

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Lisbon, Portugal

**Meeting Date:** September 12–16, 2022

# Agenda Item 9

For:

- ☐ Approval  
☒ Discussion  
☐ Information

## OTHER LEASE-TYPE ARRANGEMENTS

<b>Project summary</b>	Develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements.	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>Lynn Pamment, IPSASB Member (Task Force Chair)</li> <li>Claudia Beier, IPSASB Member</li> <li>Abdullah Al-Mehthil, IPSASB Member</li> <li>Andrew van der Burgh, Technical Advisor</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Leases: Project Roadmap</a>	<a href="#">9.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">9.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">9.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Scoping of Arrangements that Convey the Right to Use an Underlying Asset</a>	<a href="#">9.2.1</a>
	<a href="#">Definition or Description of Concessionary Lease</a>	<a href="#">9.2.2</a>
	<a href="#">Sale and Leaseback Transactions at Below-Market Terms</a>	<a href="#">9.2.3</a>
	<a href="#">Linkages with Measurement Project</a>	<a href="#">9.2.4</a>
	<a href="#">Arrangements Allowing Right-of-Use</a>	<a href="#">9.2.5</a>
	<a href="#">Shared Properties with or without a Lease Arrangement in Place</a>	<a href="#">9.2.6</a>
	<a href="#">Access Rights (or Rights of Access to Property and/or Land)</a>	<a href="#">9.2.7</a>
	<a href="#">Social Housing Rental Arrangements</a>	<a href="#">9.2.8</a>
<b>Other supporting items</b>	<a href="#">[draft] Exposure Draft [XX], Concessionary Leases (Amendments to IPSAS 43)</a>	<a href="#">9.3.1</a>

**OTHER LEASE-TYPE ARRANGEMENTS:  
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
December 2020	1. Approve Request for Information (RFI), <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
March 2021	1. Document out for comment
June 2021	1. Document out for comment
December 2021	1. RFI: Preliminary review of responses and project direction
March 2022	1. Project management 2. Education session: Linkages with IPSASB's current and developing literature 3. List of specific cases raised by respondents to the Request for Information 4. Framework to analyse other lease-type arrangements themes
June 2022	1. Concessionary lease: Linkages with IPSASB's current and developing literature 2. Concessionary lease: Identification, classification, and scope 3. Concessionary lease: Measurement and recognition of the concession for Lessees 4. Concessionary lease: Measurement and recognition of the concession for Lessors 5. Concessionary lease: Presentation and disclosures 6. First Review of [draft] Exposure Draft (ED) [XX], <i>Concessionary Leases and Other Arrangements Similar to Leases</i> (Amendments to IPSAS 23 and IPSAS 43)
September 2022	1. Scoping of Arrangements that Convey the Right to Use an Underlying Asset 2. Definition or Description of Concessionary Lease 3. Sale and Leaseback Transactions at Below-Market Terms 4. Linkages with Measurement Project 5. Arrangements Allowing Right-of-Use 6. Shared Properties with or without a Lease Arrangement in Place 7. Access Rights (or Rights of Access to Property and/or Land) 8. Social Housing Rental Arrangements 9. Second Review of [draft] ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43) <sup>1</sup>
October Check-In	1. Transitional provisions 2. Illustrative examples 3. Third Review of [draft] ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43)
December 2022	1. Approval of [draft] ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43)
March 2023	1. Document out for comment

<sup>1</sup> Staff and the Task Force note that the title of the ED was updated to be consistent with this Issues Paper. The ED title may be further revised as the project develops.

## Agenda Item 9.1.1

June 2023	<ol style="list-style-type: none"> <li>1. ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43): High-level review of responses</li> <li>1. ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43): Review of responses [Issues to be identified from the review of responses]</li> <li>2. Project management update</li> </ol>
September 2023	<ol style="list-style-type: none"> <li>2. ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43): Review of responses [Issues to be identified from the review of responses]</li> <li>3. First Review of [draft] Final Guidance, [TBD]</li> </ol>
December 2023	<ol style="list-style-type: none"> <li>1. ED [XX], <i>Concessionary Leases</i> (Amendments to IPSAS 43): Review of responses [Issues to be identified from the review of responses]</li> <li>2. Second Review of [draft] Final Guidance, [TBD]</li> </ol>
March 2024	<ol style="list-style-type: none"> <li>1. Linkages with IPSASB's current and developing literature</li> <li>2. Approval of Final Guidance, [TBD]</li> </ol>

## INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2022	1. Assess whether a definition of a “concessionary lease” is required.	1. See <a href="#">Agenda Item 9.2.2</a>
	2. Include further guidance to clarify that concessionary lease accounting is not applicable to lessee’s recognition exemptions.	2. See <a href="#">Agenda Item 9.3.1</a>
	3. Reassess the terminology in IPSAS 43.18B.	3. See <a href="#">Agenda Item 9.3.1</a>
	4. Assess the links with the Measurement project on Fair Value and Current Operational Value, and with the Revenue project on binding arrangements.	4. See <a href="#">Agenda Item 9.2.4</a>
March 2022	1. Bring a summary of the analysis of the themes and the respective recommendations, rather than the detailed analysis itself	1. See Agenda Items <a href="#">9.2.5</a> , <a href="#">9.2.6</a> , <a href="#">9.2.7</a> , <a href="#">9.2.8</a>
December 2021	1. Liaise with respondents to get more information before detailed analysis on the RFI is performed.	1. In progress.
	2. Consider the need for any potential consequential amendments to IPSAS 16, <i>Investment Property</i> , during Phase Two of the Leases project.	2. In progress

## DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2022	1. IPSAS 23, <i>Revenue from Non-Exchange Transaction (Taxes and Transfers)</i> , should include the amendments on the right-of-use asset and concession component of concessionary leases for lessees.	1. BC117–BC119
	2. IPSAS 43, <i>Leases</i> , should include the amendments related to the guidance to account for concessionary leases for lessors.	2. BC128–BC140
	3. Subject to terminology changes, IPSAS 43, <i>Leases</i> , should include the amendments on identification, classification and scope of concessionary leases.	3. BC111–BC112
	4. The general accounting guidance on leases should not be extended for concessionary leases for lessees' recognition exemptions.	4. BC125–BC126
	5. IPSAS 43 should not include additional specific guidance on lease incentives, lease modifications, and variable lease payments for concessionary leases.	5. BC47; BC113–BC116
	6. The right-of-use assets in a concessionary lease should be measured at fair value on initial recognition for arrangements that meet the definition of a lease (i.e., contractual arrangements), subject to assessment of the links with the Measurement project on Fair Value and Current Operational Value, and with the Revenue project on binding arrangements.	6. In progress. BC120–BC123 on fair value and current operational value. BC105 and subsequent to be finalized after discussion of <a href="#">Agenda Item 9.2.1</a> and <a href="#">Agenda 9.2.2</a> .
	7. On initial recognition, the concession component should be recognized as revenue, except if a present obligation exists (where it is recognized as a liability), in accordance with IPSAS 23.	7. BC124
	8. The transferred asset should be measured at its carrying amount in a concessionary finance lease.	8. BC135
	9. The cost of the transferred asset on disposal should be recognized in accordance with the relevant IPSAS in a concessionary finance lease.	9. BC135
	10. The lease payments should be measured in accordance with IPSAS 43 in a concessionary operating lease.	10. BC139

## Agenda Item 9.1.3

Meeting	Decision	BC Reference
	11. The terms and conditions in a concessionary operating lease can be taken into consideration when assessing whether an underlying asset is impaired in accordance with IPSAS 21, <i>Impairment from Non-Cash Generating Assets</i> , or IPSAS 26, <i>Impairment from Cash Generating Assets</i> .	11. BC137
	12. The additional disclosures on concessionary leases in IPSAS 23 and IPSAS 43 for lessees and IPSAS 43 for lessors should be included.	12. BC127; BC141
March 2022	13. The Task Force has delegated the responsibility to develop the non-authoritative guidance section of the ED and to make recommendations to the IPSASB related to this work.	13. In progress.

## Scoping of Arrangements that Convey the Right to Use an Underlying Asset

### Question

1. Does the IPSASB agree with the staff and Task Force's recommendation on scoping of arrangements that convey the right to use an underlying asset?

### Recommendation

2. For arrangements that convey the right to use an underlying asset, staff and the Task Force recommend the IPSASB to retain the scope of IPSAS 43, *Leases* to binding arrangements that are, in substance, contracts.

### Background

3. IPSAS 43, *Leases* is designed to be applicable to contracts that convey the right to use the underlying asset.
4. At the June 2022 meeting, the IPSASB decided to measure right-of-use assets in concessionary leases at fair value on initial recognition for arrangements that meet the definition of a lease (i.e., contractual arrangements), subject to an assessment of the links with the Revenue project on binding arrangements.
5. IPSAS 43 defines a lease as: ***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.*** The objective of this agenda item is to assess whether the contract element of the lease definition should be extended to binding arrangements. The other elements of a lease (right to use an underlying asset, period of time, and consideration) are not relevant for the analysis of whether to expand the scope to non-contractual arrangements. Agenda Items [9.2.5](#), [9.2.6](#), [9.2.7](#), and [9.2.8](#) address the remaining elements of a lease.

### Analysis

6. Public sector entities can enter into arrangements that may include the right to use an underlying asset. These arrangements may be contracts, binding arrangements that are not contracts, or an arrangement that is not a binding arrangement. For example, an entity may enter into:
  - (a) An arrangement that is not a binding arrangement – Entity A has enforceable right, but no enforceable obligation.
  - (b) A binding arrangement that is not a contract – Entities A and B each has an enforceable right and enforceable obligation through “equivalent means” (e.g., statutory mechanisms)<sup>2</sup>.
  - (c) A contract – Entities A and B each have an enforceable right and enforceable obligation through a legal mechanism.
7. [Appendix A](#) provides the definitions of a lease, a contract, and a binding arrangement.

---

<sup>2</sup> This is consistent with the Conceptual Framework on “legally binding”.

*Non-binding Arrangements*

8. IPSAS 43 applies to leases that are contracts, which are a type of binding arrangement. This means that non-binding arrangements that convey the right to use an underlying asset are outside of the scope of IPSAS 43.
9. Staff and the Task Force recommend the IPSASB not to extend the scope of IPSAS 43 to non-binding arrangements because:
  - (a) A lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not; and
  - (b) The accounting model for non-binding arrangements in the future IPSAS on Revenue and Transfer Expenses would apply to arrangements where the entity does not both an enforceable right and enforceable obligation in the arrangement.

