

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Zurich, Switzerland

Meeting Date: September 12–15, 2023

Agenda Item 6

For:

☐ Approval





☒ Discussion




☐ Information

OTHER LEASE-TYPE ARRANGEMENTS

Project summary	Develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements.	
Project staff lead	<ul style="list-style-type: none"> João Fonseca, Principal 	
Task Force members	<ul style="list-style-type: none"> Lynn Pamment, IPSASB Member (Task Force Chair) Abdullah Al-Mehthil, IPSASB Member Andrew van der Burgh, IPSASB Member Claudia Beier, IPSASB Member 	
Meeting objectives Project management	Topic	Agenda Item
	Final Pronouncement Dashboard	6.1.1
	Instructions up to Previous Meeting	6.1.2
	Decisions up to Previous Meeting	6.1.3
	Project Roadmap	6.1.4
Decisions required at this meeting	Review of Responses to ED 84: Approach to Analysis of Responses and Structure of Agenda Items	6.2.1
	Review of Responses to ED 84: Conceptual Rationale	6.2.2
	Review of Responses to ED 84: Scope	6.2.3
	Review of Responses to ED 84: Concessionary Leases for Lessors (SMC 2)	6.2.4
	Review of Responses to ED 84: Concessionary Leases for Lessees and Right-of-Use Assets in Kind (SMC 1, SMC 3, and SMC 4)	6.2.5
	Review of Responses to ED 84: Linkages with IPSAS 46 and Phase Two of the Measurement Project	6.2.6
	Review of Responses to ED 84: Linkages with IPSAS 47, Revenue	6.2.7

**OTHER LEASE-TYPE ARRANGEMENTS:
FINAL PRONOUNCEMENT DASHBOARD**

Topic	Jun 2023	Sept 2023	Dec 2023	Mar 2024
Review and Approval of Final Pronouncement				
Authoritative Text				
Conceptual Rationale				
Scope				
Concessionary Leases for Lessors (SMC 2)				
Concessionary Leases for Lessees and Right-of-Use Assets In-kind (SMC 1, SMC 3, and SMC 4)				
Linkages with IPSAS 46 and Phase Two of the Measurement Project				
Linkages with IPSAS 47, Revenue				
[Issues to be determined after September and December 2023 meetings]				
Effective Date & Transition				
Non-Authoritative Text				
Basis for Conclusions				
Implementation Guidance				
Illustrative Examples				
[Other]				
Analysis of Responses to ED 84				

Legend	
	Task Completed
	Planned IPSASB Discussion
	Page-by-page Review

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2023	1. Continue analyzing the issues raised by respondents to improve the proposals in ED 84, considering in particular the reasons why constituents only partially supported or disagreed with the IPSASB's proposals.	1. See all Agenda Items in this Issues Paper.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2023	1. There were no decisions.	1. N/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>
December 2022	1. Exposure Draft 84: Approval 2. Feedback Statement
June 2023	1. Exposure Draft 84: High-level review of responses and project direction
September 2023	1. Discussion of issues
December 2023	1. [Issues to be determined after September 2023 meeting] 2. Develop [draft] Final Pronouncement
March 2024	1. [Issues to be determined after December 2023 meeting] 2. Review and Approval of [draft] Final Pronouncement

Review of Responses to ED 84: Approach to Analysis of Responses and Structure of Agenda Items

Purpose

1. To convey the approach that Staff and Task Force followed to analyze the responses to ED 84 and the structure of the Agenda Items.

Background

2. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and the Task Force to continue analyzing the issues raised by respondents to ED 84.
3. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
4. This Agenda Item explains the approach that Staff and Task Force followed to analyze the responses to ED 84 and the structure of this Issues Paper.

Analysis

Approach to Analysis of Responses to ED 84

5. Respondents to ED 84 can be grouped in the following three groups:
 - (a) Respondents that agreed with ED 84 proposals (i.e., agreed with the proposed principles without providing any further suggestions);
 - (b) Respondents that partially agreed with 84 proposals (i.e., agreed with the proposed principles, but providing further suggestions to enhance ED 84); and
 - (c) Respondents that disagreed with ED 84 proposals.
6. For project management efficiency reasons, staff and the Task Force decided that the September 2023 meeting should focus on:
 - (a) Addressing the respondents' reasons for disagreement with ED 84 proposals; and
 - (b) Identifying the respondents' suggestions to enhance ED 84 proposals.
7. If the IPSASB decides to proceed with ED 84 proposals for final pronouncement, staff and the Task Force will bring to the IPSASB at later meetings the analysis and recommendations on how to address the respondents' suggestions to enhance ED 84 proposals.
8. Staff and the Task Force also decided to address the issues raised by respondents related to linkages with current and developing IPSASB's literature because it significantly impacts the applicability of ED 84 proposals.

Structure of Agenda Items

9. Therefore, [Agenda Items 6.2.2](#), [6.2.3](#), [6.2.4](#), [6.2.5](#) address the respondents' reasons for disagreement with ED 84 proposals and [Appendix A](#) in [Agenda Item 6.2.4](#) and [Appendix B](#) in [Agenda Item 6.2.5](#) identify the respondents' suggestions to enhance ED 84 proposals.

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10. [Agenda Item 6.2.6](#) addresses the linkages with IPSAS 46, *Measurement* and with the Phase Two of Measurement project (Measurement Application Phase).
11. [Agenda Item 6.2.7](#) addresses the linkages with IPSAS 47, *Revenue*.
12. The linkages with IPSAS 48, *Transfer Expenses* will be addressed at the December 2023 meeting.

