is provided in the title that the illustrative example in IE5 provides only an illustration on how a lessee measures right-of-use assets, lease liabilities and concessionary leases, we recommend providing the illustrative example for the counterpart accounting treatment on the part of the lessor, for complete guidance of the intended users of the standard." (R07)	To add Example 23B.
1.17.	"For consistency with Illustrative Examples of other IPSASs, we recommend inserting CU before the debit and credit amounts in numbers 1-6 of the journal entries to account for the concessionary lease, e.g., CU23,000,000, CU16,100,000 and CU6,900,000." (R07)	To add "CU" where appropriate.
1.18.	<p>"ED 84 uses the term "cost" for the measurement of both assets (e.g. IPSAS 43.26A) and liabilities (e.g. IPSAS 43.29A). We ask the IPSASB to consider whether it might not be more appropriate to use the specific measurement bases as set out in the forthcoming IPSAS 46, Measurement [near final pronouncement, see agenda paper at the IPSASB meeting in March 2023; former ED 77 dated April 2021], such as historical cost, cost of fulfillment, deemed cost, etc.</p> <p>Alternatively, we suggest avoiding the term "cost" altogether. For example, IPSAS 43.26A could be reworded as follows: "Where a right-of-use asset is acquired through a concessionary lease, its cost it shall be measured at the present value of payments ...". The same applies to IPSAS 43.29A: "Where a lease liability is recognized through a concessionary lease, its cost it shall be measured in accordance ...". (R08)</p>	No action required because the term "cost" is still used in IPSAS with the same meaning as in ED 84 after the publication of IPSAS 46.
1.19.	"ACAG found paragraph 18D confusing. The paragraph applies to concessionary leases, however, the paragraph then appears to require an assessment of whether the concessionary lease is actually a lease, and whether it contains a concession – both issues that should already have been determined in classifying the arrangement as a concessionary lease." (R09)	To delete paragraph IPSAS 43.18D.

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1.20.	"However, we would suggest incorporating the "reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset" in the body of the Standard and not only mention it in the Basis for Conclusions." (R20)	Not to incorporate the suggested wording "reasonable level of effort in determining" because no such wording is included in IPSAS 41 for concessionary loans to determine the market interest rate.
1.21.	<p>"Under the previously issued Exposure Draft 77 – Measurement, the current value model incorporating the current operational value (COV) method was proposed by introducing several principles and application of principles such as "existing asset", "existing location", "entry price (rather than exit price)", and "entity-specific perspective". These principles appear to be closely aligned with the notion of "current use of the underlying asset" described in the ED.</p> <p>Given that IPSASB Measurement Project is currently working, IPSASB may need to consider cross-referencing the measurement rules in this Lease standard with the Measurement project." (R24)</p>	Not to cross refer to IPSAS 46 because the principles in this Standard are applicable to all IPSAS, as appropriate.
1.22.	"IE 10 – there should be a statement in example 10A that it is an example of an operating lease." (R26)	To add the word "operating" in IE10.
2.	IPSAS 23 / IPSAS 47	
2.1.	"However, the Exposure Draft highlights that in the absence of consideration the lease arrangement may not represent a contract. It may also not include any stipulated payments. It is not clear what basis of valuation would be used in the event that the asset is provided in kind for a defined period with no consideration or payments required by the lessee." (R01)	No action required because IPSAS 47.AG202D states that: <u>On initial recognition, right-of-use assets in-kind are measured at the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43 for right-of-use assets held by a lessee acquired through a concessionary lease.</u>
2.2.	<p><u>Disclosures</u></p> <p>IPSAS 43, para. BC147 notes that "foregone revenue is not recognized under IPSAS 9". IPSAS 43, para. IE10A states: "... a non-exchange component – Representing the portion of the foregone revenue, which is not accounted for as revenue. The non-exchange component ... is disclosed in accordance with IPSAS 23, and the lease payments are accounted for in accordance with this IPSAS". However, the proposed amended IPSAS 23 and IPSAS 9 do not have any disclosure requirements for foregone revenue. So, either IE10A or IPSAS 23/IPSAS 9 should be amended." (R06)</p>	<p>To delete the initial part of the sentence related to disclosure in IPSAS 43.IE10A, as follows:</p> <p>The non-exchange component of CU1,500,000 per month is disclosed in accordance with IPSAS 23, and ...</p>