*Binding Arrangements that are not Contracts*

10. When developing IPSAS 43 to address a public sector specific issue<sup>3</sup>, the IPSASB decided to expand the types of arrangements within the scope of the definition of a contract by adding paragraph IPSAS 43.AG3 (see [Appendix A](#) for detailed description) and clarify that IPSAS 43 is designed only for transactions that:
  - (a) Are in substance a contract rather than having the legal form of a contract; and
  - (b) Have the following three elements:
    - (i) Willing parties;
    - (ii) Rights and obligations for the parties to the contract; and
    - (iii) The remedy for non-performance is enforceable by law
11. Staff and the Task Force decided not to expand the types of arrangements within the scope of the definition of a lease to binding arrangements that are not in substance contracts.
12. The fundamental difference between the definition of a contract in IPSAS 43 and the definition of a binding arrangement in the future IPSAS on Revenue is that in the latter one the enforceability is broader and includes “equivalent means”. In other words, binding arrangements are enforceable both within and outside the legal system, whereas contracts are enforceable only within the legal system. Compliance through equivalent means includes laws and regulations, including legislation, executive authority, cabinet, or ministerial directives.
13. The IPSASB’s Conceptual Framework states<sup>4</sup> that there are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to enforce the rights and obligations in those arrangements.
14. Sometimes in the public sector there are binding arrangements, although conveying the right to use an underlying asset, are not, in substance, contracts. For example:

---

<sup>3</sup> See IPSAS 43.BC57–BC62.

<sup>4</sup> See full paragraph 5.20 of the Conceptual Framework in [Appendix A](#).



- (a) One or both parties to the arrangement is not a willing party (for example: a government issues a decree conveying to another party the right to use and underlying asset on a unilateral basis);
  - (b) The enforceable rights and obligations did not arise from a contract (for example: the rights and obligations are stipulated by a government decree on a unilateral basis); and
  - (c) Binding arrangements with enforceability mechanisms outside of the legal system (for example: compliance is achieved through executive authority, cabinet, or ministerial directives).
15. By extension, when entities do have arrangements as described in paragraph 14, they should not apply IPSAS 43 because:
- (a) Those arrangements are not, in substance, contracts, as leases are contractual arrangements by nature; and
  - (b) It was designed to be applicable to arrangements that are in substance lease contracts, provided that the arrangement conveys the right to obtain substantially all of the economic benefits or service potential from use of the identified asset and the right to direct the use of the identified asset<sup>5</sup>.
16. Staff and the Task Force are of the view that the rights and obligations in a binding arrangement are not the same as in a contract. For example, due to the level of existence uncertainty or increased measurement uncertainty to reflect different enforcement mechanisms.
17. If an entity tries to apply IPSAS 43 to binding arrangements that are not contracts, may face issues, in applying the Standard to:
- (a) Subleases that are contract-based, as the sublease will be based on headlease that is a non-contractual binding arrangement; and
  - (b) Recognize the right-of-use asset if there is sufficient uncertainty on the right of obtaining all of the economic benefits or service potential from the use of the identified asset and the right to direct the use of the identified asset as a result of enforceability outside of the legal system.
18. Staff and the Task Force highlight that other issues might occur depending on the specific characteristics of the binding arrangements that are not contracts, which are not addressed in IPSAS 43 and should not be addressed in IPSAS 43.
19. Where non-contractual binding arrangements that convey the right to use an underlying asset do occur, these are arrangements may be within the scope of IPSAS 9 or IPSAS 23, as appropriate, and in the future IPSAS on Revenue and Transfer Expenses, as appropriate. Therefore, staff and the Task Force are of the view that there is no gap in IPSASB's literature to deal with non-contractual binding arrangements that convey the right to use an underlying asset.
20. Similar to IPSAS 43, staff and the Task Force highlight that the accounting models in the future IPSAS on Revenue and Transfer Expenses were built for those specific arrangements and not to include other types of arrangements. In this context, staff and the Task Force note that the future IPSAS on Revenue has additional guidance on enforceability outside of the legal system.

---

<sup>5</sup> IPSAS 43 introduced extensive application guidance on the assessment of both rights.

21. This means that when an entity applies the principles in the Revenue Standards to binding arrangements that are not contracts that convey the right to use an underlying asset, it is not expected the same accounting outcomes as if the entity is applying IPSAS 43 because in substance they are different transactions (they are not leases).
22. In January 2021, the IPSASB issued the [\*Request for Information, Concessionary Leases and Other Arrangements Similar to Leases\*](#) with the objective of gathering constituent input on the characteristics of concessionary leases and other arrangements similar to leases that are common in the public sector.
23. Staff and the Task Force note that, while respondents to the RFI had issues in classifying the transactions in their jurisdictions, they did not ask to change the definition of a lease to include non-contractual arrangements.
24. Therefore, staff and the Task Force recommend the IPSASB to retain the scope of IPSAS 43 to contracts because:
  - (a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts;
  - (b) Respondents to the Request for Information did not request such a change; and
  - (c) It is consistent with IPSAS 41, *Financial Instruments*, which is only applicable to contracts.
25. In reaching this recommendation, staff and the Task Force note that:
  - (a) The recommendation does not leave a gap in IPSASB's literature because these arrangements may be accounted for in accordance with the future IPSAS on Revenue and Transfer Expenses; and
  - (b) The future IPSAS on Revenue provides the principles on how to consider different enforceability mechanisms.

**Decision Required**

26. Does the IPSASB agree with the staff and Task Force's [recommendations](#)?

## **Appendix A – Definitions**

### **IPSAS 43, Leases**

#### **Definitions**

**A contract, for the purpose of this Standard, is an agreement between two or more parties that creates enforceable rights and obligations.**

**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.**

#### **Application Guidance**

AG3. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a "contract" for the purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- The remedy for non-performance is enforceable by law.

### **Future IPSAS on Revenue**

#### **Definitions**

**For the purposes of this Standard, a binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. A contract is a type of binding arrangement.**

## **Conceptual Framework**

5.20. A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. There are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in the Conceptual Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law there can be no doubt that an entity has no realistic alternative to avoid the obligation and that a liability exists.

## **Definition or Description of a Concessionary Lease**

### **Question**

1. Does the IPSASB agree with the staff and Task Force's recommendation on providing a description of a concessionary lease?

### **Recommendation**

2. Staff and the Task Force recommend the IPSASB to provide a description of a concessionary lease.

### **Background**

3. At the June 2022 meeting, the IPSASB instructed staff to assess whether a definition of a "concessionary lease" is required.

### **Analysis**

4. IPSAS 43 provides the following definition of a lease:  
"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."
5. In some cases, concessionary leases are a subset of leases where the consideration being exchanged is at below-market terms. However, there are other cases where the consideration being exchanged is not significant or may be of a nominal amount. In these cases, professional judgment may be required to assess whether in substance the transaction meets the definition of a lease or whether it is in substance a grant.
6. Additionally, there are also cases where there may be no consideration at all. In these cases, the arrangements do not meet the definition of a lease, as they are in substance a grant.
7. Staff and the Task Force recommend the IPSASB to provide a description of concessionary leases because:
  - (a) Of the different types of leases at below-market terms;
  - (b) It prevents an apparent contradiction of labeling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration;
  - (c) It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described; and
  - (d) The measurement for arrangements that convey the right to use an underlying asset without consideration is proposed to be the same as arrangements that convey the right to use an underlying asset with consideration at below-market terms, i.e., at present value of market lease payments.
8. Proposed paragraphs 18A–18D of IPSAS 43 in draft Exposure Draft, *Concessionary Leases* (Amendments to IPSAS 43) propose a description of concessionary broadly consistent with the description of concessionary loans in paragraphs AG123–AG124 of IPSAS 41, *Financial Instruments*.
9. Staff and the Task Force note draft Exposure Draft [XX], *Concessionary Leases* (Amendments to IPSAS 43) provide the editorial amendments to IPSAS 43 consistent with this recommendation and the respective draft Basis for Conclusions (IPSAS 43.BC105–BC106).

*Other Issues*

10. Staff and the Task Force considered the responses to Exposure Draft (ED) 64, *Leases* where it was proposed a definition of a concessionary lease.

**Decision Required**

11. Does the IPSASB agree with the staff and Task Force's [recommendation](#)?

## **Sale and Leaseback Transactions at Below-Market Terms**

### **Question**

1. Does the IPSASB agree with the staff and Task Force's recommendations on the sale and leaseback at below-market terms?

### **Recommendation**

2. Staff and the Task Force recommend the IPSASB to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback is not linked to a prepayment.

### **Background**

3. During Q2 of 2022, the Task Force had identified that the accounting for sale and leaseback transactions at below-market terms in IPSAS 43, *Leases* would need to be reassessed once the IPSASB agreed on the principles to account for leases at below-market terms. IPSAS 43 and IFRS 16, *Leases* are aligned on sale and leaseback transactions.
4. At the June 2022 meeting, the IPSASB agreed on the principles on how to account for leases at below-market terms, as follows:
  - (a) For lessees, measure right-of-use assets in concessionary leases at fair value on initial recognition and initially recognize the concession component as revenue, except if a present obligation exists (where it is recognized as a liability), in accordance with IPSAS 23; and
  - (b) For lessors, the transferred asset should be measured at its carrying amount in a concessionary finance lease and the lease payments should be measured in accordance with IPSAS 43 in a concessionary lease.

### **Analysis**

5. According to IPSAS 43.100, "if the fair value of the consideration for the sale of an asset does not equal fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
  - (a) Any below-market terms shall be accounted for as prepayment of lease payments; and
  - (b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee."
6. In IFRS 16.BC267, the IASB explained the rationale for including similar requirements to IPSAS 43 in IFRS 16.101, as follows:

"The lease payments and the sale price in a sale and leaseback transaction are typically interdependent because they are negotiated as a package. For example, the sale price might be more than the fair value of the asset because the leaseback rentals are above a market rate; conversely the sale price might be less than the fair value because the leaseback rentals are below a market rate. Accounting for the transaction using those amounts could result in the misstatement of gains or losses on disposal of the asset for the seller-lessee and the misstatement of the carrying amount of the asset for the buyer-lessor. Consequently, IFRS 16 requires that if the sale consideration or leaseback rentals are not at market rates, any below-market terms should be accounted for as a prepayment of lease payments and any above-market terms should be accounted for as additional financing provided by the buyer-lessor to the seller-

lessee. Similarly, IFRS 16 requires the seller-lessee to measure the right-of-use asset as a proportion of the asset retained as a result of the leaseback—consequently any off-market terms are effectively accounted for in measuring the gain or loss on sale.”