Decision Required

13. No decision required. For information purposes only.

Review of Responses to ED 84: Conceptual Rationale

Question

1. Does the IPSASB agree with the staff and Task Force's recommendation on reaffirming the conceptual rationale that underpins ED 84 proposals for concessionary leases for the Final Pronouncement?

Recommendation

2. Staff and Task Force recommends the IPSASB to reaffirm the conceptual rationale that underpins ED 84 proposals for concessionary leases for the Final Pronouncement.

Background

3. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and the Task Force to continue analyzing the issues raised by respondents to ED 84.
4. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
5. This Agenda Item addresses the broader issues raised by respondents to ED 84 in terms of the conceptual rationale of ED 84 proposals for concessionary leases.

Analysis

6. Some respondents conceptually disagree with the ED 84 proposals for concessionary leases for three main reasons:
 - (a) Lack of consistency between lessee and lessor accounting for the concession or for the whole lease transaction;
 - (b) For lessees, analogy with services in-kind and service concession arrangements is more appropriate than analogy with concessionary loans; and
 - (c) For lessors, different accounting between concessionary finance lease and concessionary operating lease.

Lack of Consistency Between Lessee and Lessor Accounting

7. Respondents disagreed with ED 84 proposals based on lack of consistency between lessee and lessor accounting for the concession or for the whole lease transaction because:
 - (a) It is only focused on the accounting for lessees, while there is no change to the accounting for lessors (R13, R15, R25); and
 - (b) The underlying asset is not recognized by either party in a concessionary finance lease as the lessor derecognizes the underlying asset, while the lessee recognizes the right-to-use asset, not the underlying itself (R23).
8. Staff and Task Force note that the issues raised by respondents in:
 - (a) Paragraph 7(a) is related to the fact that IPSAS 43, *Leases* has different accounting models for lessees and lessors that lead to different accounting for concessionary leases for both parties;

- (b) Paragraph 7(b) impacts all leases, and not only concessionary leases.
9. Staff and Task Force highlight that the issues raised in paragraph 7 were expected given the ED 84 proposals are based on the lease accounting models in IPSAS 43.
10. Staff and Task Force are of the view that it is still outside of Phase Two of the Leases project to modify the lease accounting models in IPSAS 43.
11. Therefore, staff and Task Force recommend the IPSASB to reaffirm its decision to not change the lease accounting models in IPSAS 43 for the Final Pronouncement.

Lessees

12. The respondents that disagree with ED 84 proposals for lessees are of the view that concessionary leases for lessees are not analogous to concessionary loans, as follows:
- (a) “Concessionary leases are not viewed as financing transactions” (R23) and “are a means to achieve particular objectives, rather than as a means of financing” (R25) or “providing social services (R04); and
- (b) “The concession in a concessionary loan is imputed interest and the concession in a concessionary lease is a revaluation of the right-of-use asset” (R27).
13. Therefore, these respondents consider that applying the ED 84 proposals to concessionary leases do not reflect the economics of the transaction.
14. Staff and Task Force note that respondents did not raise new issues that were not considered when the IPSASB developed ED 84. Staff and Task Force:
- (a) Are of the view that the respondents’ reasons are not strong enough compared to the fact that:
- (i) Both transactions are at below-market terms at inception;
- (ii) Have a concession (non-exchange component) to the price of the resource being transferred¹;
- (iii) Have the objective to provide/receive resources with a price at below-market terms;
- (iv) Whether receiving 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
- (v) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.
- (b) Highlight that:
- (i) Both concessionary leases and concessionary loans can be a means to achieve particular objectives, and therefore it is not a specific feature of concessionary leases.

¹ Staff and Task Force note that in both concessionary loans from the borrower perspective and concessionary leases from the lessee perspective, the concession (non-exchange component) is the difference between the market terms and the contractual terms of the price of the resource received, as follows: in a concessionary loan, the price of the resource received (cash) is time (time value of money), which is related to interest; in a concessionary lease, the price of the resource received (right-of-use asset) is its acquisition price.

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- (ii) The objectives under which concessionary leases are received or granted have no impact in the classification of the transaction as a lease. This means that, provided that the transaction meets the definition of a lease, the principles proposed in ED 84 are appropriate.
 - (iii) Concessionary leases are still financing transactions where there is a significant obligation to pay for the acquisition of the right-of-use asset albeit at below-market terms.
15. These respondents are of the view that concessionary leases are analogous to:
- (a) Services in-kind because in both cases the underlying asset remains recognized by the supplier or is consumed in the process of providing the services (R25) or are transactions are conceptually similar (R23, R27); and
 - (b) Service concession arrangements because both are a means of achieving public sector objectives (R25).
16. Staff and Task Force are of the view that leases from the lessee perspective under the right-of-use model are not analogous to services because in a lease the resource-recipient (lessee) controls the use of the identified asset, while in a service the resource-provider (supplier) controls the use of the asset. Right-of-use assets are analogous to owned assets by owners where the resource-recipient (lessee and owner) controls the use of the asset (the right-of-use asset in a lease and the asset itself in a normal purchase).
17. Regarding the analogy with service concession arrangements, staff and Task Force are of the view leases are not analogous to service concession arrangements because in a lease the resource-recipient (lessee) controls the use of the identified asset:
- (a) While in a service concession arrangement the resource-provider (grantor) controls the use of the identified asset; and
 - (b) To provide services **not on behalf** of the resource-provider (lessor), while in a service concession arrangement the resource-recipient (operator) has a right to access to operate the underlying asset to provide public service **on behalf** of the resource-provider (grantor).
18. The table below summarizes the differences between a service, a service concession, and a lease.

