

**Final Pronouncement  
August 2024**

**IPSAS<sup>®</sup>**

*International Public Sector Accounting Standard<sup>®</sup>*

---

*Concessionary Leases and Other  
Arrangements Conveying Rights over  
Assets (Amendments to IPSAS 43,  
IPSAS 47, and IPSAS 48)*

**IPSASB**

International Public  
Sector Accounting  
Standards Board<sup>®</sup>

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 International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

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

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

Copyright © August 2024 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 44](#).

**CONCESSIONARY LEASES AND OTHER ARRANGEMENTS  
CONVEYING RIGHTS OVER ASSETS (AMENDMENTS TO IPSAS 43,  
IPSAS 47, AND IPSAS 48)**

**CONTENTS**

	Page
Amendments to IPSAS 43, <i>Leases</i> .....	4
Amendments to IPSAS 47, <i>Revenue</i> .....	30
Amendments to IPSAS 48, <i>Transfer Expenses</i> .....	41

## Amendments to IPSAS 43, *Leases*

[This section of the Fina

Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103A, 117A–117F, AG32A, AG60–AG62, and BC105–**BCXX** are added. Paragraphs 6, 54, 109, 118, and 120 are amended. Headings above paragraphs 18A, 64A, 96A, 96B, 117A, 117E, 117F, AG32A, AG60 are added. Paragraph IE2 has not been amended and has been included for ease of reading. 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, and AG60–AG62)

...

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

- 18A. At inception, an entity will determine whether the transaction is at market terms or at below-market terms.
- 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 has a concession component. In determining whether a lease has an identifiable concession 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 based on the current use of the underlying asset.
- 18D. At inception, a:
- (a) Lessee assesses the substance of the concessionary lease by applying the principles in this Standard and paragraphs AG153A–AG153B of IPSAS 47, *Revenue*; and
  - (b) Lessor assesses the substance of the concessionary lease by applying the principles in this Standard.

...

### 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 based on the current use of the underlying asset as at the commencement date.**

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

**26C. A lessee shall make a reasonable level of effort in determining the present value of payments for the lease at market rates based on the current use of the underlying asset. If payments for the lease at market rates based on the current use of the underlying asset 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.**

#### 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.**

...

[Paragraph 42 is **NOT to be deleted** in IPSAS 43. Paragraph 42 is red marked-up struck through because this section of the [draft] Final Pronouncement is marked-up compared to the version presented to the IPSASB at the December 2023 meeting. ED 84 proposed to add a sentence at the end of paragraph 42, which was dropped during the review of responses in Q4 2023. Therefore, paragraph 42 will not be amended and will not appear in the Final Pronouncement.]

### *Subsequent Measurement*

...

#### *Reassessment of the Lease Liability*

~~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.~~

## 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, a lessee shall disclose by class of underlying asset:

- (a) The amount of the concession on initial recognition;
- (b) The amount of the contractual payments for the lease when the payments for the lease at market rates based on the current use of the underlying asset are not readily available;
- (c) The purpose and terms of the various types of concessionary leases, including the nature of the concession; and
- (d) Significant assumptions used in estimating the present value of the lease payments at market rates based on the current use of the underlying asset.

#### **Lessor**

#### **Classification of Leases (see paragraphs ~~AG54–AG59~~AG60)**

...

#### **Finance Leases (see paragraph AG62(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 for finance leases.

...

#### **Operating Leases (see paragraph AG62(b))**

##### *Recognition and Measurement*

...

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

...

#### **Disclosure**

...

#### Concessionary Finance Leases

96A. For concessionary finance leases granted, a lessor shall disclose by class of underlying asset:

- (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 by class of underlying asset:

- (a) The amount of lease revenue accrued during the period;
- (b) The costs associated with the underlying asset incurred on the accrual basis during the period;
- (c) The difference between (a) and (b); and
- (d) 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 contains an embedded concession at the inception of the lease.
- 97B. If an entity (the seller-lessee and the 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 47, 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, 117A–117F, AG32A, and AG60–AG62 were added and paragraphs 6, 54, 109, 118, and 120 were amended by *Concessionary Leases and Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48)* issued in January 1, 2027. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, IPSAS 47, and IPSAS 48 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 111–117F.

...

## 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 measure that right-of-use asset at the present value of payments for the remaining lease term at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

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:

- (i) Account for those leases in the same way as short-term leases as described in paragraph 7: and



- (ii) 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 measure 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:

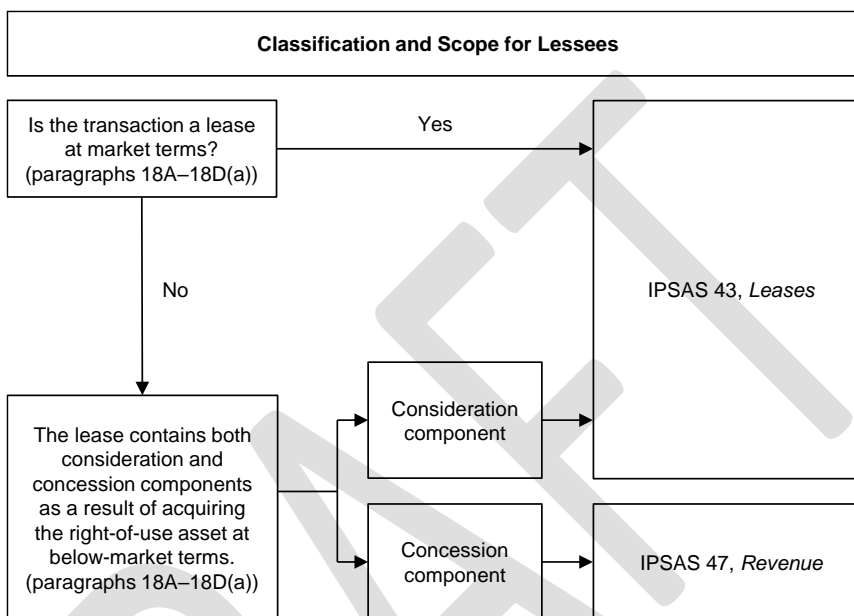
- (a) The transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale; and  
(b) Satisfies the requirements in this Standard to be accounted for as a concessionary leaseback.