7. Staff and the Task Force discussed whether the requirements in IPSAS 43.100 should be amended taking into consideration the IPSASB’s decisions on concessionary leases at the June 2022 meeting.
8. Staff and the Task Force note that, in principle, from a conceptual perspective concessionary leases and leasebacks at below-market terms have two key differences:
  - (a) **Different starting points**—A leaseback at below-market terms is linked to a previous sale with the same party as interdependent transactions, while a concessionary lease is not linked to a previous sale with the same party; and
  - (b) **Different objectives**—A sale and leaseback transaction has the objective of obtaining cash through the sale of the underlying asset and refunding the cash proceeds in the form of lease payments, while a concessionary lease has the objective of conveying a subsidy through the right to use an underlying asset at below-market terms.
9. However, there might exist leasebacks at below markets in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback as the agreed purchase price of the underlying asset is the same as its fair value.
10. Staff and the Task Force highlight that this may be a public sector-specific situation because normally in the private sector both the sale and leaseback are either at above-market terms or at below-market terms, not only the leaseback being at below-market terms.<sup>6</sup>
11. Therefore, staff and the Task Force recommend the IPSASB to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback is not linked to a prepayment.
12. Draft Exposure Draft [XX], *Concessionary Leases* (Amendments to IPSAS 43) includes proposed amendments to IPSAS 43.97A consistent with this recommendation and proposed BC142–BC146.

#### *Other Issues*

13. Respondents to Exposure Draft 64, *Leases* did not provide specific comments on sale and leaseback transactions at below-market terms.

#### **Decision Required**

14. Does the IPSASB agree with the staff and Task Force’s [recommendation](#)?

---

<sup>6</sup> This situation was identified in the jurisdictions of some of the Task Force members.

## Linkages with Measurement Project

### Question

1. Does the IPSASB agree with the staff and Task Force's recommendations on measurement of concessionary leases?

### Recommendation

2. Staff and the Task Force recommend the IPSASB to measure right-of-use assets held by a lessee at the present value of market lease payments instead of fair value and current operational value.

### Background

3. At the June 2022 meeting, the IPSASB decided to measure right-of-use assets in concessionary leases at fair value on initial recognition, subject to assessment of the links with the Measurement project on fair value and current operational value.

### Analysis

#### *Fair Value*

4. IPSAS 9, *Revenue from Exchange Transactions* has the following definition of fair value:  
"The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."
5. The application of the above definition of fair value is focused on the current use of the asset, which is appropriate to concessionary leases.
6. However, the Measurement project is planning to replace the above fair value definition with the following definitions of fair value and highest and best use, both drawn from IFRS 13, *Fair Value Measurement*:

**Fair value:** "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

**Highest and best use:** "The use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., a business) within which the asset would be used."

7. Applying the above new definitions to concessionary leases would have the following consequences:
  - (a) The measurement of the right-of-use asset would no longer be based on its current use; and
  - (b) Increased difficulty of measuring the right-of-use asset because it would be based on other possible uses of the asset to achieve the highest and best use.
8. To prevent the above consequences, staff and the Task Force recommend the IPSASB:
  - (a) Refer to market lease payments in the core text of IPSAS 43, *Leases*; and
  - (b) Insert two application guidance paragraphs in IPSAS 43 clarifying that:
    - (i) The value of the market lease payments should be related to the current use of the right-of-use asset (see proposed paragraph IPSAS 43.AG66 in [Agenda Item 9.3.1](#)); and



- (ii) When it is not possible to identify market lease payments based on its current use (for example, specialized assets), the contractual lease payments are used (and required disclosures), unless there are indicators available that warrant different measurement (see proposed paragraph IPSAS 43.AG67 in [Agenda Item 9.3.1](#)).
9. Draft Exposure Draft (ED) [XX], *Concessionary Leases* (Amendments to IPSAS 43) proposes new paragraphs 26A–26D and AG66–AG67 to IPSAS 43 consistent with this recommendation and the respective draft Basis for Conclusions in paragraphs IPSAS 43.BC117–BC119.

**Impact on Subsequent Measurement**

10. IPSAS 43, *Leases*, similar to IFRS 16, *Leases*, permits lessees to apply in subsequent measurement the:
- (a) Fair value model to right-of-use assets that meet the definition of investment property in IPSAS 16, *Investment Property*<sup>7</sup>; and
  - (b) Revaluation model in IPSAS 17, *Property, Plant, and Equipment*<sup>8</sup> to all of the right-of-use assets that related to that class of property, plant, and equipment.
12. Staff and the Task Force note that in IFRS 16 for both the above situations the fair value definition being applied is in accordance with IFRS 13, *Fair Value Measurement*.
13. Staff and the Task Force note also that initially measuring the right-of-use asset at market lease payments and subsequently measuring it at fair value applying the IFRS 13 definition might lead to a measurement difference because preparers will take into consideration other possible uses for the underlying asset.
14. Staff and the Task Force concluded that if this situation occurs is a consequence of an accounting policy choice made by preparers when deciding to subsequently remeasure to fair value. Staff and the Task Force note that a similar situation occurs in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment*, IPSAS 31, *Intangible Assets*, and IPSAS 43 when initially measuring at cost and subsequently measuring at fair value.

**Current Operational Value**

15. ED 77, *Measurement* proposes a new measurement basis denominated “current operational value”, defined as follows:
- “Current operational value is the value of an asset used to achieve the entity’s service delivery objectives at the measurement date.”
16. The draft ED [XX], *Concessionary Leases* (Amendments to IPSAS 43) prescribes a specific technique to measure the value of a right-of-use asset in a concessionary lease. The unique characteristics of a leasing arrangement allow the standard to be this prescriptive.
17. Staff and the Task Force recommend the IPSASB not to adopt current operational value because elevating the valuation to the level of a measurement basis:
- (a) Will reduce consistency in practice; and
  - (b) Increase the amount of judgment required unnecessarily.

<sup>7</sup> IAS 40, *Investment Property* in IASB’s literature.

<sup>8</sup> IAS 16, *Property, Plant, and Equipment* in IASB’s literature.

18. Draft Exposure Draft (ED) [XX], *Concessionary Leases* (Amendments to IPSAS 43) proposes respective draft Basis for Conclusions in paragraphs IPSAS 43.BC117–BC119 consistent with this recommendation.

*Other Issues*

19. Exposure Draft (ED) 64, *Leases* proposed to initially measure right-of-use assets held by a lessee at fair value. Many respondents to ED 64 raised concerns with fair value measurement because of its increased complexity and difficulty, especially related to specialized assets in the public sector.
20. Staff and the Task Force are of the view that the above recommendations address the concerns raised by respondents to ED 64.

**Decision Required**

21. Does the IPSASB agree with the staff and Task Force's [recommendations](#)?

## **Arrangements Allowing Right-of-Use**

### **Question**

1. Does the IPSASB agree with staff and Task Force's recommendations?

### **Recommendation**

2. Staff and Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43, *Leases* and publish a Feedback Statement/Staff Questions & Answers on how arrangements allowing the right-of-use fit in IPSASB's literature.

### **Background**

3. At the December 2021 meeting<sup>9</sup>, staff and the Task Force showed that 62% of respondents to the [RFI, Concessionary Leases and Other Arrangements Similar to Leases](#) identified arrangements allowing right-of-use in their jurisdiction. However, less than 40% of respondents recognize the arrangements in the financial statements for a number of reasons (type of accounting basis, existence of Standards, availability of information, and users' needs).
4. At the March 2022 meeting<sup>10</sup>, staff and the Task Force showed that respondents identified right-of-use of land/buildings as the main case of this type of arrangement.

### **Analysis**

#### *Characteristics of Arrangements Allowing Right-of-Use*

5. Respondents to RFI identified the following characteristics of arrangements allowing the right-of-use:
  - (a) Right-of-use arrangements for private sector entities to operate facilities utilizing public sector owned property and equipment including schools, libraries and community halls;
  - (b) Enable local governments to provide federally owned public sector lands such as parks and nature reserves for use by the public for recreational purposes;
  - (c) Month-to-month, short-term basis (less than 12 months) or long-term basis; and
  - (d) With or without formal contractual agreements.

#### *Current IPSAS*

6. Staff and the Task Force concluded that arrangements that convey the:
  - (a) Right to obtain substantially all of the economic benefits or service potential from use of the identified asset and the right to direct the use of the identified asset are within the scope of IPSAS 43, if they meet the definition of a lease<sup>11</sup>; and
  - (b) Control or regulation of what services the operator must provide with the asset, to whom it must provide them, and at what price, and control-through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the

---

<sup>9</sup> For more statistics details, please see [Agenda Item 4](#) of December 2021 meeting.

<sup>10</sup> For more details, see [Appendix A of Agenda Item 7.2.3](#) of March 2022 meeting.

<sup>11</sup> Staff notes that IPSAS 43 added extensive authoritative and non-authoritative guidance on how to identify a lease that did not exist in IPSAS 13, *Leases*.

arrangement are within the scope of IPSAS 32, *Service Concession Arrangements (Grantor)*, if they meet the definition of a service concession arrangement.

7. Staff and the Task Force also concluded that arrangements allowing right-of-use may meet the definition of intangible assets in accordance with IPSAS 31, *Intangible Assets*, if they are identifiable nonmonetary assets without physical substance.
8. According to IPSAS 31.19, an asset is identifiable if either:
  - (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability regardless of whether the entity intends to do so; or
  - (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
9. Staff and the Task Force are of the view that IPSAS 31 already provides sufficient guidance on how to account for intangible assets that can be applicable to arrangements allowing the right-of-use.
10. Staff and the Task Force are also of the view that IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non-Exchange Transaction (Taxes and Transfers)* provide the principles to account for these arrangements from a revenue perspective.
11. Therefore, staff and the Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43 and publish a Feedback Statement/Staff Questions & Answers on how arrangements allowing the right-of-use fit in IPSASB's literature.
12. [Appendix A](#) shows the results of the framework of analysis on arrangements allowing right-of-use.

**Decision Required**

13. Does the IPSASB agree with the staff and Task Force's [recommendations](#)?

**Appendix A – Flowchart to Analyze Other Lease-Type Arrangements Issues:  
Arrangements Allowing Right-of-Use**

**Decision 1: Is the issue prevalent in the public sector?**

Yes. The RFI consultation demonstrated that arrangements allowing right-of-use are prevalent in the public sector.

**Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?**

Yes. IPSAS 31, *Intangible Assets* provides the principles on how to account for intangible assets, which includes arrangements allowing right-of-use.

**Decision 3: Is this issue related to general purpose financial statements?**

Yes. Accounting for arrangements allowing right-of-use is required in order to better understand:

- (a) The economic nature of the transaction;
- (b) Which IPSAS is more appropriate to deal with these types of transactions or the distinct components of the transactions that convey access rights; and
- (c) How to apply the principles on recognition, measurement, presentation, and disclosures on intangible assets to arrangements allowing right-of-use.

**Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?**

No. Non-authoritative guidance is not necessary as identification and accounting for arrangements allowing right-of-use follow the same principles as for any other type of intangible asset.

**Decision 5: Is the issue relevant to other projects?**

No.

**Decision 6: Is the issue different at the consolidated level?**

Staff and the Task Force did not find a public sector-specific reason for different recognition and measurement requirements at the consolidated level.

## **Shared Properties with or without a Lease Arrangement in Place**

### **Question**

1. Does the IPSASB agree with staff and Task Force's recommendations on shared properties with or without a lease arrangement in place?

### **Recommendation**

2. Staff and Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43, *Leases* and publish a feedback statement/staff Q&A on how shared properties with or without a lease arrangement fit in IPSASB's literature.

### **Background**

3. At the December 2021 meeting<sup>12</sup>, staff and the Task Force showed that 69% of respondents to the [RFI, Concessionary Leases and Other Arrangements Similar to Leases](#) identified arrangements allowing right-of-use in their jurisdiction. However, less than 40% of respondents recognize the arrangements in the financial statements for a number of reasons (type of accounting basis, existence of Standards, availability of information, and users' needs).
4. At the March 2022 meeting<sup>13</sup>, staff and the Task Force showed that respondents identified two types of shared properties: with a lease arrangement in place and without a lease arrangement in place.

### **Analysis**

#### *Characteristics of shared properties with or without a lease arrangement in place*

5. Respondents to RFI identified the following characteristics of shared properties with or without a lease arrangement in place:
  - (a) Based on a directive or legislation by the appropriate level of government;
  - (b) Arrangements with consideration, zero or nominal consideration;
  - (c) Accounting based on past history or on a month-to-month basis; and
  - (d) Lease payments are recognized when earned/incurred when the sharing arrangement does not reflect a physically distinct portion of a building.

#### *Shared properties without a lease arrangement in place*

6. Staff and the Task Force are of the view that according to current IPSAS literature, shared property without a lease arrangement in place would:
  - (a) Not be within the scope of IPSAS 43 because they would not meet the definition of a lease, i.e., a contractual arrangement; and
  - (b) Be within the scope of IPSAS 9, *Revenue from Exchange Transactions* or IPSAS 23, *Revenue from Non-Exchange Transaction (Taxes and Transfers)*, as appropriate, because these Standards provide the accounting principles for transactions based on exchange/non-exchange transactions, respectively.

---

<sup>12</sup> For more statistics details, please see [Agenda Item 4](#) of December 2021 meeting.

<sup>13</sup> For more details, see [Appendix A of Agenda Item 7.2.3](#) of March 2022 meeting.

7. Therefore, staff and the Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43 and publish a Feedback Statement/Staff Q&A on how these arrangements fit in IPSASB's literature.

*Shared properties with a lease arrangement in place*

8. Staff and the Task Force are of the view that shared properties with a lease arrangement in place are within the scope of IPSAS 43, if they meet the definition of a lease.
9. For those arrangements that do not meet the definition of a lease (for example, do not have consideration and/or do not have a specified term), staff and the Task Force are of the view that they are within the scope of IPSAS 9 and IPSAS 23, as appropriate.
10. Therefore, staff and the Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43 and publish a feedback statement/staff Q&A on how these arrangements fit in IPSASB's literature.
11. [Appendix A](#) shows the results of the framework of analysis on shared properties with or without a lease arrangement in place.

**Decision Required**

12. Does the IPSASB agree with the staff and Task Force's [recommendations](#)?

**Appendix A – Flowchart to Analyze Other Lease-Type Arrangements Issues:  
Shared Properties with or without a Lease Arrangement in Place**

**Decision 1: Is the issue prevalent in the public sector?**

Yes. The RFI consultation demonstrated that access rights are prevalent in the public sector.

**Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?**

Yes. IPSAS 43, *Leases* provides the principles on how to account for shared properties with a lease arrangement in place.

For shared properties without a lease arrangement in place, IPSAS 9, *Revenue from Exchange Transactions* or IPSAS 23, *Revenue from Non-Exchange Transaction (Taxes and Transfers)* might be applicable from a revenue perspective, as appropriate.

**Decision 3: Is this issue related to general purpose financial statements?**

Yes. Accounting for access rights is required in order to better understand:

- (a) The economic nature of the transaction;
- (b) Which IPSAS is more appropriate to deal with these types of transactions or the distinct components of the transactions that convey access rights; and
- (c) How to apply the principles on recognition, measurement, presentation, and disclosures on intangible assets.

**Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?**

No. Non-authoritative guidance is not necessary as identification and accounting for shared properties with a lease arrangement in place follow the same principles as for any other type of lease.

**Decision 5: Is the issue relevant to other projects?**

No.

**Decision 6: Is the issue different at the consolidated level?**

Staff and the Task Force did not find a public sector-specific reason for different recognition and measurement requirements at the consolidated level.



## **Access Rights (or Rights of Access to Property and/or Land)**

### **Question**

1. Does the IPSASB agree with the staff and Task Force's recommendation for access rights?

### **Recommendation**

2. Staff and Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43, *Leases* and publish a Feedback Statement/Staff Questions & Answers on how access rights fit in IPSASB's literature.

### **Background**

3. At the December 2021 meeting<sup>14</sup>, staff and the Task Force showed that 65% of respondents to the [RFI, Concessionary Leases and Other Arrangements Similar to Leases](#) identified access rights in their jurisdiction. However, less than 40% of respondents recognize the arrangements in the financial statements for a number of reasons (type of accounting basis, existence of Standards, availability of information, and users' needs).
4. At the March 2022 meeting<sup>15</sup>, staff and the Task Force showed that respondents identified seven types of access rights (see also [Appendix A](#)). These seven types of access rights are analyzed below.

### **Analysis**

#### *Types of Access Rights*

5. [Appendix A](#) shows the seven types of access rights identified by respondents. [Appendix B](#) shows the results of the framework of analysis on access rights.

#### *Current IPSAS*

6. Staff and the Task Force analyzed the seven types of access rights and concluded that they do not meet the definition of a lease nor of a service concession arrangement because the rights transferred in those arrangements (see details in [Appendix A](#)) do not include:
  - (a) The right to obtain substantially all of the economic benefits or service potential from use of the identified asset and the right to direct the use of the identified asset, as required for leases in accordance with IPSAS 43, if they meet the definition of a lease<sup>16</sup>; and
  - (b) Control or regulation of what services the operator must provide with the asset, to whom it must provide them, and at what price, and control—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement, as required for service concession arrangements in accordance with IPSAS 32, *Service Concession Arrangements (Grantor)*, if they meet the definition of a service concession arrangement.

---

<sup>14</sup> For more statistics details, please see [Agenda Item 4](#) of December 2021 meeting.

<sup>15</sup> For more details, see [Appendix A of Agenda Item 7.2.3](#) of March 2022 meeting.

<sup>16</sup> Staff notes that IPSAS 43 added extensive authoritative and non-authoritative guidance on how to identify a lease that did not exist in IPSAS 13, *Leases*.

7. Instead, staff and the Task Force concluded that the seven types of access rights may meet the definition of intangible assets in accordance with IPSAS 31 because if they are all identifiable nonmonetary assets without physical substance.
8. According to IPSAS 31.19, an asset is identifiable if either:
  - (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability regardless of whether the entity intends to do so; or
  - (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
9. Staff and the Task Force are of the view that IPSAS 31 already provides sufficient guidance on how to account for intangible assets that can be applicable to access rights.
10. Staff and the Task Force are also of the view that IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non-Exchange Transaction (Taxes and Transfers)* already provide the principles to account for these arrangements from a revenue perspective.
11. Therefore, staff and the Task Force recommend the IPSASB to add basis for conclusions in IPSAS 43 and publish a Feedback Statement/Staff Questions & Answers on how access rights fit in IPSASB's literature.

**Decision Required**

12. Does the IPSASB agree with staff and Task Force's [recommendations](#)?

**Appendix A – Types of Access Rights**

Type of Access Rights	Description
Access to roads and railways	Right to access to public service infrastructure. For example, maintenance or repair works of infrastructure.
Easements	Permanent right to access for installing and maintaining infrastructure with a one-off payment.
Wayleaves	Temporary right to install infrastructure in return for annual payments to the landowner.
Access to land/buildings	Right to access to recreation centers, outdoor sport facilities, etc.
Encroachments	Right to access to a property that is below or above another property.
Servitudes	Rights that bind lands owned by different people.
Right to graze livestock	Right to graze livestock in public lands.

Note: Some of these type of access rights might have different meanings depending on jurisdictions and may involve or not the exchange of consideration.

**Appendix B – Flowchart to Analyze Other Lease-Type Arrangements Issues:  
Access Rights**

**Decision 1: Is the issue prevalent in the public sector?**

Yes. The RFI consultation demonstrated that access rights are prevalent in the public sector.

**Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?**

Yes. IPSAS 31, *Intangible Assets* provides the principles on how to account for intangible assets, which includes access rights.

**Decision 3: Is this issue related to general purpose financial statements?**

Yes. Accounting for access rights is required in order to better understand:

- (a) The economic nature of the transaction;
- (b) Which IPSAS is more appropriate to deal with these types of transactions or the distinct components of the transactions that convey access rights; and
- (c) How to apply the principles on recognition, measurement, presentation, and disclosures on intangible assets.

**Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?**

No. Non-authoritative guidance is not necessary as identification and accounting for access rights follow the same principles as for any other type of intangible asset.

**Decision 5: Is the issue relevant to other projects?**

No.

**Decision 6: Is the issue different at the consolidated level?**

Staff and the Task Force did not find a public sector-specific reason for different recognition and measurement requirements at the consolidated level.