Criteria	Service (with owned assets)	Service Concessions	Lease
Control of an asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: Yes Lessee: No
Control the use of an asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: No Lessee: Yes
Access to operate an asset	Supplier: Yes Customer: No	Grantor: No Operator: Yes	Lessor: No Lessee: Yes
IPSAS	47, <i>Revenue</i>	32, <i>Service Concession Arrangements (Grantor)</i>	43, <i>Leases</i>

19. Therefore, staff and Task Force recommend the IPSASB to reaffirm the conceptual rationale that underpins ED 84 proposals for the accounting of the concession in concessionary leases for lessees in analogy with concessionary loans for the Final Pronouncement.

Lessors

20. The respondent that disagrees with ED 84 proposals for lessors is of the view that:
- (a) Despite in a finance lease “the attached financing or the stream of cash flows to the lessor is critical to its substance, the ED appears to treat the leasing standard as somehow appropriate for use by lessors providing concessional leases when these elements are not there.” (R27) and
 - (b) Consideration of impairment in a concessionary operating lease should not be contemplated (R27).
21. When developing the ED 84 proposals for lessors, the IPSASB applied the lease accounting models in IPSAS 43. This means that the IPSASB did not propose to amend IPSAS 43 for:
- (a) Concessionary finance leases because the main issue is the underlying asset being transferred at below market terms. In this type of lease, the cost of the concession (non-exchange component) is the difference between the carrying amount of the underlying asset being transferred and the net investment in the lease. The accounting for the lease component is within the scope of IPSAS 43, and the accounting for the derecognition of the underlying asset is in accordance with IPSAS 16, *Investment Property*, IPSAS 31, *Intangible Assets*, and IPSAS 45, *Property, Plant, and Equipment*, as appropriate; and
 - (b) Concessionary operating leases because foregone revenue is not recognizable under IPSAS 9, *Revenue from Exchange Transactions*², and the cost of the concession (non-exchange component) in this lease accounting model is the difference between the leave revenue and the associated costs with the underlying asset still recognized by the lessor.
22. Therefore, staff and Task Force recommend the IPSASB to reaffirm the conceptual rationale that underpins ED 84 proposals for the accounting of the concession in concessionary leases for lessors for the Final Pronouncement.

Decision Required

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

² Staff and Task Force note that this principle was carried over to IPSAS 47, *Revenue*.

Review of Responses to ED 84: Scope

Question

1. Does the IPSASB agree with the staff and Task Force's recommendation to proceed with the scope of ED 84 for the Final Pronouncement?

Recommendation

2. Staff and Task Force recommends the IPSASB to proceed with the scope of ED 84 for the Final Pronouncement.

Background

3. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and Task Force to continue analyzing the issues raised by respondents to ED 84.
4. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
5. This Agenda Item addresses the issues raised by respondents to ED 84 in terms of scope, i.e., expanding or reducing the transactions, arrangements, entities, and guidance on what is covered by ED 84 proposals.

Analysis

6. [Appendix A](#) shows the detailed issues that respondents raised on the scope of ED 84 proposals and staff and Task Force analysis.
7. The respondents' issues can be grouped into the following four categories with the respective summary of staff and Task Force analysis³:

#	Respondents' Issues	Staff and Task Force's Analysis
1.	Modify the definition of a lease/contract	Outside of the scope of ED 84 proposals as it also applies to leases at market terms
2.	Provide additional guidance on scope	Outside of the scope of ED 84 proposals as it also applies to leases at market terms.
3.	Provide additional scope exclusion to specific entities	Impairs accountability and decision-making at entity level.
4.	Provide guidance on right-of-use assets for nominal or zero consideration in a single Standard	Cross-referencing is normal in IPSAS.

8. Staff and Task Force recommend the IPSASB to proceed with ED 84 proposals on scope for the Final Pronouncement because the issues raised by respondents:
 - (a) Are outside of the scope of ED 84;
 - (b) Do not provide new thinking that the IPSASB has not considered during the development of ED 84; and
 - (c) Imply creating unintended inconsistencies within IPSASB' literature.

³ The issue number in Appendix A is in brackets for easy of reading.

Decision Required

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

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Appendix A—Scoping Issues Raised by Respondents and Staff and Task Force’s Analysis

