

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

**Meeting Location:** Toronto, Canada

**Meeting Date:** December 6–9, 2022

# Agenda Item 6

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="#">6.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">6.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">6.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Exposure Draft 84: Development</a>	<a href="#">6.2.1</a>
	<a href="#">Exposure Draft 84: Approval</a>	<a href="#">6.2.2</a>
	<a href="#">Feedback Statement</a>	<a href="#">6.2.3</a>
<b>Other supporting items</b>	<a href="#">Supporting Document 1 – [draft] Exposure Draft 84, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23)</a>	<a href="#">6.3.1</a>
	<a href="#">Supporting Document 2 – Feedback Statement</a>	<a href="#">6.3.2</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)
October Check-In	1. Initial Measurement of Right-of-Use Assets In-Kind and the Right-of-Use Asset in a Concessionary Lease 2. Transition 3. Third Review of [draft] ED 84, <i>Concessionary Leases</i> <sup>1</sup> (Amendments to IPSAS 43)
December 2022	1. Exposure Draft 84: Development 2. Exposure Draft 84: Approval 3. Feedback Statement
March 2023	1. Document out for comment

<sup>1</sup> Staff and the Task Force note that the title of the ED will be discussed when approving ED 84.

## Agenda Item 6.1.1

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
June 2023	<ol style="list-style-type: none"> <li>1. ED 84, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23): High-level review of responses</li> <li>2. Project management update</li> </ol>
September 2023	<ol style="list-style-type: none"> <li>1. ED 84, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23): Review of responses [Issues to be identified from the review of responses]</li> <li>2. First Review of [draft] Final Guidance, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23)</li> </ol>
December 2023	<ol style="list-style-type: none"> <li>1. ED 84, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23): Review of responses [Issues to be identified from the review of responses]</li> <li>2. Second Review of [draft] Final Guidance, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23)</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, <i>Concessionary Leases and Right-of-Use Assets In-kind</i> (Amendments to IPSAS 43 and IPSAS 23)</li> </ol>

## INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
October Check-In 2022	1. Further explain in the Basis for Conclusions on the initial measurement of right-of-use assets in-kind and right-of-use assets in a concessionary lease the reasons for measurement at the present value of payments for the lease at market rates that are specific to these types of assets.	1. See IPSAS 43.BC124–BC131 and IPSAS 23.BC29–BC30 (See <a href="#">Agenda Item 6.3.1</a> )
September 2022	1. Develop Implementation Guidance on the scoping of arrangements that convey the right to use an underlying asset in the public sector;	1. To be included in the feedback statement.
	2. Assess the consistency of the terminology on concessionary leases taking into consideration the guidance on concessionary loans;	2. Assessment made.
	3. Develop Implementation Guidance stating that at the inception of the lease the rights and obligations do not have to be equal;	3. To be included in the feedback statement.
	4. Address the editorials raised by the IPSASB during the page-by-page review of the draft Exposure Draft.	4. Editorials addressed.
June 2022	1. Assess the links with the Measurement project on Fair Value and Current Operational Value	1. See <a href="#">Agenda Item 3.2.1</a> , of October Check-In meeting.
December 2021	1. Consider the need for any potential consequential amendments to IPSAS 16, <i>Investment Property</i> , during Phase Two of the Leases project.	1. No consequential amendments were identified.

## DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
October 2022	1. Right-of-use assets in-kind and right-of-use assets in a concessionary lease should be initially measured at the present value of payments for the lease at market rates instead of fair value.	1. See IPSAS 43.BC124–BC131 and IPSAS 23.BC29–BC30
	2. The transition requirements for concessionary leases and right-of-use assets in-kind should be similar to the transition requirements in IPSAS 43 for leases at market terms, where appropriate, and similar to the transition requirements in IPSAS 43 for right-of-use assets acquired through leases at market terms, where appropriate, respectively.	2. See IPSAS 43.BC153 and IPSAS 23.BC29–BC30
September 2022	1. The scope of IPSAS 43, <i>Leases</i> , requiring a lease be a contract, or similar arrangement, should be retained;	1. BC106–BC113
	2. A description of a concessionary lease should be proposed in ED, <i>Concessionary Leases</i> ;	2. BC114–BC115
	3. Amendments to IPSAS 43 related to the requirements on sale and leaseback transactions to address the public sector-specific situation where the below-market terms of the leaseback are not linked to a prepayment should be proposed in the ED;	3. BC146–BC150
	4. A Feedback Statement, or similar document, highlighting the existing IPSAS that apply to other lease-type arrangements should be published.	4. Publication of feedback statement, or similar document, at the same time as ED 84.
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. BC124–BC126
	2. IPSAS 43, <i>Leases</i> , should include the amendments related to the guidance to account for concessionary leases for lessors.	2. BC134–BC144
	3. Subject to terminology changes, IPSAS 43, <i>Leases</i> , should include the amendments on identification, classification and scope of concessionary leases.	3. BC118–BC119
	4. The general accounting guidance on leases should not be extended for concessionary leases for lessees' recognition exemptions.	4. BC131–BC132

## Agenda Item 6.1.3

Meeting	Decision	BC Reference
	5. IPSAS 43 should not include additional specific guidance on lease incentives, lease modifications, and variable lease payments for concessionary leases.	5. BC47; BC120–BC123
	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 the 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. BC127–BC129 on fair value. BC106–BC113 on contracts. The measurement basis to be applied to right-of-use assets is discussed in Agenda Item 5 of the December 2022 meeting.
	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. BC130
	8. The transferred asset should be measured at its carrying amount in a concessionary finance lease.	8. BC139
	9. The cost of the transferred asset on disposal should be recognized in accordance with the relevant IPSAS in a concessionary finance lease.	9. BC139
	10. The lease payments should be measured in accordance with IPSAS 43 in a concessionary operating lease.	10. BC140
	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. BC141
	12. The additional disclosures on concessionary leases in IPSAS 23 and IPSAS 43 for lessees and IPSAS 43 for lessors should be included.	12. BC133; BC145
March 2022	1. 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.	1. See Illustrative Examples section in ED 84 ( See <a href="#">Agenda Item 6.3.1.</a> )

## **Exposure Draft 84: Development**

### **Question**

1. Does the IPSASB agree with the staff and Task Force's recommendation on the development of [draft] Exposure Draft (ED) 84?

### **Recommendation**

2. Staff and Task Force recommend the IPSASB to approve the following revisions made during the development of [draft] ED 84:
  - (a) Title of ED 84;
  - (b) Basis for Conclusions;
  - (c) Specific Matter for Comment; and
  - (d) The marked-up editorial changes to the whole [draft] ED 84 since the version presented to the IPSASB at the October Check-In meeting.

### **Background**

3. This paper addresses the IPSASB's instruction at the October Check-In meeting and the remaining issues to be considered before approval of [draft] ED 84, as identified below.