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2.3.	<p><u>"Editorial corrections on referencing a liability</u></p> <ul style="list-style-type: none"> IPSAS 23, para. 105D states: "where a lessee determines that the difference between the value of the right-to-use asset on initial recognition and the present value of contractual payments is non-exchange revenue, a lessee recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred asset (the right-of-use asset) by the lessee result in a present obligation. Where a present obligation exists, it is recognized as a liability" would better read "where a lessee determines that the difference between the value of the right-to-use asset on initial recognition and the present value of contractual payments is non-exchange revenue, a lessee recognizes the difference as revenue, except if a present obligation exists <u>that meets the definition and recognition criteria as a liability</u>, e.g., where specific conditions imposed on the transferred asset (the right-of-use asset) by the lessee result in a present obligation <u>that meets the definition and recognition criteria as a liability</u>. Where a present obligation exists, it is recognized as a liability". In fact, IPSAS 23.50 states: "a present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when, and only when ... [recognition criteria stated]".(R06) 	<p>No action required in IPSAS 23.105D because the wording in paragraph 105D is consistent with the wording in 105B for concessionary loans in IPSAS 23 and it is also consistent in IPSAS 47.</p>
2.4.	<p>IPSAS 23.83 states:</p> <p>83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. Right-of-use assets held by a lessee and right-of-use assets in-kind acquired through non-exchange transactions are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy. We suggest adding "under concessionary leases" after "Right-of-use assets held by a lessee" for the sake of completeness. (R03)</p>	<p>No action required in IPSAS 47 because the paragraph was split IPSAS 47.AG154 for right-of-use assets in concessionary leases and IPSAS 47AG202D for right-of-use assets in-kind.</p>

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2.5.	<p>"We note in the proposed amendments to IPSAS 23 (ED84, page 33) there is a potential ambiguity in para. 23.43A on the measurement of right-of-use assets in-kind. Para. 23.43A states that right-of-use assets in-kind are measured in accordance with the requirements of IPSAS 43. Paras. 43.26C and 43.BC132 confirm that the 'not readily available exception' to the initial measurement approach addresses increased difficulty of measuring right-of-use assets in the public sector.</p> <p>However, unlike IPSAS 43, the proposed amendments to IPSAS 23 do not specify the approach where market rates are not readily available and therefore paras. 43.26C and 43.BC132 are assumed to fully apply to right-of-use assets in-kind. Assuming the IPSASB's intention is to be consistent with the concessionary leases initial measurement approach:</p> <p>It would be clearer and more consistent if the IPSAS 23 amendments clarified the approach by adding a sentence, based on the proposed IPSAS 43.26C text, to the amendments on page 33. Therefore, an extra sentence is suggested as follows:</p> <p><i>"If payments for a right-of-use asset in-kind at market rates based on the current use of the underlying asset acquired through a transaction are not readily available for the right-of-use asset in-kind, the right-of-use asset in-kind on initial recognition shall be measured in accordance with the requirements of IPSAS 43 paragraphs 24-26."</i></p> <p>or, alternatively an expanded version stating:</p> <p><i>"If payments for a right-of-use asset in-kind at market rates based on the current use of the underlying asset acquired through a transaction are not readily available for the right-of-use asset in-kind, the right-of-use asset in-kind on initial recognition shall be measured in accordance with the requirements of IPSAS 43 at zero, the present value of contractual payments in the binding agreement."</i></p> <p>The recommended location for this sentence is: at the end of para. 23.43A; or a new para. 23.43B (existing 23.43B renamed as 23.43C); or at the end of para. 23.BC30." (R32)</p>	<p>To explicitly refer to paragraphs 26A and 26B of IPSAS 43 in paragraph IPSAS 23.43A/IPSAS 47AG202D.</p>