#	Respondents’ Issues	Staff and Task Force’s Analysis
1.	Modify definition of lease/contract	
1.1	Extend the definition of a lease to binding arrangements that are not contracts (R09, R28, R30)	Staff and Task Force did not identify in the responses new thinking on why the definition of a lease should be expanded to include binding arrangements that are not contracts. IPSAS 43 currently accounts for arrangements that are in-substance contracts as leases.
1.2	Provide guidance on the term “period of time” as the Feedback Statement refers to a “specified period of time” and its impact on contracts with extension options (R09, R28)	It is outside of the scope of ED 84 to provide additional guidance on the period of time because this issue is related to all leases and not only concessionary leases. The Feedback Statement dealt with arrangements that had no reference to any period of time (no specification/or period of time is unknown), not with arrangements that have extension options. In order to apply the measurement principles in IPSAS 43 it is necessary to have the information on the period of time of the lease.
1.3	Exclude arrangements that convey only the right to access (R26)	Arrangements that convey only the right to access do not meet the definition of a lease and are outside of the scope of IPSAS 43 and the proposals in ED 84.
2.	Provide additional guidance on scope	
2.1	Provide guidance on: (a) Other types of arrangements that convey the right to use an underlying asset in order to have a holistic approach (R23, R27) (b) Provide guidance on arrangements that convey the right to use that (a) are binding arrangements, but are not in-substance contracts, or b) that are not binding arrangements (R06) (c) What constitutes a condition or compliance obligation in a context of a concessionary lease in IPSAS 23 (R34) (d) Arrangements involving unwilling parties (R09)	It is outside of the scope of ED 84 to provide additional guidance on other types of arrangements that convey the right to use an asset that: (a) Do not meet the definition of a lease, except for arrangements that convey the right-of-use asset for zero consideration; and (b) Are not contract-based. The Feedback Statement provides guidance on where to find in IPSAS the accounting treatment for several types of arrangements related to transfer of rights over property that are not leases. It is outside of the scope of ED 84 to provide additional guidance on the treatment of a right to use as part of either an arrangement that a) is a binding arrangement but not an in-substance contract, or b) that is not a binding arrangement because this issue is related to all leases and not only concessionary leases. It is outside of the scope of ED 84 to provide additional guidance on what constitutes a condition in the context of a concessionary lease because this applies to all leases not only concessionary leases as all leases are contract-based with terms and conditions. However, the illustrative examples proposed in ED 84 provide examples with conditions that may help

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#	Respondents' Issues	Staff and Task Force's Analysis
		<p>preparers applying ED 84 proposals. IPSAS 47, <i>Revenue</i> provides guidance on compliance obligation that can be applicable to all transactions, including concessionary leases.</p> <p>It is outside of the scope of ED 84 to provide additional guidance on whether unwilling parties to an arrangement are within the scope of IPSAS 23 because this issue is related to all arrangements and not only concessionary leases.</p>
2.2	Whether ED 84 proposals can be applicable to intangibles, non-IP licenses, and biological assets not within the scope of IPSAS 27 (if any) (R26)	Staff and Task Force did not identify any specific issues in applying the ED 84 proposals to intangibles, non-IP licenses, and biological assets not within the scope of IPSAS 27. These types of assets are already within the scope of IPSAS 43, <i>Leases</i> .
3.	Provide additional scope exclusion to specific entities	
3.1	<p>Provide a scope exclusion:</p> <p>(a) Based on significance to public sector accountability (such as those where one party to the lease is a commercial entity) (R34); and</p> <p>(b) Between entities within the same public sector group. (R34)</p>	Staff and Task Force does not recommend the IPSASB to introducing scope exclusions for concessionary leases requirements based on specific characteristics of entities because it impairs accountability and decision-making as it will no longer be visible in the financial statements the impact of receiving resources at below market terms and the accountability mechanisms are applied at entity level, not only at group level on consolidation.
4.	Provide guidance on right-of-use assets for nominal or zero consideration in a single Standard	
4.1	ED 84 proposes right-of-use assets for nominal or zero consideration to be accounted for in two standards, when there is little economic difference to distinguish between the arrangements. (R09)	Staff and Task Force recommends the IPSASB to proceed with ED 84 proposals to amend IPSAS 23 because IPSAS 23 proposals in ED 84 provides the guidance to initially account for the right-of-asset in-kind and the concession. The cross-reference to IPSAS 43 to identify the right-of-use asset in-kind in the same way as it is identified a right-of-use asset acquired at market terms and to subsequent measure the right-of-use asset in-kind is normal in IPSAS.

Review of Responses to ED 84: Concessionary Leases for Lessors (SMC 2)

Question

1. Does the IPSASB agree with the staff and Task Force's recommendation to proceed with ED 84 proposals for concessionary leases for lessors for the Final Pronouncement?

Recommendation

2. Staff and Task Force recommend the IPSASB to proceed with ED 84 proposals for concessionary leases for lessors for the Final Pronouncement.

Background

Specific Matter for Comment 2:

For lessors, the IPSASB decided to propose accounting for leases at below-market terms in the same way as for leases at market terms (see paragraphs IPSAS 43.BC138–BC149). Do you agree with the 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.

3. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and Task Force to continue analyzing the issues raised by respondents to ED 84.
4. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
5. This Agenda Item addresses the remaining reasons for disagreement with ED 84 proposals on concessionary leases for lessors that are not addressed in [Agenda Item 6.2.2](#) and identifies the respondents' suggestions to enhance ED 84 proposals for concessionary leases for lessors.

Analysis

Reasons for Disagreement with SMC 2

6. The table below summarizes the remaining reasons for disagreement⁴ with ED 84 proposals for concessionary leases for lessors (SMC 2).

#	Respondents' Reasons	Staff and Task Force's Analysis
1.	In a concessionary finance lease, the underlying asset should not be derecognized if it continues embody service potential ⁵ (R23).	Derecognition criteria is in scope of IPSAS 16, IPSAS 17, IPSAS 31, not in scope of IPSAS 43. It is

⁴ R26 disagreement with SMC 2 seems to be out of place because it refers to current operational value, but ED 84 proposals for concessionary leases for lessors do not refer to current operational value.

⁵ R23 agrees with ED 84 proposals for concessionary operating leases.