### **Analysis**

4. [Draft] ED 84 has the following marked-up changes since the October Check-In meeting:
  - (a) **Title of ED 84**—Changed the title to "*Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23)" because it identifies the type of arrangement and asset that the IPSASB is proposing new accounting and the respective IPSAS.
  - (b) **Basis for Conclusions**—Amendments to paragraphs IPSAS 43.BC127–130 in marked-up to implement an IPSASB's instruction from the October Check-In meeting (see [Agenda Item 3.1.2](#)). The Basis for Conclusions clarifies the specific reasons related to right-of-use assets in concessionary leases to apply:
    - (i) The measurement technique "present value of payments for the lease at market rates", instead of the fair value measurement basis (IPSAS 43.BC127); and
    - (ii) Current use, instead of highest and best use (IPSAS 43.BC128–BC130).
  - (c) **Specific Matters for Comment (SMC)**—[draft] ED 84 includes four specific matters for comment, as follows:
    - (i) Two generic SMCs on proposed amendments to IPSAS 43 and IPSAS 23 on lessee (SMC 1) and lessor (SMC 2) concessionary lease accounting; and
    - (ii) Two specific SMCs on proposed amendments to IPSAS 43 initial measurement of right-of-use assets (SMC 3) and on initial measurement of right-of-use assets of specialized assets (SMC 4).
  - (d) **Editorial changes to draft ED 84**—All editorial changes from the October Check-In meeting are identified in marked-up.

## Agenda Item 6.2.1

5. Staff and Task Force recommend the IPSASB approve the above revisions during the development of [draft] ED 84.

### **Decision Required**

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



## **Exposure Draft 84: Approval**

### **Question**

1. Does the IPSASB agree with the staff and Task Force's recommendation to approve:
  - (a) [draft] Exposure Draft (ED) 84 for exposure; and
  - (b) The normal 4-month comment period?

### **Recommendation**

2. Staff and the Task Force recommend that the IPSASB approve:
  - (a) [draft] ED 84 for exposure (see [Agenda Item 6.3.1](#)); and
  - (b) The normal 4-month comment period.

### **Analysis**

3. Staff and the Task Force are of the view that the proposed amendments to IPSAS 43 and IPSAS 23 in [draft] ED 84 (see [Agenda Item 6.3.1](#)) are consistent with the objective of the Other Lease-Type Arrangements project to develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements.
4. Additionally, the Feedback Statement (see [Agenda Item 6.3.2](#)), to be published at the same time as ED 84, highlights the most significant matters raised by constituents and explains how they have shaped ED 84 in the context of existing guidance in IPSAS.
5. This means that this project did not address other sections of IPSAS 43 that are not related to the project's objective. For example, subsequent measurement of right-of-use assets is being addressed in the final IPSAS on *Measurement* (based on ED 77, *Measurement*)<sup>2</sup> and in the final IPSAS on *Property, Plant, and Equipment* (based on ED 78, *Property, Plant, and Equipment*)<sup>3</sup>.
6. Therefore, staff and the Task Force are of the view that [draft] ED 84 is ready for approval and recommend the IPSASB approval of [draft] ED 84.
7. If the IPSASB approves [draft] ED 84, then ED 84 is scheduled to be issued for comment in January 2023. Staff recommends a normal 4-month comment period, which is in accordance with IPSASB's Due Process.
8. Staff plans to bring to the IPSASB a very high-level review of responses in June 2023.

### **Decision Required**

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

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<sup>2</sup> ED 77, *Measurement* included consequential amendments to IPSAS 16, *Investment Property* related to subsequent measurement of right-of-use assets that meet the definition of investment property in IPSAS 16. The final IPSAS on *Measurement* will also include amendments to IPSAS 43, *Leases* to be consistent with IPSAS 16.

<sup>3</sup> ED 78, *Property, Plant, and Equipment* included consequential amendments to ED 75, *Leases* related to subsequent measurement of right-of-use assets that relate to a class of property, plant and equipment. These consequential amendments will be carried over to the final IPSAS on *Property, Plant, and Equipment* as amendments to IPSAS 43, *Leases*.

## **Feedback Statement**

### **Purpose**

1. To provide the Board an overview of the Feedback Statement.

### **Background**

2. 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.
3. Phase two of the Leases project led to the publication in January 2021 of [Request for Information \(RFI\), Concessionary Leases and Other Arrangements Similar to Leases](#).
4. The objective of phase two of the Leases project is to develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements<sup>4</sup>.
5. [Draft] Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) (see [Agenda Item 6.3.1](#)) provides the proposed amendments to IPSAS to account for some transactions identified in the Request for Information where there is a gap in current IPSAS.
6. The Feedback Statement (see [Agenda Item 6.3.2](#)) highlights the most significant matters raised by constituents and the associated standard-setting activities which follow.
7. If ED 84 is approved at the December meeting as recommended by staff and the Task Force, then the Feedback Statement will be published at the same time as ED 84.

### **Decision Required**

8. No decision required. This Agenda Item is to provide an overview of the Feedback Statement.

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<sup>4</sup> A lease-type arrangement is not necessarily a lease as per the definition of a lease in IPSAS 43.

**Supporting Document 1 – [draft] Exposure Draft 84, *Concessionary Leases and Right-of Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23)**

**REVIEW INSTRUCTIONS:**

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing [draft] Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23):
  - (a) All marked-up amendments presented at the October Check-In meeting were accepted; and
  - (b) Text in marked-up red are amendments made after the October Check-In meeting.
2. Key changes to [draft] ED 84 are as follows:

Type of Guidance	Key Topic	Change from the October Check-In meeting
IPSAS 43	1. Application Guidance	1. Amended the diagram in paragraph AG32B by providing more detail on the non-exchange component.
	2. Basis for Conclusions	<p>2. Amended paragraph BC115 to simplify the reasons.</p> <p>Amended paragraphs BC127–BC130 to implement IPSASB's instruction at the October Check-In meeting (see <a href="#">Agenda Item 6.1.2</a>).</p> <p>Deleted paragraph BC140(a) because arrangements that convey the right to use the underlying asset for zero consideration are outside of the scope of IPSAS 43.</p>

Exposure Draft 84

January 2023

Comments due: May 31, 2023

IPSAS®

*Proposed International Public Sector Accounting Standard®*

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Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)

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®).

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## REQUEST FOR COMMENTS

This Exposure Draft (ED), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23), 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 May 31, 2023.**

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-phase One-one~~ of the IPSASB’s ~~leases-Leases~~ project.

Phase Two of the Leases 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~~ phase two of the Leases project is to develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements<sup>1</sup>.

This ED is the subsequent phase of the Leases project.

### Objective of the ED

The objective of this ED is to provide additional guidance for concessionary leases and for right-of-use assets in-kind.

### 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:

The IPSASB decided to propose new accounting for concessionary leases for lessees (see paragraphs IPSAS 43.BC124–BC135) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28–BC30). Do you agree with the proposed amendments to IPSAS 43 and IPSAS 23? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

#### Specific Matter for Comment 2:

For lessors, the IPSASB decided to propose accounting for leases at below-market terms in the same way as leases at market terms (see paragraphs IPSAS 43.BC136–BC147). Do you agree with the

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<sup>1</sup> A lease-type arrangement is not necessarily a lease as per the definition of a lease in IPSAS 43.

proposed amendments to IPSAS 43? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

**Specific Matter for Comment 3:**

The IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC124–BC130) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28–BC30) at the present value of payments for the lease at market rates as at the commencement date of the lease, except for specialized assets (IPSAS 43.BC131). Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

**Specific Matter for Comment 4:**

The IPSASB decided to propose initially measuring right-of-use assets of specialized assets in concessionary leases (see paragraphs IPSAS 43.BC131) and right-of-use assets in-kind of specialized assets (see paragraphs IPSAS 23.BC28–BC30) at the present value of contractual payments for the lease or for the arrangement, respectively. Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

**EXPOSURE DRAFT 84, CONCESSIONARY LEASES AND RIGHT-OF-USE ASSETS IN-KIND (AMENDMENTS TO IPSAS 43 AND IPSAS 23)**

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DRAFT



## Objective

1. The objective of this Exposure Draft (ED) is to propose amendments to IPSAS 43, *Leases* on accounting for concessionary leases and consequential amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, as well as proposing new accounting for right-of-use assets in-kind.
2. This ED forms part of phase two of the Leases project.