## Social Housing Rental Arrangements

### Question

1. Does the IPSASB agree with staff and Task Force's recommendations on social housing rental arrangements with zero or nominal consideration and without a specified term?

### Recommendation

2. Staff and Task Force recommend the IPSASB:
  - (a) For social housing rental arrangements with zero or nominal consideration, to add basis for conclusions in IPSAS 43, *Leases* explaining that they are within the scope of draft Exposure Draft [XX], *Concessionary Leases* (Amendments to IPSAS 43); and
  - (b) For social housing rental arrangements without a specified term, to retain the definition of a lease in IPSAS 43 in order not to include this type of arrangement.

### Background

3. At the December 2021 meeting<sup>17</sup>, staff and the Task Force showed that 65% of respondents to the [RFI, Concessionary Leases and Other Arrangements Similar to Leases](#) identified social housing rental arrangements in their jurisdiction. However, less than 40% of respondents recognize the arrangements in the financial statements for a number of reasons (type of accounting basis, existence of Standards, availability of information, and users' needs).
4. At the March 2022 meeting<sup>18</sup>, staff and the Task Force showed that respondents identified two types of social housing: social housing rental arrangements and rent-own agreements.

### Analysis

#### *Characteristics of Social Housing Rental Arrangements*

5. Respondents to RFI identified the following characteristics of arrangements allowing the right-of-use:
  - (a) More often public sector entities act in the capacity of lessor;
  - (b) The lessees tend to be low-income households;
  - (c) Consideration is at below market terms, or with zero consideration or nominal consideration;
  - (d) Potential lessees need to meet eligibility criteria to rent social housing; and
  - (e) The arrangement term can be with or without specific term or termination date or on a month-to-month basis.
6. Staff and the Task Force identified two characteristics of social housing rental arrangements that do not meet the definition of a lease<sup>19</sup> under IPSAS 43:
  - (a) Zero or nominal consideration; and

---

<sup>17</sup> For more statistics details, please see [Agenda Item 4](#) of December 2021 meeting.

<sup>18</sup> For more details, see [Appendix A of Agenda Item 7.2.3](#) of March 2022 meeting.

<sup>19</sup> 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.

- (b) Lack of a specified term.

*Social Housing Rental Arrangements for Zero or Nominal Consideration*

7. At June 2022 meeting, the IPSASB decided that IPSAS 23, *Revenue from Non-Exchange Transaction (Taxes and Transfers)* should include the amendments on the right-of-use asset and concession component of concessionary leases for lessees.
8. Staff and the Task Force recommend the IPSASB to include in the above decision public sector entities that are lessees to a social housing rental arrangement with zero or nominal consideration because:
  - (a) It does not meet the definition of a lease under IPSAS 43; and
  - (b) IPSAS 23 deals with the principles to recognize and measure arrangements that arise from non-exchange transactions.
9. Staff and the Task Force note that where any consideration is being exchanged, this would be accounted for in accordance with IPSAS 43.

*Social Housing Rental Arrangements Without a Specified Term*

10. For social housing rental arrangements without a specified term, staff and the Task Force recommend the IPSASB to retain the definition of a lease in IPSAS 43 in order not to include this type of arrangement because the accounting models in IPSAS 43 are dependent on the existence of a specified period of time. This recommendation is also applicable to contractual arrangements without a specified term and for the same reason.
11. [Appendix A](#) shows the results of the framework of analysis on social housing rental arrangements.

**Decision Required**

12. Does the IPSASB agree with the staff and Task Force's [recommendations](#)?

**Appendix A – Flowchart to Analyze Other Lease-Type Arrangements Issues:  
Social Housing Rental Arrangements**

**Decision 1: Is the issue prevalent in the public sector?**

Yes. The RFI consultation demonstrated that social housing rental arrangements are prevalent in the public sector.

**Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?**

Yes. For social housing rental arrangements that meet the definition of a lease, IPSAS 43 provides the principles on how to account for these arrangements.

For social housing rental arrangements that do not meet the definition of a lease, IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provide the principles on how to account for these arrangements from a revenue perspective.

**Decision 3: Is this issue related to general purpose financial statements?**

Yes. Accounting for access rights is required in order to better understand:

- (a) The economic nature of the transaction;
- (b) Which IPSAS is more appropriate to deal with these types of transactions or the distinct components of the transactions that convey access rights; and
- (c) How to apply the principles on recognition, measurement, presentation, and disclosures on social housing rental arrangements.

**Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?**

No. Non-authoritative guidance is not necessary as accounting for social housing rental arrangements that meet the definition of a lease follows the principles in IPSAS 43.

**Decision 5: Is the issue relevant to other projects?**

No.

**Decision 6: Is the issue different at the consolidated level?**

Staff and the Task Force did not find a public sector-specific reason for different recognition and measurement requirements at the consolidated level.

**[draft] Exposure Draft [XX], *Concessionary Leases* (Amendments to IPSAS 43)**



Exposure Draft [XX]  
[MM YYYY]  
*Comments due: [MM DD, YYYY]*

IPSAS®

*Proposed International Public Sector Accounting Standard®*

---

Concessionary Leases ~~and Other~~  
~~Arrangements Similar to Leases~~  
(Amendments to ~~IPSAS 23 and~~  
IPSAS 43)

IPSASB

International Public  
Sector Accounting  
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © MM YYYY by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page XX](#).

## REQUEST FOR COMMENTS

This Exposure Draft (ED), *Leases*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by MM DD, YYYY.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF file and a Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: [www.ipsasb.org](http://www.ipsasb.org). The approved text is published in the English language.

### IPSASB’s Leases Project

In January 2022, the IPSASB published [IPSAS 43, \*Leases\*](#), which is aligned with IFRS 16, *Leases*. The publication of IPSAS 43 completed Phase One of the IPSASB’s leases project.

Phase Two of the Leases project (relabelled as Other Lease-Type Arrangements project) led to the publication in January 2021 of [Request for Information \(RFI\), \*Concessionary Leases and Other Arrangements Similar to Leases\*](#).

The objective of the Other Lease-type Arrangements project is to develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements.

This ED is the subsequent phase of the Other Lease-Type Arrangements project.

### Objective of the ED

The objective of this ED is to provide additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements.

### Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the ED are provided below.

#### Specific Matter for Comment 1:

#### Specific Matter for Comment 1:

#### Specific Matter for Comment 3:

**EXPOSURE DRAFT [XX], CONCESSIONARY LEASES ~~AND OTHER~~  
~~ARRANGEMENTS SIMILAR TO LEASES~~ (AMENDMENTS TO IPSAS 23  
~~AND~~ IPSAS 43)**

**CONTENTS**

	Page
Amendments to IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> ...	6
Amendments to IPSAS 43, <i>Leases</i> .....	9

Note: Text presented to the IPSASB at the June meeting is shaded grey. Text in marked-up red are amendments made during Q3 2022.

## Objective

1. The objective of this Exposure Draft (ED) is to propose amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IPSAS 43, *Leases* to provide guidance on accounting for concessionary leases ~~and other arrangements similar to leases~~.
2. This ED forms part of the IPSASB's project on Other Lease-Type Arrangements.

## Request for Comments

3. The IPSASB would welcome comments on all the matters proposed in the ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

## IPSAS Addressed

IPSAS	Summary of Proposed Change
IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	<del>Consequential amendment to p</del> Provide guidance on <del>identification, classification, recognition, and measurement, and disclosures of the right-of-use assets in-kind and the</del> concession component in concessionary leases for lessees.
IPSAS 43, <i>Leases</i>	Provide guidance on identification and classification, recognition, and measurement, and disclosures of concessionary leases.
[tbd]	[tbd]

## Amendments to IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)

Paragraphs ~~28A, 43,~~ 83, 93, 96, ~~97,~~ and 107 are amended. Paragraphs 43A, 105C, 105D, 123A and 124H are added. The heading above paragraph 105C is added. New text is underlined.

[Note: Text presented to the IPSASB at the June meeting is shaded grey. Text in marked-up red are amendments made during Q3 2022.]

### Concessionary Leases

28A. An entity identifies a concessionary lease and a right-of-use in-kind in accordance with the requirements of IPSAS 43, Leases.

### Measurement of Assets on Initial Recognition

...

~~43. Consistent with IPSAS 12, Inventories, IPSAS 16, Investment Property, and IPSAS 17, and IPSAS 43, Leases for right-of-use assets held by a lessee, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition.~~

43A. Right-of-use assets held by a lessee acquired through a concessionary lease and right-of-use assets in-kind acquired through a transaction that transfers the right to use an underlying asset for zero consideration ~~The~~ are measured at fair value present value of market lease payments of right-of-use assets held by a lessee is measured in accordance with the requirements of IPSAS 43.

...

### Transfers

...

### Measurement of Transferred Assets

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, ~~or right-of-use assets held by a lessee~~ 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, ~~and IPSAS 43. 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 the market lease payments.~~ 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.

...

## Gifts and Donations, including Goods In-kind

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, right-of-use assets in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets, ~~and goods in-kind, and right-of-use assets in-kind~~, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.

...

96. Goods in-kind and right-of-use assets in-kind are recognized as assets when the goods and right-of-use assets, are received, or there is a binding arrangement to receive the goods or a lease contract to receive the right-of-use assets, respectively. If goods in-kind and right-of-use assets in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

~~97. On initial recognition, gifts and donations including goods in-kind and right-of-use assets in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.~~

...

## Concessionary Leases

105C. Concessionary leases are leases granted to or received by an entity at below-market terms. The portion of the lease that is payable, if any, along with any interest payments, is ~~an exchange transaction and is~~ accounted for in accordance with IPSAS 43. An entity considers whether any difference between the consideration (lease payments) and the ~~fair value of the~~ right-of-use asset on initial recognition (see IPSAS 43) is non-exchange revenue that should be accounted for in accordance with this Standard.

105D. Where an entity determines that the difference between the consideration (lease payments) and the ~~fair value of the~~ right-of-use asset on initial recognition is non-exchange revenue, an entity 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 recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized.

## Disclosures

...

107. An entity shall disclose in the notes to the general purpose financial statements:

- (a) The accounting policies adopted for the recognition of revenue from non-exchange transactions;
- (b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
- (c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
- (d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind and right-of-use assets in-kind received.

## Transitional Provisions

(...)

123A. The transitional provisions in IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an lessee entity in leases for zero or nominal consideration.

## Effective Date

...