#	Respondents' Reasons	Staff and Task Force's Analysis
2.	Inconsistency between concessionary operating leases and concessionary finance leases where there is a loss on commencement of the concessionary finance lease and no loss arises on commencement of the concessionary operating lease, while both can have service delivery or outcome objectives (R34).	outside of the scope of Phase Two of the Leases project to amend other IPSAS on this topic. IPSAS 43 provides several indicators of a finance lease that need to be taken into consideration in a holistic way. ED 84 does not propose to amend the derecognition criteria in other IPSAS nor the indicators of a finance leases in IPSAS 43 as this is related to all finance leases, not only concessionary finance leases.
3.	There is lack of information on foregone revenue (R34).	ED 84 proposes disclosures related to the accounting model, not beyond. This approach is consistent with IPSAS 9.

Staff and Task Force Recommendation

7. Staff and Task Force recommend the IPSASB to proceed with ED 84 proposals for concessionary leases for lessors because the respondents' reasons for disagreement:
 - (a) Impact the guidance on all leases, not only concessionary leases;
 - (b) Are inconsistent with IPSASB's literature; and
 - (c) There is no new thinking that has not been considered by the IPSASB during the development of ED 84.
8. [Appendix A](#) identifies the respondents' suggestions to enhance ED 84 proposals for concessionary leases for lessors. If the IPSASB agrees with staff and Task Force recommendation, the respondents' suggestions will be brought for IPSASB's consideration in future meetings.

Decision Required

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

Appendix A—Respondents' Suggestions to Enhance ED 84 Proposals for Concessionary Leases for Lessors

1.	Authoritative Text
1.1.	Enhance proposed IPSAS 43.AG62(a) (R02)
1.2.	Clarify the distinction between non-exchange component from revenue and cost perspectives (R03, R06)
1.3.	Provide guidance for arrangements that convey the right to use without consideration (R03)
1.4.	Enhance the disclosures (R03, R23)
1.5.	Enhance the diagram in IPSAS 43.AG32B (R05)
1.6.	Add guidance to IPSAS 43.67(d) on the non-relevance of present value of lease payments for concessionary leases (R09)
2.	Non-Authoritative Text
2.1.	Enhance the Basis for Conclusions (R01, R02, R06, R07, R20, R21, R28)
2.2.	Clarify the distinction between non-exchange component from a revenue and cost perspectives (R03, R06)
2.3.	Add guidance to proposed IPSAS 43.IE10A (R06, R07, R28, R33)
2.4.	Clarify in the Basis for Conclusions or in Staff Q&A whether the cost of the concession can be capitalized (R11)
2.5.	Provide guidance when a concessionary operating lease is an impairment indicator (R34)

Review of Responses to ED 84: Concessionary Leases for Lessees and Right-of-Use Assets In-kind (SMC 1, SMC 3, SMC 4)

Question

1. Does the IPSASB agree with the staff and Task Force's recommendation to proceed with the ED 84 proposals on concessionary leases for lessees and right-of-use assets in-kind for the Final Pronouncement, subject to IPSASB's decisions in [Agenda Item 6.2.6](#) and [Agenda Item 6.2.7](#)?

Recommendation

2. Staff and Task Force recommend the IPSASB to proceed with the ED 84 proposals on concessionary leases for lessees and right-of-use assets in-kind for the Final Pronouncement, subject to IPSASB's decisions in [Agenda Item 6.2.6](#) and [Agenda Item 6.2.7](#).

Background

3. [Appendix A](#) shows the specific matters for comment presented in ED 84 related to concessionary leases for lessees and right-of-use assets in-kind.
4. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and Task Force to continue analyzing the issues raised by respondents to ED 84.
5. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
6. This Agenda Item addresses the reasons for disagreement with ED 84 proposals on concessionary leases for lessees and right-of-use assets in-kind:
 - (a) Because the respondents that partially agree with ED 84 proposals provided many suggestions for its enhancement that require a separate analysis at later meetings (see [Appendix B](#));
 - (b) Not addressed in other Agenda Items of this Issues Paper;
 - (c) Covered by specific matter for comment (SMC) 1, SMC 3, and SMC 4 because many respondents when responding to:
 - (i) SMC 3 and SMC 4 cross-referred to SMC 1; and
 - (ii) SMC 1 also addressed issues covered in SMC 3 and SMC 4.
7. [Agenda Item 6.2.6](#) addresses the remaining issues raised by constituents related to measurement of the right-of-use asset and right-use asset in-kind that are linked to IPSAS 46, *Measurement* and Phase Two of the Measurement project.

Analysis

Reasons for Disagreement with SMC 1, SMC 3, and SMC 4

8. The table below shows the reasons for disagreement with ED 84 proposals covered by SMC 1, SMC 3, and SMC 4 and staff and Task Force analysis.