## 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 43, <i>Leases</i>	Provide guidance on identification, classification, recognition, measurement, and disclosures of concessionary leases.
IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	<ul style="list-style-type: none"> <li>• Consequential amendment to provide guidance on revenue recognition of the concession component in concessionary leases for lessees; and</li> <li>• Provide guidance on identification, recognition, measurement, and disclosures of right-of-use assets in-kind and on the revenue recognition of the concession component.</li> </ul>

## Amendments to IPSAS 43, *Leases*

Paragraphs 6, 42, 54, 109, 118, and 120 are amended. Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103A, 117A–117F, 126A–126C, AG32A, AG32B, and AG60–AG64 are added. Headings above paragraphs 18A, 64A, 96A, 96B, 126A–126C, AG32A, AG32B, AG60 are added. New text is underlined and deleted text is struck through.

## Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 18A–18D 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, AG60–AG64)

...

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

- 18A. An entity will determine whether the transaction is at market terms or at below-market terms, including the level of consideration being exchanged.
- 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.
- 18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates. At initial recognition, an entity, therefore, analyzes the substance of the lease granted or received into its component parts, and accounts for those components using the principles in paragraphs AG60–AG64.
- 18D. An entity firstly assesses whether the substance of the concessionary lease is in fact a lease transaction, a concession or a combination thereof, by applying the principles in this Standard and paragraphs 39–58 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

...

## 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 the present value of payments for the lease at market rates as at the commencement date.**

**26B. The payments for the lease at market rates shall be discounted using the interest rates identified in paragraph 27. The carrying value of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).**

**26C. 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

**54. The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64A specify requirements on how to meet this objective.**

...

### Concessionary Leases

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

- (a) The 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 AG54–AG59 and AG60)**

...

### **Finance Leases (see paragraph AG64(a))**

#### *Recognition and Measurement*

...

- 71A. At the commencement date, a lessor shall recognize assets under a concessionary finance lease applying the requirements in this Standard.

...

### **Operating Leases (see paragraph AG64(b))**

#### *Recognition and Measurement*

...

- 81A. A lessor shall recognize revenue under a concessionary operating lease applying the requirements in this Standard.

...

## **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.

### Concessionary Operating Leases

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

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

...

## Sale and Leaseback Transactions

...

97A. An entity shall assess whether a sale and leaseback transaction contain an embedded concession at inception of the lease.

97B. If an entity (seller-lessee and buyer-lessor) identifies 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 the below-market terms as prepayments in accordance with paragraph 100(a).

...

## Effective Date and Transition

### Effective Date

...

103A. Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103A, 117A–117F, 126A–126C, AG32A, AG32B, and AG60–AG64 were added and paragraphs 6, 42, 54, 109, 118, and 120 were amended by [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) 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

...

#### Lessees

...

109. A lessee shall apply this Standard to its leases either:

- (a) Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 111–117E.

...

### Concessionary Leases

#### Leases Previously Classified as Operating Leases

117A. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

- (a) Recognize a lease liability at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
  - (b) Recognize a right-of-use asset at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at its carrying amount as if this Standard had been applied since the commencement date, but discounted using the payments for the lease at market rates and the lessee's incremental borrowing rate at the date of initial application.
  - (c) Apply IPSAS 21 or IPSAS 26, as appropriate, to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 114(b).
- 117B. Notwithstanding the requirements in paragraph 117A, for concessionary leases classified as operating leases applying IPSAS 13, a lessee is not required to make any adjustments on transition for concessionary leases previously accounted for as investment property using the fair value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.
- 117C. A lessee may use one or more of the practical expedients in paragraphs 114(a), 114(b), 114(d), and 114(e) when applying this Standard retrospectively in accordance with paragraph 109(b) to concessionary leases previously classified as operating leases applying IPSAS 13.
- 117D. A lessee may elect not to apply the requirements in paragraph 117A to concessionary leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall include the cost associated with those concessionary leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

#### Leases Previously Classified as Finance Leases

- 117E. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for concessionary leases that were classified as finance leases applying IPSAS 13, at the date of initial application the lessee shall:
- (a) Measure the lease liability at the carrying amount of the lease liability immediately before that date measured applying IPSAS 13; and
  - (b) Recognize a right-of-use asset and measured in accordance with paragraph 117A(b).
- For those concessionary leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

#### Disclosure

- 117F. If a lessee elects to apply this Standard in accordance with paragraph 109(b) for concessionary leases, the lessee shall disclose information according to paragraphs 116 and 117, as appropriate.

*Lessors*

118. Except as described in paragraph 119, a lessor is not required to make any adjustments on transition for leases, including concessionary leases, in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

...

*Sale and Leaseback Transactions Before the Date of Initial Application*

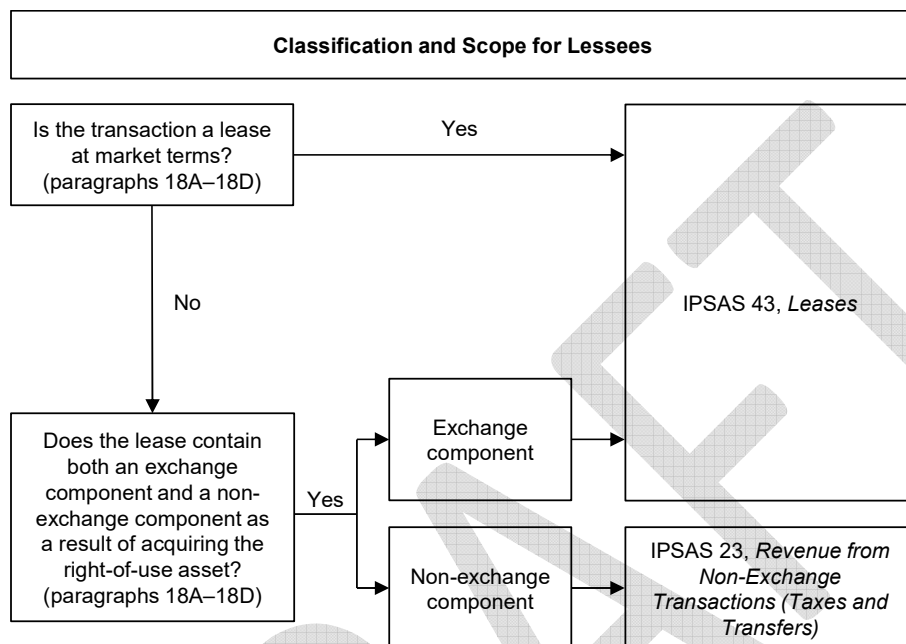
120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether:
- (a) The transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale; and
  - (b) Satisfies the requirements in this Standard to be accounted for as a concessionary leaseback.

## Application Guidance

...