124H. Paragraphs 28A, 43, 83, 93, 96, 97, and 107 were amended and paragraphs 43A, 105C, 105D, and 123A were added by [draft] IPSAS [X] (ED [XX]), *Concessionary Leases and Other Arrangements Similar to Leases (Amendments to IPSAS 43)* issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is permitted. If an entity applies the amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 43 at the same time.

## Implementation Guidance

*These examples accompany, but are not part of, IPSAS 43*

[to be added at the October Check-In 2022 meeting]



## Amendments to IPSAS 43, Leases

Paragraphs 18A–18B, 26A–26D, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 103A, AG32A, AG32B, and AG60–~~AG64–AG67~~ are added. Heading above paragraph 18A is added. Paragraphs ~~5~~, ~~6~~, and ~~42~~ are amended. New text is underlined and deleted text is struck through.

[Note: Text presented to the IPSASB at the June meeting is shaded grey. Text in marked-up red are amendments made during Q3 2022.]

### Definitions

~~5. The following terms are used in this Standard with the meanings specified:~~

~~Fair value, for the purpose of applying the lessor accounting requirements in this Standard, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.~~

...

### Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 18A–18B and 23–52 to:

- (a) Short-term leases; and
- (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9).

...

### Identifying a Lease (see paragraphs AG10–AG34)

...

#### Assessing Whether the ~~Lease Transaction~~ is at Market Terms or at Below-Market Terms

18A. ~~At inception of a contract, A~~an entity will determine ~~on initial recognition~~ whether the lease transaction is at market terms or at below-market terms, including the level of consideration being exchanged.

#### Lessee

18B. ~~In certain circumstances, such as when a lessee acquires the right to use an underlying asset at market terms, the lease is an exchange transaction. In other circumstances, such as when a lessee acquires the right to use an underlying asset that is at below market terms, the lease is a concessionary lease. In these cases, the lease can have exchange and non-exchange components. In determining whether a lease has identifiable exchange or non-exchange components on initial recognition, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components (for example, leases transactions for zero consideration) or the consideration is only of nominal amount, the lease whole transaction is treated as a non-exchange transaction.~~

## Lessor

### Finance Lease

~~18C. In certain circumstances, such as when a lessor in a finance lease transfers the underlying asset at market terms, the lease is an exchange transaction. In other circumstances, such as when a lessor in a finance lease transfers the underlying asset at below market terms, the lease is a concessionary lease. In these cases, the lease can have exchange and non-exchange components. In determining whether a lease has identifiable exchange or non-exchange components on initial recognition, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components (for example, finance lease transactions for zero consideration) or the consideration is only of nominal amount, the lease whole transaction is treated as a non-exchange transaction.~~

### Operating Lease

~~18D. In certain circumstances, such as when a lessor in an operating lease receives lease payments at market terms, the lease is an exchange transaction. In other circumstances, such as when a lessor in an operating lease received the lease payments at below market terms, the lease is a concessionary lease. In these cases, the lease can have exchange and non-exchange components. In determining whether a lease has identifiable exchange or non-exchange components on initial recognition, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components (for example, operating lease transactions for zero consideration) or the consideration is only of nominal amount, the lease whole transaction is treated as a non-exchange transaction.~~

18B. In certain circumstances, such as when an entity enters into a lease at market terms, the lease is an exchange transaction. In other circumstances, such as when an entity enters into a lease at below-market terms, the lease is a concessionary lease. In this case, the lease can have exchange and non-exchange components. In determining whether a lease has an identifiable exchange or non-exchange component on initial recognition, professional judgment is exercised. Where it is not possible to distinguish exchange and non-exchange components (for example, transactions that convey the right to use an underlying asset for zero consideration), the whole transaction is treated as a non-exchange transaction.

...

## **Lessee**

...

## **Measurement**

### *Initial Measurement*

#### Initial Measurement of the Right-of-Use Asset

...

**26A. Where a right-of-use asset is acquired through a concessionary lease, its cost shall be measured at its fair value—the present value of market lease payments as at the commencement date.**

26B. A right-of-use asset may be acquired through a non-exchange transaction. For example, property may be leased by a public sector entity at below ~~fair value market lease payments~~ to implement a public policy. Under these circumstances, the cost of the right-of-use asset is ~~its fair value measured at the present value of market lease payments~~ as at the commencement date.

26C. ~~The fair value of the right-of-use asset shall be measured at the present value of market lease payments.~~ The market lease payments shall be discounted using the interest rates identified in paragraph 29A. The ~~fair carrying~~ value of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).

26D. ~~Where the lessee initially recognizes the right-of-use asset at fair value, in accordance with paragraph 26A, the fair value is the cost of the right-of-use asset.~~ The lessee shall decide, subsequent to initial recognition, to adopt either the cost model (paragraphs 31–34), the fair value model (paragraph 34), or the revaluation model (paragraph 35).

#### Initial Measurement of the Lease Liability

...

29A. Where a lease liability is recognized through a concessionary lease, its cost shall be measured in accordance with paragraphs 27–29.

...

42. In applying paragraph 41, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined. In the case of a concessionary lease, a lessee shall apply the discount rate identified in paragraph 27.

#### Disclosure

...

#### Concessionary Leases

64A. For concessionary leases received and measured at ~~fair value the present value of market lease payments~~ in accordance with paragraphs 26A–26D, a lessee shall disclose:

- (a) The ~~fair value adjustment amount of the lease concession~~ on initial recognition;
- (b) The purpose and terms of the various types of concessionary leases, including the nature of the concession; and
- (c) Valuation assumptions.

#### Lessor

#### Classification of Leases (see paragraphs AG60–AG65)

...

#### Finance Leases

#### *Recognition and Measurement*

...

71A. At the commencement date, a lessor shall recognize assets under a concessionary finance lease applying the requirements in this Standard, with the necessary adaptations in the absence of lease payments and/or unguaranteed residual value.

...

## Operating Leases

### *Recognition and Measurement*

...

81A. A lessor shall recognize revenue under a concessionary operating lease applying the requirements in this Standard, with the necessary adaptations in the absence of lease payments. Where no lease payments are received, the lessor shall not recognize revenue.

...

### Disclosure

...

### *Concessionary Finance Leases*

96A. For concessionary finance leases granted, a lessor shall disclose:

- (a) Carrying amount of the underlying assets transferred during the period in accordance with the relevant IPSAS;
- (b) The net investment in the lease at the commencement date in accordance with this Standard;
- (c) The difference between (a) and (b); and
- (d) The purpose and terms of the various types of concessionary finance leases, including the nature of the concession.; and

### *Concessionary Operating Leases*

96B. For concessionary operating leases granted, a lessor shall disclose:

- (e) Contractual value of the lease payments received during the period; and
- (f) The purpose and terms of the various types of concessionary operating leases, including the nature of the concession.; and

...

## Sale and Leaseback Transactions

...

97A. If an entity (seller-lessee and buyer-lessor) identifies any below-market terms embedded in the leaseback transaction as a concession, the seller-lessee shall account for the concession in accordance with IPSAS 23, and the buyer-lessor shall account for the concession in accordance with this Standard. Otherwise, the entity shall account for any below-market terms as prepayments in accordance with paragraph 100(a).

...

## Effective Date and Transition

### Effective Date

...

103A. Paragraphs 18A–18B, 26A–26D, 29A, 64A, 71A, 81A, 96A, 96B, ~~97A~~, 103A, AG32A, AG32B, and AG60–~~AG64–AG67~~ are added and paragraphs ~~5, 6, and 42~~ are amended by [draft] IPSAS [X] (ED [XX]), *Concessionary Leases and Other Arrangements Similar to Leases (Amendments to IPSAS 43)* –issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is permitted. If an entity applies the amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS 43 at the same time.

...

### Transition

[to be added at the October Check-In 2022 meeting]

...

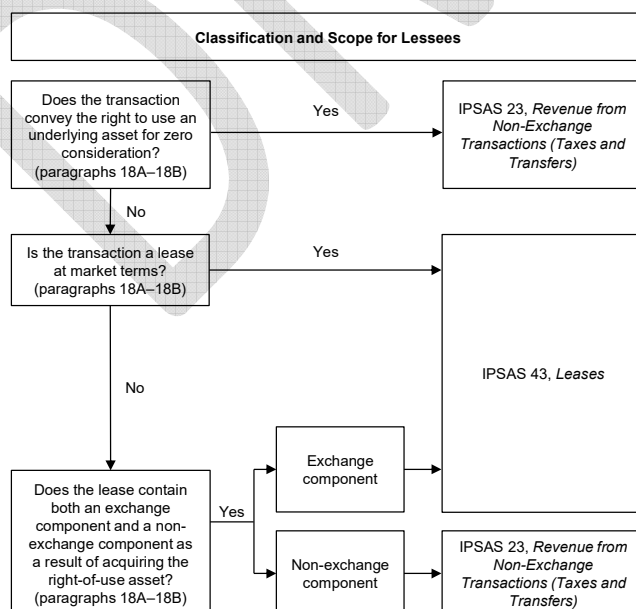
### Application Guidance

...

#### Classification of Leases At Market Terms and At Below-Market Terms and Scoping for Lessees (paragraphs 18A–18B)

AG32A. The diagram below establishes the classification and scope of leases for lessees.