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#	Respondents' Reasons for Disagreement	Staff and Task Force's Analysis
1.	Right-of-use assets in-kind should only be recognized when it they generate economic benefits (R04)	According to IPSASB's Conceptual Framework, assets are recognized when the items have service potential or the ability to generate economic benefits.
2.	Disclosures are enough (R23, R25, R26)	According to IPSASB's Conceptual Framework, disclosure is not a substitute for display. Disclosure only would also be inconsistent with IFRS 16 that does have provision for leases not on market terms.
3.	Current accounting practice does not result in significant unmet user needs (R25)	Whether current accounting practice does not result in significant unmet user needs maybe jurisdiction specific as no other respondent to ED 84 raised this reason. Additionally, the current accounting practice is pre-IPSAS 43 and so will be changing as a result of IPSAS 43 in any case. There is no evidence base for comments regarding the current accounting practice under IPSAS 43.
4.	There is robust governance and management oversight processes with respect to concessionary leases (R25).	Governance and oversight processes are not a substitute for financial reporting, especially in jurisdictions where financial reporting is the only means to achieve accountability.
5.	Cost-benefit reasons (R25, R27, R30, R34)	<p>The benefits of providing information of the subsidy embedded in a concessionary lease outweigh the cost as long as the preparer does not incur unreasonable efforts and costs to obtain it. Additionally, this would need to be decided on an entity-by-entity basis based on materiality and other factors (and still can be assessed after the standard is implemented). The Standard itself does not need to be amended for this. ED 84 proposals already have a cost-benefit consideration built-in when the payments for the lease at market rates based on the current use of the underlying asset are no readily available (see ED 84.IPSAS 43.26C). If the cost of preparing the accounting information is higher than its benefits, ED 84 does not require its accounting record.</p> <p>Cost does not provide information about the value of the asset and the concession. Cost therefore provides information that is less useful than ED 84 proposals.</p>

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#	Respondents' Reasons for Disagreement	Staff and Task Force's Analysis
6.	Provide option between cost and fair value (R09, R30)	Inconsistent with IPSASB's literature as no IPSAS provide an accounting policy option to initially measure at cost or at fair value assets acquired through a non-exchange transaction. Staff and Task Force did not identify an economic reason to require measurement at fair value an underlying asset but provide an accounting policy option to measure at cost or at fair value the right-to-use the very same underlying asset. Cost does not provide information about the value of the asset and the concession. Cost therefore provides information that is less useful than the ED 84 proposals. Should the cost to obtain the market value of lease payments exceed the benefit, the proposals do not require an entity to do this. See the comment in point 5 above about the constraint built into the ED.
7.	Users' needs are not met by recognizing large amounts of non-exchange revenue (R23)	Recognizing non-exchange revenue is consistent with IPSASB's literature and with the accrual basis of accounting. The focus should not be on the non-exchange revenue only. There are two sides to the entry and the amount at which the asset is recognized should also be considered in terms of the objectives of GPFS.
8.	Lack of qualitative disclosures (R23)	ED 84 proposals already require qualitative disclosures (see ED 84.IPSAS 43.64A(c)(d) and ED 84.IPSAS 43.96A(d) and ED 84.IPSAS 43.96B(d).
9.	All concessionary leases should be measured at the present value of contractual payments for the lease, not just when the payments for the lease at market rates based on the current use of the underlying asset are not readily available because of practicality and enforceability of the assessment (R23)	Staff and Task Force recommend the IPSASB to provide additional guidance on topics 9 and 10 as it was also suggested by many respondents that partially agree with ED 84 proposals.
10.	Lack of clarity on the meaning of market rates based on current use and its difficult determination (R34)	

9. The respondents that disagreed with ED 84 proposals propose the IPSASB to:

- (a) Develop consistent accounting for the concession (R13, R15) or for whole lease transaction (R13, R15, R23, R27) between lessees and lessors that imply revising the lease accounting models that currently exist in IPSAS 43 (see [Agenda Item 6.2.2](#));
- (b) Develop guidance materials highlighting only existing requirements, not developing new requirements (R25);
- (c) Develop descriptive disclosures on concessionary leases (R26) (see Item #2 in the above table);

- (d) Develop an optional measurement policy between cost and fair value (R30) (see Item #6 in the above table);
- (e) Scope in only concessionary leases that are of significance to public sector accountability (R34) (see [Agenda Item 6.2.3](#));
- (f) Scope out concessionary leases:
 - (i) That are not financing arrangements (R23) (see [Agenda Item 6.2.2](#)); and
 - (ii) Between entities within the same public sector group (R34) (see [Agenda Item 6.2.3](#)).

Staff and Task Force's Recommendation

- 10. Subject to IPSASB's decisions in [Agenda Item 6.2.6](#) and [Agenda Item 6.2.7](#), staff and Task Force recommend the IPSASB to proceed with ED 84 proposals on concessionary leases for lessees and right-of-use assets in-kind because the respondents' reasons for disagreement:
 - (a) Are jurisdiction specific;
 - (b) Were considered by the IPSASB during the development of ED 84;
 - (c) Are inconsistent with IPSASB's literature; and
 - (d) Can be addressed through additional guidance in the Final Pronouncement.
- 11. [Appendix B](#) identifies the respondents' suggestions to enhance ED 84 proposals for concessionary leases for lessees and right-of-use assets in-kind. If the IPSASB agrees with staff and Task Force recommendation, the respondents' suggestions will be brought for IPSASB's consideration in future meetings.

Decision Required

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

Appendix A—ED 84 Specific Matters for Comment

Specific Matter for Comment 1:

The IPSASB decided to propose new accounting guidance for concessionary leases for lessees (see paragraphs IPSAS 43.BC124–BC137) 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 3:

The IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC124–BC131) 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 based on the current use of the underlying asset as at the commencement date of the lease. 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:

When the payments for the lease at market rates based on the current use of the underlying asset are not readily available, the IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC132–BC133) at the present value of contractual payments for the lease. 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.