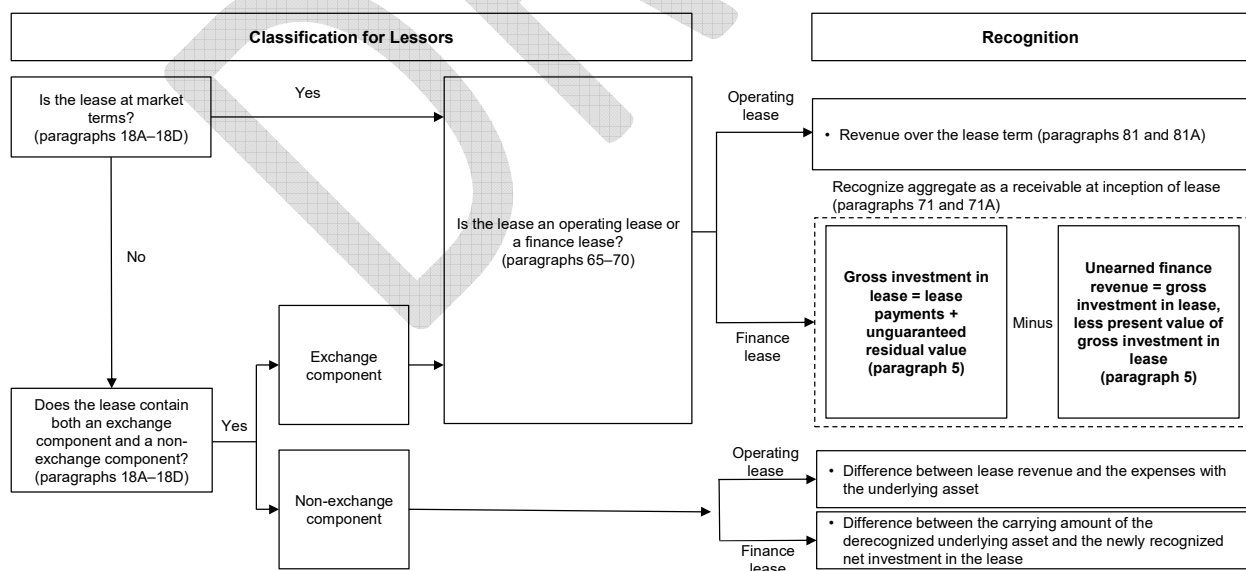
### **Classification of Leases At Market Terms and At Below-Market Terms and Scoping for Lessees (paragraphs 18A–18D)**

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



### **Classification of Leases at Market Terms and at Below-Market Terms, Scoping, and Recognition for Lessors (paragraphs 18A–18D)**

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





...

**Concessionary Leases (see paragraphs 18A–18D, 26A–26C, 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. If an entity receiving the right-of-use asset has determined that the transaction is a combination of a lease transaction and a concession, any difference between the present value of payments for the lease at market rates and the present value of contractual payments is accounted for in accordance with IPSAS 23.

AG62. A right-of-use asset held by a lessee in a concessionary lease is initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset.

AG63. If payments for the lease at market rates 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.

AG64. If an entity granting a lease has determined that the transaction is a combination of a lease transaction and a concession:

- (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 IG60 of IPSAS 23 as well as in paragraphs IE5 and IE13B and IE23A accompanying this Standard.

...

## 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 84], Concessionary Leases (Amendments to IPSAS 43) issued in [Month and Year]**

BC105. In January 2021, the IPSASB issued the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*. The paragraphs below present the Basis for Conclusions on how the IPSASB addressed some of the topics presented in that Request for Information and issues raised by respondents in their comment letters.

#### Definitions

BC106. The IPSASB considered whether to modify the definition of a lease to include other types of arrangements that are not contracts.

BC107. The IPSASB decided not to extend the definition of a lease to non-binding arrangements because a lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not.

BC108. Regarding binding arrangements that are not contracts, the IPSASB noted that when developing IPSAS 43 decided to expand the types of arrangements within the scope of the definition of a contract by adding paragraph AG3 and clarifying that IPSAS 43 is designed only for is also applicable to arrangements 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.

BC109. 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.

BC110. The IPSASB’s Conceptual Framework states 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.

BC111. 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:

- (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).

BC112. By extension, when entities do have arrangements as described in paragraph BC114, the IPSASB noted that 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>2</sup>.

BC113. Therefore, the IPSASB decided to retain the definition of a lease to contractual arrangements in IPSAS 43 because:

- (a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts;
- (b) It is consistent with IPSAS 41, *Financial Instruments*, which is only applicable to contracts.

BC114. The IPSASB also 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~~concession of the whole transaction.

BC115. The IPSASB decided to provide a description of a concessionary lease because:

- ~~(a) Of the different types of leases at below-market terms;~~
- ~~(ba)~~ 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;
- ~~(eb)~~ It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described; and
- ~~(ec)~~ 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.

BC116. 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

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<sup>2</sup> IPSAS 43 introduced extensive application guidance on the assessment of both rights.

convey the right to use an underlying asset without consideration do not meet the definition of a lease as defined in IPSAS 43.

BC117. The IPSASB concluded that a transaction that conveys a right-of-use asset 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.

#### Identification, Classification, and Scope

BC118. 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.

BC119. 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

BC120. 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.

BC121. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

#### Lease Modifications

BC122. The IPSASB considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC123. 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

BC124. 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.

BC125. 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 84, *Concessionary Leases* (Amendments to 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.

BC126. 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 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.

BC127. However, the IPSASB noted that when an entity values the right-of-use asset at fair value it should measure the right to use the underlying asset, not the underlying asset itself, which are reflected in the payments for the lease at market rates. Therefore, the IPSASB decided to propose measuring the right-of-use asset in a concessionary lease at the present value of payments for the lease at market rates because:

- (a) It is a measurement technique consistent with the fair value measurement basis;
- (b) It would help preparers in measuring the right-of-use asset using a measurement technique that already exists in IPSAS 43 when dealing with leases that are not at market rates; and
- (c) When comparing them with the present value of the contractual payments, preparers can measure the embedded concession.

BC128. The IPSASB also noted that 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-publishes the new IPSAS on Measurement.

BC129. 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.

BC130. The IPSASB decided to refer to present value of payments for the lease at market rates based on the current use, instead of fair value-highest and best use as implied in the new fair value definition. The IPSASB considered the new fair value definition would not be appropriate 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;

- (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; and
- (c) ~~It is consistent with IPSAS 43 terminology.~~ Quite often there is not an active market for right-of-use assets to obtain the highest and best use.

BC131. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset as a result of a concessionary lease using the contractual payments if the payments for the lease at market rates are not readily available, in order to address the increased difficulty of measuring specialized assets in the public sector.

BC132. The IPSASB also decided 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

BC133. 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.

BC134. 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

BC135. 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

BC136. 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.

BC137. 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.

BC138. 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.

BC139. 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.

BC140. This means that lessors can have ~~three~~ two types of transactions:

~~(a) Arrangements that convey the right to use an underlying asset for zero consideration, which 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 transaction (operating lease or finance lease depending on lessor's classification);~~

~~(b)~~(a) Concessionary finance leases—which can be equivalent 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

~~(b)~~(b) Concessionary operating leases—which can be equivalent to services partially in-kind, as the lessor continues to recognize the underlying asset.

BC141. 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.

BC142. For concessionary operating leases, the IPSASB decided to continue measuring the lease payments received by the lessor 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*.

BC143. 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.

BC144. 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.

BC145. 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.

BC146. 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

BC147. 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

BC148. 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.