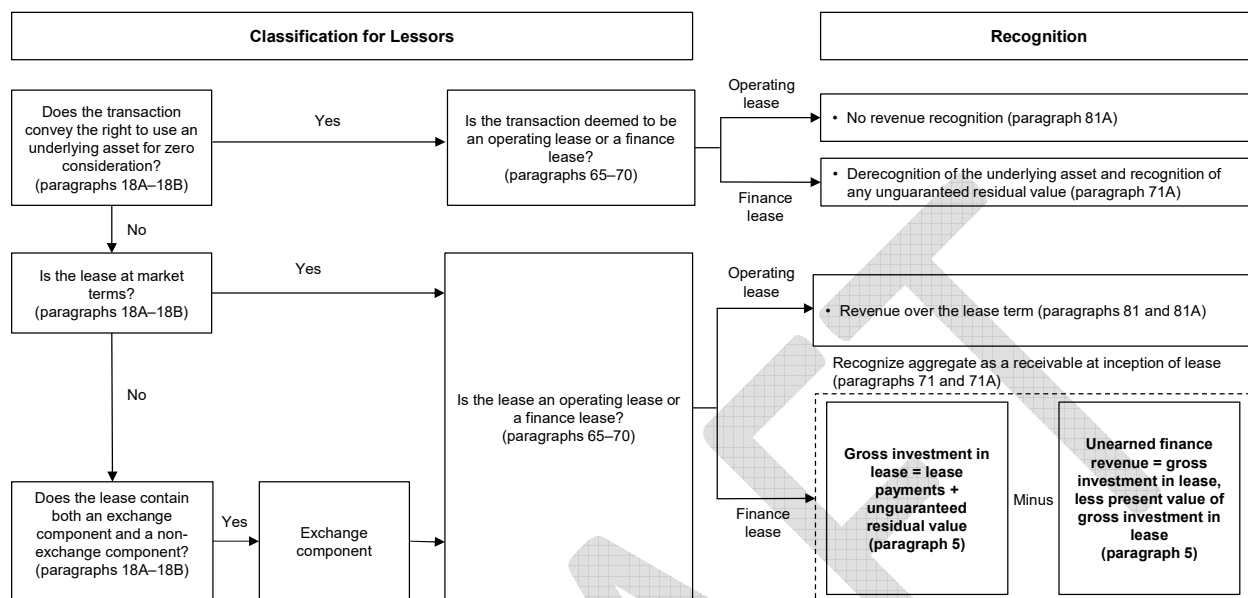
[diagram amended compared to the version presented at the June 2022 meeting to enhance consistency with paragraphs 18A–18B]



## Classification of Leases At Market Terms and At Below-Market Terms and Scoping for Lessors (paragraphs 18A, ~~18C–18DB~~)

AG32B. The diagram below establishes the classification and scope of leases for lessors.

[diagram amended compared to the version presented at the June 2022 meeting to enhance consistency with paragraphs 18A–18B]



## Application Guidance

### Concessionary Leases (see paragraphs 18A–18B, ~~48A~~, 26A–26D, 29A, 42, 64A, 71A, 81A)

AG60. Concessionary leases are granted to or received by an entity at below-market terms. Examples of concessionary leases include leases to international organizations or to other public sector entities with public policy objectives.

AG61. As concessionary leases are granted or received at below-market terms, the discounted contractual lease payments (consideration) on initial recognition of the lease will be lower than the discounted market lease payments. 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 AG62 and AG67 below.

AG62. An entity firstly assesses whether the substance of the concessionary lease is in fact a lease transaction, a grant or a combination thereof, by applying the principles in this Standard and paragraphs 39–58 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

AG63. If an entity has determined that, in substance, the concessionary lease is ~~in substance~~ a grant (for example, a ~~lease transaction that conveys the right to use an underlying asset~~ for zero or nominal consideration), it accounts for the transaction as follows:

- (a) Where the right-of-use asset in-kind is received by an entity, it is accounted for in accordance with IPSAS 23.
- (b) Where the grant is granted by an entity, it is accounted for as follows:
  - (i) In a ~~deemed~~ finance lease, the entity derecognizes the underlying asset in accordance with applicable IPSAS and recognizes the ~~net investment unguaranteed residual value~~ in the lease in accordance with this Standard; and
  - (ii) In an ~~deemed~~ operating lease, the entity recognizes lease revenue in accordance with this Standard, if any, and may assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

AG64. If an entity receiving the right-of-use asset has determined that the transaction is a combination of a lease transaction and a grant, any difference between the discounted market lease payments and the discounted contractual lease payments is accounted for in accordance with IPSAS 23.

AG65. If an entity granting a lease has determined that the transaction is a combination of a lease transaction and a grant:

- (a) In a finance lease, the entity derecognizes the underlying asset in accordance with the applicable IPSAS and recognizes the net investment in the lease in accordance with this Standard; and
- (b) In an operating lease, the entity recognizes lease revenue in accordance with this Standard and may assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative examples are provided in paragraphs IGXX and IGXX of IPSAS 23 as well as in paragraphs IEXX and IEXX accompanying this Standard. [to be added at the October Check-In meeting]

AG66. A right-of-use asset held by a lessee in a concessionary lease is initially measured at the present value of market lease payments based on the current use of the underlying asset.

AG67. If market lease payments are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24–26, unless there are indicators available that warrant different measurement.

...

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 43.*

...

Revision of IPSAS 43 as a result of [draft] (ED [XX]), *Concessionary Leases* ~~and Other Arrangements Similar to Leases~~ (Amendments to ~~IPSAS 23 and~~ IPSAS 43) issued in [Month and Year]

### Concessionary Leases

#### Definitions

[This section will be finalized after discussion of Agenda Items 9.2.1 and Agenda Item 9.2.2]

BC105. The IPSASB considered whether to provide a definition or a description of a concessionary lease. The IPSASB noted that concessionary leases may vary depending on the level of consideration being exchanged, which may make them at below-market terms. In these cases, professional judgment may be required to assess whether in substance the transaction meets the definition of a lease or whether it is in substance a grant.

BC106. The IPSASB decided to provide a description of a concessionary lease because:

- (a) Of the different types of leases at below-market terms;
- (b) It prevents an apparent contradiction of labeling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration;
- (c) It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described; and
- (d) The accounting for arrangements that convey the right to use an underlying asset without consideration is the same as arrangements that convey the right to use an underlying asset with consideration at below-market terms.

BC107. The IPSASB noted that there are transactions that convey the right to use an underlying asset without consideration (right-of-use asset in-kind). The IPSASB is of the view that transactions that convey the right to use an underlying asset without consideration do not meet the definition of a lease as defined in IPSAS 43 and, therefore, IPSAS 43 is not applicable to this type of transaction.

BC108. The IPSASB concluded that a transaction that conveys a right-of-use assets in-kind is in substance a non-exchange transaction and, therefore, the principles in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* are applicable to this type of transaction.

BC109. The IPSASB also considered whether to modify the definition of a lease to include other types of arrangements that are on contracts.

BC110. [TBD]



### Identification, Classification, and Scope

BC105-BC111. IPSAS 43 introduced new guidance on identifying a lease as a result of an exchange transaction. Building on this guidance, the IPSASB proposed additional guidance to identify, classify, and scope concessionary leases.

BC106-BC112. The IPSASB proposed this new guidance because it would help preparers:

- (a) Distinguish leases at market terms from leases from leases that have embedded concessions;
- (b) Understand the relationship between IPSAS 43 and other IPSAS; and
- (c) Apply the IPSAS 43 principles to leases at market terms and apply the principles in other IPSAS to the concessions, as appropriate.

### Variable Lease Payments Other than Those Referred in IPSAS 43

BC107-BC113. The IPSASB considered whether to include additional specific guidance on variable lease payments other than those referred in IPSAS 43 when identifying and classifying leases at market or at below-market terms. Lease payments that are dependent of lessee's sales might influence the identification of a concessionary lease.

BC108-BC114. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

### Lease Modifications

BC109-BC115. The IPSASB considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC110-BC116. The IPSASB decided not to include additional on lease modifications because an entity needs to apply professional judgement when assessing the conditions in IPSAS 43.45, as follows:

- (a) If it gives rise to a separate lease as per IPSAS 43.45, IPSAS 43.79, and IPSAS 43.89, then the entity needs to do the assessment again as if it was a brand-new lease; and
- (b) If it does not give rise to a new lease as per IPSAS 43.45, then the entity needs to apply IPSAS 43.46–47 or IPSAS 43.80.

### Lessee

#### Recognition and Measurement

BC111-BC117. IPSAS 43 measures the right-of-use asset at cost. This is consistent with the measurement of many other non-financial assets, such as assets within the scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment*, and IPSAS 31, *Intangible Assets* that are a result of exchange transactions. However, for non-exchange transactions a cost measurement basis does not reflect the economics of the transaction because it does not capture the embedded concession.

BC112-BC118. To address this issue, when developing the guidance to account for leases as a result of a non-exchange transaction (concessionary leases) in [draft] ED [XX], *Concessionary Leases and Other Arrangements Similar to Leases* (Amendments to ~~IPSAS 23 and~~ IPSAS 43), the IPSASB considered the principles in the above IPSAS as well as in IPSAS 23, *Revenue from Non-*

Exchange Transactions (Taxes and Transfers) and in IPSAS 41, *Financial Instruments* to account for the right-of-use asset and the concession component.

~~BC113.~~ BC119. The IPSASB noted that the above IPSAS require that assets acquired through non-exchange transactions to be measured at their fair value as at the date of acquisition. The IPSASB ~~proposed~~ considered requiring measuring the right-of-use asset also at fair value in a concessionary lease because:

- (a) It is consistent with IPSASB's literature on the accounting for non-exchange transactions, including concessionary loans;
- (b) It provides information on operating and financial capacity as referred in the Conceptual Framework for accountability and decision-making purposes; and
- (c) Recognizing the implicit concession in a lease at below-market terms would enhance Public Financial Management (PFM) to the extent that the improvements would outweigh the costs associated with such a change.

~~BC120.~~ However, the IPSASB noted the current definition of fair value in IPSAS 9 will be replaced by a new fair value definition drawn from IFRS 13, *Fair Value Measurement*, when the IPSASB published the new IPSAS on Measurement.

~~BC121.~~ The IPSASB also noted that the new fair value definition is associated with the definition of highest and best use, which was not present in the fair value definition in IPSAS 9.

~~BC122.~~ The IPSASB decided to refer to present value of market lease payments, instead of fair value, because:

- ~~(a) The measurement of the right-of-use asset would no longer be based on its current use, once the current fair value definition is replaced; and~~
- ~~(b) There would be an increased difficulty of measuring the right-of-use asset as it would be based on other possible uses of the asset to achieve the highest and best use.~~

~~BC123.~~ The IPSASB considered also and rejected requiring the right-of-use asset to be measured at current operational value as proposed in Exposure Draft 77, *Measurement* because the IPSASB still had not finished its deliberations on current operational value as a result of the public consultation at the time of development of [draft] ED XX, *Concessionary Leases*.

~~BC114.~~ BC124. The IPSASB also proposed to account for the concession component in a concessionary lease following the principles applicable to concessionary loans in IPSAS 23 because:

- (a) Both transactions are at below-market terms at inception;
- (b) Have a concession to the price of the resource being transferred;
- (c) Have the objective to provide/receive resources with a price at below-market terms;
- (d) Whether transferring a resource in cash or in-kind it should not modify the accounting for the concession component as non-exchange revenue in both transactions, as concessionary leases are in substance a financing transaction; and
- (e) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.

## Recognition Exemptions

BC115-BC125. The IPSASB considered the applicability to lessees of the general model to account for concessionary leases that are short-term leases and leases for which the underlying asset is of low value.