**Appendix B—Respondents’ Suggestions to Enhance ED 84 Proposals for Concessionary Leases
for Lessees**

I. IPSAS 43	
1.	Authoritative Text
	Scope
1.1.	Amend the scope section to refer to right-of-use assets in-kind (R03)
	Definitions
1.2.	Define “current use of the underlying asset” (R03, R06, R09, R11, R33, R34)
1.3.	Define “concessionary lease” (R20, R26)
1.4.	Define “payments for the lease” (R26)
1.5.	Define “market” (R26)
	Identification
1.6.	Add more guidance/clarify on the determination of concessionary leases and/or lease contract below-market terms in addition to 18A-18D and AG60-62 (R07, R09, R33, R35)
1.7.	Consider a materiality test or percentage difference threshold in identifying leases below-market terms (R07, R09)
1.8.	Whether the goals/intent of the parties in entering into a contract of lease has weight in the determination of concessionary leases (R07)
1.9.	Provide additional guidance where the exchange and non-exchange components cannot be distinguished separately. (R07)
	Measurement
1.10.	Provide guidance on subsequent measurement of the right-of-use asset if there is a change in the agreed use of the underlying asset (R03)
1.11.	Clarify proposed paragraph IPSAS 43.26C (R07, R32)
1.12.	Clarify that consideration can be any consideration, even nominal consideration, and that this is different to zero consideration. (R09, R34)
1.13.	Clarify subsequent measurement of right-of-use assets (R09, R23)
1.14.	Consider the updated discount rate for a lease modification (R09, R26)
1.15.	Add more guidance in relation to the amount of effort expected to determine whether market rates are available (R09)
1.16.	Consider whether the underlying asset is used for its financial or operational capacity, to determine whether the market rates based on the current use or the highest-and-best use is appropriate (R20)
1.17.	Add text on reasonable level of effort (R20, R23, R33)
1.18.	Consider measurement based on distinction between financial and operational capacity (R20)
1.19.	Clarify “readily available” (R23, R28)
1.20.	Clarify that the Present Value of Payments for the lease at market rates means the lease payments are at market rates, not that the discount rate is at market rates. (R26)
1.21.	Clarify how non-market terms other than “lower payments” are to be treated (R26)
	Disclosures
1.24.	Clarify/add more disclosures (R09, R11, R22, R23, R24, R26, R28, R34)
	Transition
1.25.	Consider transition requirements (R09, R23)

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1.26	Provide guidance on how entities that continue to apply IPSAS 13 until the effective date of IPSAS 43 should handle concessionary leases and free rights to use in the interim under the operating / finance lease accounting models in IPSAS 13. (R03)
	Terminology
1.27	Replace the term “carrying value” with “cost” in proposed IPSAS 43.26B (R03)
1.28	Consider the wording “impracticable” instead of “not readily available” (R11)
2.	Non-Authoritative Text
2.1.	Add Basis for Conclusions (R03, R06, R09)
2.2.	Add more guidance in ED 84 illustrative examples (R09, R26, R29)
	II. IPSAS 23
1.	Authoritative Text
	Definitions
1.1.	Define right-of-use assets in-kind (R02, R09, R20, R26, R35)
1.2.	Clarify if the existence of a binding arrangement (contract or otherwise) and a specified term are conditions of a right-of-use asset in-kind (R03)
	Identification
1.3.	Include additional provisions to elaborate further on the right-of-use assets in-kind for ease implementation of the policy (R07)
1.4.	Provide guidance on how the lessee distinguishes between contribution from owners versus revenue from non-exchange transactions. (R01, R11)
	Measurement
1.5.	Provide guidance on what “readily available” means like in IPSAS 41 (R02)
1.6.	Provide guidance on how to measure a right-of-use asset in-kind when information about payments at market rates based on the current use of the underlying asset is not readily available (R03)
1.7.	Clarify subsequent measurement of right-of-use assets in-kind (R09)
1.8.	Add further guidance for the situation when a right-of-use asset in-kind for which no market rate is readily available (specialized assets) (R02, R35)
	Disclosures
1.9.	Disclose the basis for exercising professional judgement to assess market terms. (R02)
2.	Non-Authoritative Text
2.1.	Add/amend Basis for Conclusions (R03, R06, R20)
2.2.	Add illustrative examples on right-of-use assets in-kind (R03)

Review of Responses to ED 84: Linkages with IPSAS 46 and Phase Two of the Measurement Project

Question

1. Does the IPSASB agree with the staff and Task Force's recommendation to proceed with ED 84 proposals on measurement of right-of-use assets in concessionary leases and right-of-use assets in-kind?

Recommendation

2. Staff and Task Force recommend the IPSASB to proceed with ED 84 proposals on measurement of right-of-use assets in concessionary leases and right-of-use assets in-kind.

Background

3. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and Task Force to continue analyzing the issues raised by respondents to ED 84.
4. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
5. This Agenda Item addresses the remaining issues raised by constituents related to measurement of the right-of-use asset and right-use asset in-kind that are linked to IPSAS 46, *Measurement* and Phase Two of the Measurement project.

Analysis

Linkages with IPSAS 46, Measurement

6. ED 84 proposes to measure right-of-use assets in concessionary leases and right-of-use assets in-kind at the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date of the lease.
7. The table below shows the respondents' issues with ED 84 proposals and staff and Task Force's analysis.