BC149. 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 concession through the right to use an underlying asset at below-market terms

BC150. 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.



BC151. 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.

BC152. 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.

#### Transition

BC153. The IPSASB considered the transition requirements for concessionary leases. The IPSASB decided to propose transition requirements on concessionary leases similar to leases at market terms, where applicable, in order not to require extra efforts by preparers in applying the new proposed guidance on concessionary leases.

BC154. The IPSASB encourages preparers to apply IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* on transition because of the prevalence in the public sector of concessionary leases with very long terms.

## Illustrative Examples

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

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### **Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A–AG32B, and AG60–AG64)**

IE2A. The following examples illustrate how an entity assesses whether a lease is at market terms or at below-market terms.

#### **Example 10A—Assessing Whether the Lease is at Market Terms or at Below-Market Terms**

Municipality A (Lessee) enters into a lease contract with Government agency B (Lessor) to use ten units in a building for its office operations for a ten-year period. The lease contract states that Municipality A agrees to pay government agency B CU100,000 per month. Government agency B usually leases those units for CU185,000 per month to private sector entities for the same purpose. Government agency B decided to lease those units at below-market terms because municipality A is running a specific sports program for youth.

The lease is at below-market terms.

### **Leases Incentives and Lease Concessions (see paragraphs 5, 18A–18B, AG32A–AG32B, and AG60–AG64)**

IE2B. The following examples illustrate how an entity distinguishes a lease incentive from a lease concession.

#### **Example 10B—Lease Incentives**

Private sector entity Y (Lessor) has for lease ten units in a building for office operations for CU110,000 per month. Government agency X (Lessee) is interested to lease those ten units because it is vacant for a prolonged period of time, and the entity has lesser credit risk. Government agency X (Lessee) ended up entering into the lease because private sector entity Y (Lessor) reduced the price of the lease payments by CU5,000 per month.

The CU5,000 per month reduction is a lease incentive.

#### **Example 10C—Lease Concessions**

Government agency Z (Lessor) has built and has for lease a multi-purpose sports complex for youth. The local sports club W (Lessee) wants to expand its activities in terms of numbers of athletes and types of sports being offered by the club. Government agency Z intends to expand the sports activity among youth in the area of the multi-purpose sports complex as a way to support its goals in terms of youth from low-income households. By leasing out the sports complex to sports club W, it would meet its policy objectives. However, the local sports club W does not have the financial capacity to pay the lease payments CU150,000 per month, which are the market terms for a similar multi-purpose sports complex with the same dimension, and pay, at the same time, the costs of managing such a large facility. Government agency Z and local sports club W ended up signing up the lease contract for CU45,000 per month because local sports club W was the right partner to achieve Government agency Z's goals.

The CU105,000 per month reduction is a lease concession.

**Lessee Measurement (see paragraphs 19–42, AG35–AG42, AG60–AG61, and AG63–AG64)**

IE5. The following example illustrates how a lessee measures right-of-use assets, ~~and~~ lease liabilities, ~~and concessionary leases~~. It also illustrates how a lessee accounts for a change in the lease term.

...

**Example 13B–Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.**

Public sector not-for-profit entity X (Lessee) enters into a lease with municipality Y (Lessor) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates is CU5,312,420.

- The agreement stipulates that the lease should be paid over the 5-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- The lease includes conditions. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.
- Depreciation of the right-of-use asset is not considered in the example for simplification purposes.

**Analysis**

As it is a concessionary lease, the present value of payments for the lease at market rates of the right-of-use asset is higher than the present value of the contractual payments. The public sector not-for-profit entity (Lessee) has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates—see Table 1 below—and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The non-exchange component of CU6,900,000 is accounted for in accordance with IPSAS 23, and the lease payments of CU16,100,000 in accordance with this Standard.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the entity recognizes the following (the entity subsequently measures concessionary lease at amortized cost):

Dr	Right-of-use asset	23,000,000	-
Cr	Lease liability (refer to Table 1 below)	-	16,100,00
Cr	Liability (refer to Table 1 below)	-	6,900,000

Recognition of the lease at fair value

IPSAS 23 is considered in recognizing either a liability or revenue for the non-exchange component of the lease. Paragraph IG60 of that Standard provides journal entries for the recognition and measurement of the non-exchange component of the lease.

2. Year 1: The entity recognizes the following:

Dr	Interest expense (refer to Table 2 below)	805,000	-
Cr	Lease liability	-	805,000

Recognition of interest using the effective interest method (CU16,000,000 × 5%)

Dr	Lease liability (refer to Table 2 below)	3,718,694	-
Cr	Bank	-	3,718,694

Recognition of lease payment

3. Year 2: The entity recognizes the following:

Dr	Interest expense	659,315	-
Cr	Lease liability	-	659,315

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr	Lease liability	3,718,694	
Cr	Bank		3,718,694

Recognition of lease payment

4. Year 3: The entity recognizes the following:

Dr	Interest expense	506,346	-
Cr	Lease liability	-	506,346

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr	Lease liability	3,718,694	
	Cr Bank	-	3,718,694

*Recognition of lease payment*

5. *Year 4: The entity recognizes the following:*

Dr	Interest expense	345,729	-
	Cr Lease liability	-	345,729

*Recognition of interest using the effective interest method  
(CU6,914,579 × 5%)*

Dr	Lease liability	3,718,694	
	Cr Bank	-	3,718,694

*Recognition of lease payment*

6. *Year 5: The entity recognizes the following:*

Dr	Interest expense	177,081	-
	Cr Lease liability	-	177,081

*Recognition of interest using the effective interest method  
(CU3,541,614 × 5%)*

Dr	Lease liability	3,718,694	
	Cr Bank	-	3,718,694

*Recognition of lease payment*

*Calculations:*

**Table 1: Annual Payments (Using Market Interest Rate at 5%)**

	<u>Undiscounted Annual Payments for the Lease at Market Rates</u>	<u>Present Value of Payments for the Lease at Market Rates</u>	<u>Undiscounted Annual Contractual Payments</u>	<u>Present Value of Annual Contractual Payments</u>	<u>Non-exchange component of the lease to be recognized as non-exchange revenue</u>
	(1)	(2)	(3)	(4)	5=(2)-(4)
<b>Year 1</b>	5,312,420	5,059,448	3,718,694	3,541,614	1,517,834
<b>Year 2</b>	5,312,420	4,818,522	3,718,694	3,372,965	1,445,557
<b>Year 3</b>	5,312,420	4,589,068	3,718,694	3,212,348	1,376,721
<b>Year 4</b>	5,312,420	4,370,541	3,718,694	3,059,379	1,311,162
<b>Year 5</b>	5,312,420	4,162,420	3,718,694	2,913,694	1,248,726
<b>Total</b>	<b>26,562,102</b>	<b>23,000,000</b>	<b>18,593,471</b>	<b>16,100,000</b>	<b>6,900,000</b>

**Table 2: Calculation of Lease Liability Balance and Interest Using the Effective Interest Rate**

<u>Year 1 CU</u>	<u>Year 2 CU</u>	<u>Year 3 CU</u>	<u>Year 4 CU</u>	<u>Year 5 CU</u>	<u>Total</u>
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<b>Beginning balance</b>	<b>16,100,000</b>	<b>13,186,306</b>	<b>10,126,927</b>	<b>6,914,579</b>	<b>3,541,614</b>	
Interest expense	805,000	659,315	506,346	345,729	177,081	2,493,471
Contractual payments	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	
<b>Ending balance</b>	<b>13,186,306</b>	<b>10,126,927</b>	<b>6,914,579</b>	<b>3,541,614</b>	<b>0</b>	

Right-of-use asset	23,000,000
Less: Present value of cash outflows (lease liability on initial recognition)	16,100,000
Non-exchange component of the lease to be recognized as non-exchange revenue over five years.	6,900,000

### **Lessor Measurement (see paragraphs 71A, 81A, AG60, and AG64)**

IE10A. The following example illustrates how a lessor measures and accounts for concessionary leases.