BC116-BC126. The IPSASB decided not to extend the general model to account for concessionary leases to lessees' recognition exemptions because:

- (a) Leases for which the underlying asset is of low value are not material enough to warrant specific concessionary lease accounting; and
- (b) Of cost-benefit reasons for short-term leases as they have a lease term of 12 months or less.

## Disclosures

BC117-BC127. The IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases ~~and related to the accounting model.~~

## Lessor

### Recognition and Measurement

BC118-BC128. IPSAS 43 requires lessors to classify leases as either an operating lease or a finance lease under a risks and rewards dual model. Operating leases are viewed as a service, and the net investment in the lease in finance leases is viewed as a financial instrument.

BC119-BC129. In a finance lease, the substance or main issue of the lease is the underlying asset being transferred with the attached financing (net investment in the lease). The accounting for the transfer of the underlying asset is made in accordance with IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant and Equipment* and IPSAS 31, *Intangible Assets*, ~~as appropriate.~~ The accounting for the attached financing (net investment in the lease) is made in accordance with IPSAS 43, which includes the accounting for the lease payments and the residual value.

BC120-BC130. In an operating lease, the substance or main issue of the lease is the stream of cash-flows received by the lessor in the form of lease payments, as the lessor continues to recognize the underlying asset.

BC124-BC131. As consequence of the different economics of leases under the risks and rewards dual model, in a:

- (a) Concessionary finance lease, the concession is related to the price of the underlying asset transferred to the lessee; and
- (b) Concessionary operating lease, the concession component is related to the price of lease payments received from the lessee.

BC122-BC132. This means that lessors can have three types of ~~concessionary lease transactions~~:

- (a) ~~Leases for zero consideration~~ Arrangements that convey the right to use an underlying asset for zero consideration, which ~~are-is~~ in substance a gift or donation in-kind—the gift or donation in-kind is the entire value (or almost all value) of the ~~lease~~-transaction (operating lease or finance lease depending on lessor's classification);

- (b) Concessionary finance leases—which can be ~~assimilated equivalent with-to~~ transferring of a non-cash asset (the underlying asset) at below-market terms attached with financing for a portion of the value of the asset transferred; and
- (c) Concessionary operating leases—which can be ~~assimilated equivalent with-to~~ services partially in-kind, as the lessor continues to recognize the underlying asset.

BC133. Although an arrangement that conveys the right to use the underlying asset for zero consideration does not meet the definition of a lease, the IPSASB noted that lessors are still required to classify the transaction as either finance lease or operating lease in order to identify to what part of the transaction is the concession related to, as explained in paragraph BC131.

BC134. In this context, the IPSASB also noted that the accounting for the arrangement would still apply the same principles as for leases at market terms but make the necessary accounting adjustments due to the absence of consideration.

BC123-BC135. For concessionary finance leases, the IPSASB decided to continue measuring the transfer of the underlying asset to the lessee at its carrying amount because it is:

- (a) The cost of the concession incurred by the lessor, being the economic benefits or service potential given up measured by the carrying amount of the underlying asset; and
- (b) Consistent with the derecognition principles in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant and Equipment*, and IPSAS 31, *Intangible Assets* for disposals.

BC124-BC136. For concessionary operating leases, the IPSASB decided to continue measuring the lease payments received by the lessor ~~at cost in accordance with IPSAS 43~~ because:

- (a) No economic benefits or service potential associated with the transaction will flow to the entity higher than the cash received by the lessor in the form of lease payments made by the lessee; and
- (b) It is consistent with revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions*.

BC125-BC137. In reaching to this decision, the IPSASB noted that the terms and conditions of the concessionary operating lease might help an entity assess whether there is an indication that the underlying asset may be impaired in accordance with IPSAS 21, *Impairment from Non-Cash Generating Assets* or IPSAS 26, *Impairment from Cash Generating Assets*, as appropriate.

BC126-BC138. Following a cost measurement basis for concessionary leases, the IPSASB noted that lessors recognize the loss related with the derecognition of the underlying asset in a concessionary finance lease in accordance with the applicable IPSAS. This means that the cost of the concession would be the difference between the value of the carrying amount of the underlying asset derecognized and the value of the recognition of the net investment in the lease, if any.

BC139. For concessionary operating leases, the IPSASB noted that ~~lessors~~ continue recognizing as revenue the cash received in the form of lease payments made by lessees ~~and~~ there would be no separate recognition of the concession. This situation occurs because the concession is related to the foregone revenue related to the lease payments. As foregone revenue is not recognized under IPSAS 9, the IPSASB did not identify an economic reason to provide an exception to this principle in the context of concessionary operating leases.

BC140. The IPSASB concluded that the cost of the concession will be the difference between the:

- (a) Depreciation of the underlying asset, other expenses related to the underlying asset, and the impairment charge related to the underlying asset, if any; and
- (b) Revenue obtained in the lease payments received from the lessee.

#### Disclosures

BC141. Similar to lessees, the IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms for lessors. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases for both concessionary finance leases and concessionary operating leases and related to the dual accounting model.

#### Sale and Leaseback Transactions

BC142. The IPSASB considered whether to amend the requirements in IPSAS 43 on sale and leaseback transactions at below market terms to be consistent with the requirements of concessionary leases.

BC143. The IPSASB noted that, in principle, from a conceptual perspective concessionary leases and leasebacks at below-market terms have two key differences:

- (a) Different starting points—A leaseback at below-market terms is linked to a previous sale with the same party as interdependent transactions, while a concessionary lease is not linked to a previous sale with the same party; and
- (b) Different objectives—A sale and leaseback transaction has the objective of obtaining cash through the sale of the underlying asset and refunding the cash proceeds in the form of lease payments, while a concessionary lease has the objective of conveying a subsidy through the right to use an underlying asset at below-market terms

BC144. However, there might exist leasebacks at below markets in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback as the agreed purchase price of the underlying asset is the same as its fair value.

BC145. The IPSASB noted that this may be a public sector-specific situation because normally in the private sector both the sale and leaseback are either at above-market terms or at below-market terms, not only the leaseback being at below-market terms.

BC146. Therefore, the IPSASB decided to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback is not linked to a prepayment.

#### Access Rights and Arrangements Allowing Right-of-Use

BC147. The IPSASB also considered the feedback received from respondents to the Request for Information on access rights and arrangements allowing right-of-use and concluded that the arrangements identified by the respondents only meet the definition of:

- (a) A lease, if the customer (lessee) has both the right to obtain substantially all of the economic benefits or service potential from use of the identified asset and the right to direct the use of the identified asset, in accordance with IPSAS 43, *Leases*; and

- (b) A service concession arrangement, if the supplier controls or regulates what services the customer (operator) must provide with the asset, to whom it must provide them, and at what price and the supplier (grantor) controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement, in accordance with IPSAS 32, *Service Concession Arrangements (Grantor)*.

BC148. The IPSASB also concluded that those arrangements may meet the definition of intangible assets in accordance with IPSAS 31, *Intangible Assets*, if they are all identifiable nonmonetary assets without physical substance.

BC149. Some of these arrangements maybe exchange transactions, while others maybe non-exchange transactions. From a revenue perspective, the IPSASB concluded that the principles and requirements in both IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* already provide an adequate basis to account for access rights and arrangements allowing right-of-use.

### **Social Housing Rental Arrangements**

BC150. Regarding social housing rental arrangements, the IPSASB identified in the responses to the Request for Information two characteristics in these arrangements:

- (a) Zero or nominal consideration; and  
(b) Lack of a specified term.

BC151. The IPSASB is of the view that the accounting for social housing rental arrangements for zero or nominal consideration would follow the same accounting model as proposed in [draft] Exposure Draft [XX], *Concessionary Leases* for arrangements conveying the right to use an underlying asset because:

- (a) They do not meet the definition of a lease under IPSAS 43; and  
(b) IPSAS 23 deals with the principles to recognize and measure arrangements that arise from non-exchange transactions.

BC152. Therefore, the IPSASB decided not to add further guidance in IPSAS 23 on this type of transaction.

BC153. Regarding social housing rental arrangements without a specified term, the IPSASB decided to retain the definition of a lease in IPSAS 43 in order not to include this type of arrangement because the accounting models in IPSAS 43 are dependent on the existence of a specified period of time.

### **Shared Properties with or without a Lease Arrangement in Place**

BC154. Regarding shared properties without a lease arrangement in place, the IPSASB concluded that:

- (a) This type of arrangement would not meet the definition of a lease because it is not a contractual arrangement; and  
(b) The principles and requirements in IPSAS 9 or IPSAS 23, as appropriate, provide an adequate basis to account for this type of arrangement.



BC155. Regarding shared properties with a lease arrangement in place, the IPSASB concluded that this type of arrangement would be within the scope of IPSAS 43, if they meet the definition of a lease.

BC156. For those shared properties with arrangements that do not meet the definition of a lease (for example, do not have consideration and/or do not have a specified term), the IPSASB concluded that the principles and requirements in IPSAS 9 or IPSAS 23, and in [draft] Exposure Draft [XX], *Concessionary Leases* (Amendments to IPSAS 43), as appropriate, provide an adequate basis to account for this type of arrangements.

#### **Feedback Statement/Staff Questions & Answers on the Transactions identified in the RFI**

BC157. The IPSASB noted that, in general, respondents to the RFI raised two main concerns with the transactions identified in the RFI:

- (a) How to identify the transaction; and
- (b) How to account for the transaction.

BC158. From a standard-setting perspective, the IPSASB is proposing additional guidance on concessionary leases through ED [XX] to fill a gap in IPSAS on how to identify and account for this type of transaction.

BC159. Regarding the remaining types of transactions identified in the RFI, the IPSASB is of the view that the principles and requirements in IPSAS and in [draft] Exposure Draft [XX], *Concessionary Leases* (Amendments to IPSAS 43), where appropriate, provide an adequate basis for an entity to identify and account for these transactions. Consequently, the IPSASB decided that publishing a **Feedback Statement/Staff Questions and Answers** on how these types of arrangements fit in IPSASB's current and developing literature would best serve constituents' interests in these matters.

...

## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 43*

[to be added at the October Check-In meeting]

DRAFT



International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, Recommended Practice Guidelines, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Public Sector Accounting Standards Board', 'International Public Sector Accounting Standards', 'Recommended Practice Guidelines', 'International Federation of Accountants', 'IPSASB', 'IPSAS', 'RPG', 'IFAC', the IPSASB logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © January 2021 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © January 2021 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

DRAFT