#	Respondents' Issues	Staff and Task Force's Analysis
1.	Inconsistency with IPSAS 46 because it does not use fair value (R06)	'Present value of payments for the lease at market rates' is a measurement technique consistent with IPSAS 46.5 that states that: "the measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in individual IPSAS."
2.	Use a measurement basis term, instead of 'cost' (R08)	The usage of the term 'cost' is consistent with the IPSASB's literature as IPSAS 46 did not change its usage in equivalent paragraphs IPSAS 16.27, IPSAS 17.27, and IPSAS 31.31.
3.	IPSAS 46 requires initial measurement at deemed cost for non-exchange transactions (R08)	IPSAS 46.5 states that "the measurement requirements described in this Standard apply to both initial and subsequent measurement, unless specific guidance is included in individual IPSAS." ED 84 provides specific guidance how to measure right-of-use assets in concessionary leases and right-of-use assets in-kind. Therefore, deemed cost as per IPSAS 46 does not apply.

#	Respondents' Issues	Staff and Task Force's Analysis
4.	No proposed subsequent measurement requirements (R23)	IPSAS 43.35–36 cross-refers to IPSAS 16 and IPSAS 17 for subsequent measurement, which includes right-of-use assets in a concessionary lease. ED 84.IPSAS 23.43B proposes cross-refer to IPSAS 43 to subsequently measure right-of-use assets in-kind.
5.	Measure at cost is consistent with primary objective of public sector measurement outlined in IPSAS 46 (R25)	IPSAS 46.10(b) requires <u>not to</u> measure at cost when the transaction price may not faithfully represent information about the asset or liability, which is the case with right-of-use assets in concessionary leases and right-of-use assets in-kind.
6.	Consider current operational value for initial measurement (R23, R24, R28)	The applicability of current operational value (COV) to right-of-use assets will be discussed in the Measurement Application Phase session (Agenda Item 8.2.7 of the September 2023 Meeting).
7.	Right-of-use assets and right-of-use assets in-kind held for service capacity are not able to apply COV because it does not permit the application of the income approach (R31)	

Linkages with Phase Two of the Measurement Project

8. The objective of Phase Two of the Measurement project is to evaluate the applicability of current operational value in IPSAS that permit the use of current value at initial recognition and subsequent measurement, which were not explicitly considered in the first phase of the project.
9. At the September 2023 meeting, the IPSASB will discuss potential changes to the current guidance in IPSAS 43, *Leases* in the Measurement Application Phase session ([Agenda Item 8.2.7](#)).
10. Staff and Task force note that IPSAS 43 already provides specific guidance to:
 - (a) Initially measure right-of-use assets; and
 - (b) Subsequently measure right-of-use assets by cross-referring to IPSAS 16, *Investment Property* and IPSAS 45, *Property, Plant, and Equipment*, as appropriate.
11. ED 84 proposals are consistent with IPSAS 43 as it also proposes a present value technique to measure the lease payments. The only difference is that for concessionary leases ED 84 proposes to require measuring the market lease payments instead of contractual lease payments as in IPSAS 43 for leases at market terms. The use of the same technique makes it easier for preparers to apply the new guidance for concessionary leases.

Staff and Task Force's Recommendation

12. Staff and Task Force recommend the IPSASB to proceed with ED 84 proposals on measurement of right-of-use assets and right-of-use assets in-kind because:
 - (a) Respondents' issues are not strong enough that warrant changing ED 84 proposals; and
 - (b) They are consistent with current IPSASB's literature.

Decision Required

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

Review of Responses to ED 84: Linkages with IPSAS 47, Revenue

Question

1. Does the IPSASB agree with the staff and Task Force's recommendation on the linkages with IPSAS 47, *Revenue*?

Recommendation

2. Staff and Task Force recommend the IPSASB to add a section in the Final Pronouncement on amendments to IPSAS 47 drawn from ED 84 proposed amendments to IPSAS 23.

Background

3. At the June 2023 meeting, the IPSASB discussed the high-level review of responses to ED 84 and instructed staff and Task Force to continue analyzing the issues raised by respondents to ED 84.
4. The high-level review of responses to ED 84 showed that the majority of respondents agree or partially agree with the ED 84 proposals, while a minority of respondents disagree with ED 84 proposals.
5. This Agenda Item addresses some of the issues raised by some respondents regarding ED 84 proposals and their possible linkages with recently published IPSAS 47.

Analysis

6. In January 2023, the IPSASB published ED 84 with proposed amendments to IPSAS 23. In May 2023, the IPSASB published IPSAS 47, which supersedes IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 23, *Revenue from Non-Exchange Transaction (Taxes and Transfers)*, with an effective date of January 1, 2026.
7. In order to ensure a continuity of guidance between IPSAS 23 and IPSAS 47, some respondents to ED 84 suggested the IPSASB to consider a review of IPSAS 47 to identify any consequential amendments needed (R06, R23, R25, R28, and R30).
8. Staff and Task Force recommend the IPSASB to add in the Final Pronouncement a section of amendments to IPSAS 47 drawn from the amendments to IPSAS 23 because:
 - (a) The IPSAS 23 principles are broadly consistent with some principles in IPSAS 47; and
 - (b) There is a precedence with both ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations* (which included amendments to IPSAS 17, *Property, Plant, and Equipment*) and IPSAS 47 (which included amendments to both IPSAS 17 and IPSAS 45) on guidance that was carried over from IPSAS 17 to IPSAS 45.
9. If the IPSASB agrees with staff and Task Force's recommendation, the amendments to IPSAS 47 will be brought for IPSASB's consideration after the IPSASB finalizes the amendments to IPSAS 23 that is now under review and in this way it will address the issues raised by respondents R06, R23, R25, R28, and R30.

Decision Required

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