#### **Example 23A—Concessionary Lease (Lessor)—Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.**

*Municipality Y (Lessor) enters into an operating lease with public sector not-for-profit entity X (Lessee) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.*

*The annual payment for the lease at market rates is CU5,000,000.*

- The agreement stipulates that the lease should be paid over the 5-year period as follows:*

*Year 1: CU3,500,000*

*Year 2: CU3,500,000*

*Year 3: CU3,500,000*

*Year 4: CU3,500,000*

*Year 5: CU3,500,000*

*This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.*

- Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.*

### **Analysis**

As the lease payments at market rates are higher than the contractual payments, the lease is a concessionary lease. The monthly payments for the lease at market rates represent the total economic value created by the lease contract and is divided in two components:

- An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as revenue; and

(b) A non-exchange component—Representing the portion of the foregone revenue, which is not accounted for as revenue.

The non-exchange component of CU1,500,000 per month is disclosed in accordance with IPSAS 23, and the lease payments are accounted for in accordance with this IP.

The monthly journal entries to account for the concessionary lease are as follows:

Cash	CU3.500,000
Lease revenue	CU3.500,000

### **Sale and Leaseback Transactions (see paragraphs 97–102)**

IE11. Examples 24 and 25 illustrates the application of the requirements in paragraphs 97–102 of IPSAS 43 for a seller-lessee and a buyer-lessor.

...

#### Example 25—Sale at Market Terms and Leaseback at Below-Market Terms

Museum A (Seller-lessee) will run into some financial difficulties due to expected increasing maintenance costs to fulfill new safety requirements due to their unique architectural building. Therefore, museum A sells the building to local government X (Buyer-lessor) at its actual market price. Seller-lessee enters into a contract with buyer-lessor for the right to use the building for 18 years with an annual payment which is at below-market terms. Buyer-lessor ensures with this contract that the main tourist attraction in the region keeps open for all visitors.

Museum A (Seller-lessee) sells the building to local government X (Buyer-lessor) at fair value for cash of CU1,800,000, which corresponds to a total useful life of 25.5341 years. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Museum A (Seller-lessee) enters into a contract with local government X (Buyer-lessor) for the right to use the building for 18 years, with annual payments of CU103,553 at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IFRS 15, *Revenue from Contracts with Customers*. This example ignores any initial direct costs. The annual payment at market rates is CU120.000 payable.

As the sale is at fair value, the sale is at market terms. As the lease payments are at below-market terms, the leaseback has an embedded concession.

Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale at market terms and a leaseback at below-market terms.

The interest rate implicit in the lease is 4.5 percent per annum, which is readily determinable by Seller-lessee. The present value of the contractual annual payments (18 payments of CU103,553 discounted at 4.5 percent per annum), amounts to CU1,259,204.

There are no conditions attached to the leaseback transaction.

Seller-lessee

At the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU810,667. This is calculated as:

CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,459,199 (the discounted lease payments for the 18-year right-of-use asset).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU151,467 calculated as follows. The gain on sale of building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

- (a) CU648,533 (CU1,459,200 × CU800,000 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and
- (b) CU151,467 (CU340,801 × CU800,000 ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

Further calculations:

- (c) CU340,801 (CU1,800,000-CU1,259,204) related to rights retained by the buyer-lessor (unguaranteed residual value at the beginning of the lease).
- (d) CU199,995 (CU1,459,199-CU1,259,204) related to the concession.

At the commencement date, Seller-lessee accounts for the transaction as follows.

<u>Cash</u>	<u>CU1,800,000</u>
<u>Right-of-use asset</u>	<u>CU810,666</u>
<u>Building</u>	<u>CU1,000,000</u>
<u>Lease liability</u>	<u>CU1,259,204</u>
<u>Revenue</u>	<u>CU199,995</u>
<u>Gain on rights transferred</u>	<u>CU151,467</u>

Buyer-lessor

The buyer-lessor classifies the lease as a finance lease.

At the commencement date, Buyer-lessor accounts for the transaction as follows.

<u>Building</u>	<u>CU1,800,000</u>
<u>Financial asset</u>	<u>CU1,600,005 (18 payments of CU103,553, discounted at 4.5 per cent per annum (CU1,259,204) + unguaranteed residual value (CU340,801))</u>
<u>Concession expense</u>	<u>CU199,995</u>
<u>Cash</u>	<u>CU1,800,000</u>
<u>Building (value of the rights transferred to the seller-lessee)</u>	<u>CU1,459,199</u>
<u>Building (unguaranteed residual value)</u>	<u>CU340,801</u>

After the commencement date, the Seller-lessee and Buyer-lessor account for the lease by treating CU103,553 as lease payments.



### Comparison with IFRS 16

IPSAS 43, *Leases* is drawn primarily from IFRS 16 (2016) *Leases*, including amendments up to March 2021.

The main differences between IPSAS 43 and IFRS 16 are as follows:

- IPSAS 43 uses different terminology from IFRS 16. For example, IPSAS 43 uses the terms “revenue”, “operation”, “accumulated surpluses/(deficits)” and “segment”, while IFRS 16 uses the terms “income”, “business unit”, “retained earnings” and “business segment”, respectively.
- IPSAS 43 refers to both “economic benefits” and “service potential”, where appropriate, in the section on identifying a lease, while IFRS 16 refers only to “economic benefits”.
- IPSAS 43 does not include specific requirements for manufacturer or dealer lessors, whereas IFRS 16 does.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas IFRS 16 does not.
- IPSAS 43 includes specific disclosure requirements for both lessees and lessors, whereas IFRS 16 does not.

### Comparison with GFS

In developing IPSAS 43, *Leases*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 43 applies a right-of-use model for lessees and a risks and rewards model for lessors, while GFS applies a risks and rewards model for both lessees and lessors.
- Under IPSAS 43, lessors classify leases as finance lease or operating lease and lessees do not classify leases as finance lease or operating lease. Under GFS, leases are classified as financial lease, operating lease, or resource lease.
- Under IPSAS 43, lessees recognize a right-of use asset and a lease liability. Under GFS, an underlying asset and a loan are recognized in a financial lease and lease payments from operating leases are recognized as use of goods and services.
- IPSAS 43 provides an optional recognition exemption for lessees on short-term leases and leases for which the underlying asset is of low value. GFS does not provide such recognition exemption.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas GFS does not.
- IPSAS 43 includes specific disclosure requirements for both lessees and lessors, whereas GFS does not.

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

Paragraphs 83, 93, 96, and 107 are amended. Paragraphs 28A, 43A–43B, 105C–105F, 107A–107C, 123A and 124H are added. The headings above paragraph 43C, 105C, and 105E are added. New text is underlined.

### **Definitions**

...

#### **Right-of-use Assets In-kind**

28A. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43, *Leases* for identifying a lease, with the necessary adaptations in the absence of lease payments.

### **Recognition of Assets**

...

#### **Measurement of Assets on Initial Recognition**

...

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 are initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with the requirements of IPSAS 43.

#### **Subsequent Measurement of Right-of-Use Assets In-kind**

43B. After the commencement date, an entity shall measure the right-of-use asset in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets.

...

### **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 acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. Right-of-use assets held by a lessee and right-of-use assets in-kind acquired through non-exchange transactions are to be initially measured at the present value of

payments for the lease at market rates in accordance with IPSAS 43. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

...

### **Gifts and Donations, including Goods In-kind and Right-of-Use Assets 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 in-kind, are received, or there is a binding arrangement to receive the goods or the right-of-use assets in-kind. 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.

...

### **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, along with interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue that should be accounted for in accordance with this Standard.
- 105D. Where a lessee determines that the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue, a lessee recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred asset (the right-of-use asset) by the 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.

### **Presentation of Right-of-Use Assets In-kind**

- 105E. An entity shall present in the statement of financial position, or disclose in the notes right-of-use assets in-kind separately from other assets. If a lessee does not present right-of-use assets in-kind separately in the statement of financial position, the entity shall:
- (a) Include right-of-use assets in-kind within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

- (b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.

105F. An entity may present right-of-use assets in-kind together with other right-of-use assets.

## 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.

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

- (a) Depreciation charge; and
- (b) The carrying amount of right-of-use assets in-kind at the end of the reporting period by class of underlying asset.

107B. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in 107A for those right-of-use assets in-kind.

107C. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 17, the lessee shall disclose the information required by paragraph 92 of IPSAS 17 for those right-of-use assets in-kind.

## Transitional Provisions

...

123A. The transitional provisions for right-of-use assets in IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

## Effective Date

...

124H. Paragraphs 83, 93, 96, and 107 were amended and paragraphs 28A, 43A–43B, 105C– 105F, 107A–107C, and 123A were added by [draft] IPSAS [X] (ED [84]), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) 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.**

DRAFT

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 23.*

...

**Revision of IPSAS 23 as a result of [draft] [ED 84], *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) issued in [Month and Year]**

BC28. In January 2021, the IPSASB issued the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*. The paragraphs below present the Basis for Conclusions on how the IPSASB addressed some of the topics presented in that Request for Information and issues raised by respondents in their comment letters.

### *Right-of-Use Assets In-kind*

BC29. The IPSASB noted that some respondents to the Request for Information had identified in their jurisdiction arrangements that conveyed the right to use an underlying for zero consideration. As this type of arrangement does not meet the definition of a lease because they lack consideration and with the approval of IPSAS 43 it was created a new type of asset –the right-of-use asset– that did not exist at the time of approval of IPSAS 23, the IPSASB decided to amend this Standard to provide guidance on accounting for this type of arrangement.

BC30. The IPSASB decided that accounting for right-of-use assets in-kind should follow the same principles as for right-of-use assets acquired through a concessionary lease because both are non-exchange transactions.

## Implementation Guidance

*These examples accompany, but are not part of, IPSAS 23*

...

### Concessionary leases (paragraphs 105C and 105D)

#### Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IG60. Public sector not-for-profit entity X (Lessee) enters into a lease with municipality Y (Lessor) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates is CU5,312,420.

- The agreement stipulates that the lease should be paid over the 5-year period as follows:

Year 1: CU3,718,694

Year 2: CU3,718,694

Year 3: CU3,718,694

Year 4: CU3,718,694

Year 5: CU3,718,694

This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- The lease includes conditions. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.

#### Analysis

As it is a concessionary lease, the present value of the payments for the lease at market rates of the right-of-use asset is higher than the present value of the contractual payments. The public sector not-for-profit entity (Lessee) has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The non-exchange component of CU6,900,000 is accounted for in accordance with this Standard, and the lease, with its related contractual interest and lease payments, in accordance with IPSAS 43.

The journal entries to account for the concessionary lease are as follows:



1. On initial recognition, the entity will recognize the following:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU23,000,000</u>	
	<u>Cr</u>	<u>Lease liability</u>	<u>CU16,100,000</u>
	<u>Cr</u>	<u>Liability</u>	<u>CU6,900,000</u>

2. Year 1: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met by the lessee CU6,900,000)

(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary leases. A comprehensive example is included in the Illustrative Examples to IPSAS 43.)

3. Year 2: the entity will recognize the following (the entity subsequently measures the concessionary lease at amortized cost):

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

4. Year 3: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

5. Year 4: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Non-exchange revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

6. Year 5: the entity will recognize the following:

<u>Dr</u>	<u>Liability</u>	<u>CU1,380,000</u>	
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<u>Cr</u>	<u>Non-exchange</u>	
	<u>revenue</u>	<u>CU1,380,000</u>

(1/5 of the conditions met X CU6,900,000)

If the concessionary lease was granted with no conditions, the  
entity would recognize the following on initial recognition:

<u>Dr</u>	<u>Right-of-use asset</u>	<u>CU23,000,000</u>
<u>Cr</u>	<u>Lease liability</u>	<u>CU16,100,000</u>
<u>Cr</u>	<u>Non-exchange</u>	
	<u>revenue</u>	<u>CU6,900,000</u>

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**Supporting Document 2 – Feedback Statement**



Other Lease-Type Arrangements

# Feedback Statement

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# Brief history of the Leases project

In January 2021, the IPSASB published [IPSAS 43, Leases](#) as part of the phase one of the Leases project.

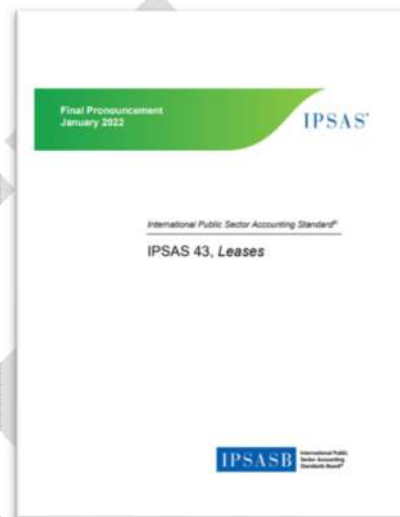
IPSAS 43 is aligned with IFRS 16, *Leases* and supersedes IPSAS 13, *Leases*.

IPSAS 43 has an effective date of January 1, 2025, with earlier application permitted.

In January 2021, the IPSASB published the [Request for Information, Concessionary Leases and Other Arrangements Similar to Leases](#) as part of the phase two of the Leases project to address public sector issues specific to concessionary leases and other arrangements similar to leases.

As a result of the consultation process, in January 2023, the IPSASB published **Exposure Draft (ED) 84, Concessionary Leases (Amendments to IPSAS 43)**.

This Feedback Statement highlights the most significant matters raised by constituents and the associated standard-setting activities which follow.





# Overview of comment letters

[Appendix A](#) shows the questions asked in the Request for Information. [Appendix B](#) shows the comment letters sources.

The comment letters provided highly, diversified, complex, and specific fact patterns. The comment letters also provided a different degree of explanation of fact patterns –varying between a brief explanation of fact patterns to a more detailed explanation.

One of the key issues of the Request for Information was on concessionary leases and arrangements that convey the right to use the underlying asset for zero consideration<sup>1</sup>. Respondents confirmed that these types of transactions are prevalent in their jurisdictions.

The Request for Information also asked about the existence of other arrangements similar to leases. Respondents also identified the prevalence of:

- (a) Access rights (65%);
- (b) Arrangements allowing right-of-use (62%);
- (c) Social housing rental arrangements (65%); and
- (d) Shared properties with or without a lease-arrangement in place (69%).

The comment letters also showed that less than 40% of respondents recognize the identified arrangements in the financial statements.

The following pages outline the most significant issues raised in the comment letters and IPSASB's proposed way forward.

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<sup>1</sup> For simplicity reasons, the Request for Information labelled these arrangements as "leases for zero or nominal consideration".

# 1) Concessionary leases

## Feedback

The comment letters demonstrated that concessionary leases are prevalent in the public sector. All accounting aspects related to concessionary leases were identified as issues addressed in ED 84.

## IPSASB's response

The IPSASB published ED 84 with proposals to amend IPSAS 43, *Leases* on how to identify and account for concessionary leases for both lessees and lessors. For lessees, the ED 84 proposes to measure right-of-use assets in concessionary leases at the present value of payments for the lease at market rates as at the commencement date. ED 84 also proposes to account for the concession applying the principles in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

For lessors, ED 84 proposes to continue applying the requirements in IPSAS 43 to concessionary leases.

ED 84 also proposes specific additional disclosures for both lessees and lessors.

## 2) Arrangements that convey the right to use an underlying asset for zero consideration

### Feedback

The comment letters also demonstrated that arrangements that convey the right to use an underlying asset for zero consideration are prevalent in the public sector globally. The main issues raised by respondents were not only the accounting treatment of these arrangements, but also whether the arrangements were leases, as defined in IPSAS 43.

### IPSASB's response

The IPSASB clarified in ED 84 that arrangements that convey the right to use an underlying asset for zero consideration do not meet the definition of a lease because of the lack of consideration. As these arrangements convey a right-of-use asset in-kind, ED 84 proposes additional guidance on a transitional basis in IPSAS 23 to:

- (a) Identify a right-of-use asset in-kind applying the principles in IPSAS 43; and
- (b) Measure a right-of-use asset in-kind by following the same principles as for a right-of-use asset in concessionary leases because both right-of-use assets arise from non-exchange transactions.

ED 84 also proposes additional guidance in IPSAS 23 on specific presentation and disclosures for right-of-use assets in-kind. This proposed additional guidance would also be included in the new Revenue IPSAS if supported by constituents.

### 3) Access rights

#### Feedback

The comment letters identified seven types of access rights, as described in Table 1:

**Table 1 – Types of Access Rights**

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

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

#### IPSASB's response

The IPSASB concluded that these seven types of access rights may not meet the definition of a lease nor of a service concession arrangement if the rights transferred in those arrangements 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>2</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.

The IPSASB also concluded that these seven types of access rights may meet the definition of intangible assets in accordance with IPSAS 31, *Intangible Assets* if they are all identifiable nonmonetary assets without physical substance. The IPSASB noted that IPSAS 31 already provides sufficient guidance on how to identify and account for intangible assets that can be applicable to access rights.

Where third party access rights exist or are granted in relation to a public sector asset, then their impact would need to be addressed in accordance with the new Measurement IPSAS.

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<sup>2</sup> The IPSASB 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*.

## 4) Arrangements allowing right-of-use

### Feedback

The comment letters 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 land 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.

### IPSASB's response

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

The IPSASB 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. The IPSASB noted that IPSAS 31 already provides sufficient guidance on how to identify and account for intangible assets that can be applicable to arrangements allowing right-of-use.

## 5) Social housing rental arrangements

### Feedback

The comment letters identified the following characteristics of social housing rental arrangements:

- (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 can be with or without a specific term or termination date or on a month-to-month basis.

### IPSASB's response

The IPSASB concluded that social housing rental arrangements for zero consideration or with a lack of a specified term do not meet the definition of a lease under IPSAS 43.

In reaching this conclusion, the IPSASB noted that according to IPSASB 43, 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. IPSAS 43 provides further guidance on the several elements of a lease.

The IPSASB also concluded that preparers should consider applying IPSAS 9, *Revenue from Exchange Transactions* or IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* as these IPSAS deal with the principles for recognizing and measuring arrangements that arise from exchange and non-exchange transactions, respectively.

## 6) Shared properties with or without a lease-arrangement in place

### Feedback

The comment letters 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.

### IPSASB's response

The IPSASB concluded that 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 Transactions (Taxes and Transfers)*, as appropriate, because these Standards provide the accounting principles for transactions based on exchange/non-exchange transactions, respectively.

The IPSASB also concluded that shared property with a lease arrangement in place is within the scope of IPSAS 43 if meets the definition of a lease.

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), the IPSASB concluded that they would be within the scope of IPSAS 9 or IPSAS 23, as appropriate.



# Appendix A – Questions asked in the Request for Information

**Question 1:** In your jurisdiction, do you have concessionary leases (or similar arrangements) as described in this RFI? If yes, please:

- (a) Describe the nature of these leases (or similar arrangements) and their concessionary characteristics; and
- (b) Describe the accounting treatment applied by both parties to the arrangement to these types of leases (or similar arrangements), including whether the value of the concession is reflected in the financial statements.

**Question 2:** In your jurisdiction, do you have leases for zero or nominal consideration as described in this RFI? If yes, please:

- (a) Describe the nature and characteristics of this type of lease (or similar arrangement); and
- (b) Describe if and how the value of the concession is reflected in the financial statements of both parties to the arrangement.

**Question 3:** Does your jurisdiction have arrangements that provide access rights for a period of time in exchange for consideration? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

**Question 4:** In your jurisdiction, do you have arrangements with the same or similar characteristics to the one identified above? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

**Question 5:** In your jurisdiction, do you have arrangements involving social housing with lease-type clauses or other types of lease-like arrangements with no end terms? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of the social housing provider.

**Question 6:** In your jurisdiction, do you have arrangements involving the sharing of properties without a formal lease contract? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

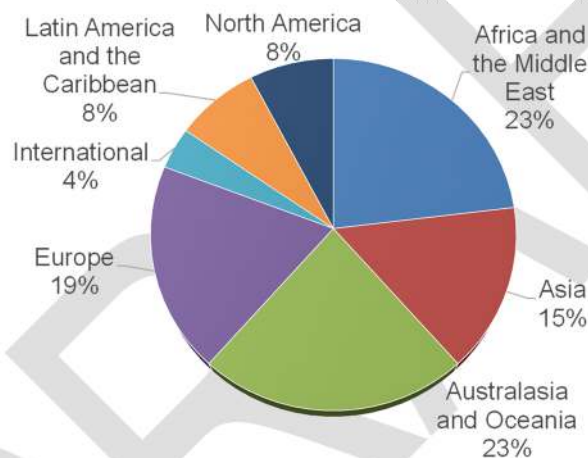
**Question 7:** In your jurisdiction, do you have other types of arrangements similar to leases not mentioned in this RFI? If so, please describe the characteristics of these arrangements and how they are presently being reflected in the financial statements of both parties to the arrangement.

## Appendix B – Comment letters sources

In response to the Request for Information, the IPSASB received 26 comment letters, which are available on the IPSASB website.

Comment letters were received from a broad regional background and functions, as shown in Figures 1 and 2.

**Figure 1 – Comment letters by geography**



**Figure 2 – Comment letters by function**