## 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.



...

### **Concessionary Leases (see paragraphs 18A–18D, 26A–26C, 29A, 42, 64A, 71A, 81A)**

AG60. Concessionary leases are granted to or received by a lessee at below-market terms. Examples of concessionary leases include ~~granting~~ leases ~~granted~~ at below-market terms at inception to international organizations or to other public sector entities with public policy objectives granted to or received by the lessee.

AG61. If a lessee receiving the right-of-use asset has determined that the transaction has a concession component, the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments is accounted for in accordance with paragraphs AG153A–AG153B of IPSAS47 at the commencement date.

AG62. If a lessor granting a concessionary lease has determined that the transaction has a concession component, at the commencement date:

(a) In a concessionary finance lease, the lessor:

- (i) Derecognizes the underlying asset in accordance with the applicable IPSAS;
- (ii) Recognizes the net investment in the lease in accordance with this Standard; and

(iii) Does not recognize the foregone revenue obtained by the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the newly recognized net investment in the lease.

(b) In a concessionary operating lease, the lessor:

(i) Recognizes lease revenue in accordance with this Standard:

(ii) Does not recognize the foregone revenue obtained by the difference between the contractual payments and the payments for the lease at market rates based on the current use of the underlying asset; and

(iii) Shall assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative Examples are provided in paragraph IE296A of the Illustrative Examples accompanying IPSAS 47 as well as in paragraphs IE5, IE10A and IE11 of the Illustrative Examples 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 Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in August 2024**

### **Introduction**

BC105. [The Basis for Conclusions will be discussed at the July 2024 Check-in meeting.]

DRAFT

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 43.*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 43.

### Difference between services, service concession arrangements, and leases

IG2. The diagram below summarizes some differences between a service, a service concession arrangement and a lease and the respective guidance in IPSAS.

Classification Type of control	Service	Service concession arrangement	Lease
Control of an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: • Finance Lease: No • Operating Lease: Yes Lessee: No
Control of the right to use an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: No Lessee: Yes
Control of the right to access to operate an identified asset	Supplier: Yes Customer: No	Grantor: No Operator: Yes	Lessor: No Lessee: Yes
IPSAS	47, Revenue	32, Service Concession Arrangements (Grantor)	43, Leases

## ILLUSTRATIVE EXAMPLES

### CONTENTS

	Paragraph
Identifying a Lease .....	IE2
Example 1—Rail Cars	
Example 2—Allocated Space	
Example 3—Fiber-Optic Cable	
Example 4—Office Unit	
Example 5—Truck Rental	
Example 6—Ship	
Example 7—Aircraft	
Example 8—Contract for Shirts	
Example 9—Contract for Energy/Power	
Example 10—Contract for Network Services	
<u>Example 10A—Access Rights</u>	
<u>Example 10B—Shared Properties</u>	
Assessing Whether the Lease is at Market Terms or at Below-Market Terms.....	IE2A
<u>Example 10C—Assessing Whether the Lease is at Market Terms or at Below-Market Terms</u>	
Lease Incentives and Lease Concessions.....	IE2B
<u>Example 10D—Lease Incentives</u>	
<u>Example 10E—Lease Concessions</u>	
Leases of Low-Value Assets and Portfolio Application.....	IE3
Example 11—Leases of Low-Value Assets and Portfolio Application	
Allocating Consideration to Components of a Contract .....	IE4
Example 12—Lessee allocation of consideration to lease and non-lease components of a contract	
Lessee Measurement.....	IE5
Example 13—Measurement by a Lessee and Accounting for a Change in the Lease Term	
<u>Example 13B—Concessionary Lease (Lessee)—Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates</u>	
Variable Lease Payments .....	IE6
Example 14—Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Sales	

Lease Modifications .....	IE7
Example 15—Modification that is a Separate Lease	
Example 16—Modification that Increases the Scope of the Lease by Extending the Contractual Lease Term	
Example 17—Modification that Decreases the Scope of the Lease	
Example 18—Modification that Both Increases and Decreases the Scope of the Lease	
Example 19—Modification that is a Change in Consideration Only	
Subleases.....	IE8
Example 20—Sublease Classified as a Finance Lease	
Example 21—Sublease Classified as Operating Lease	
Lessee Disclosure.....	IE9–IE10
Example 22—Variable Payment Terms	
Example 23—Extension Options and Termination Options	
<u>Lessor Measurement .....</u>	<u>IE10A</u>
<u>Example 23A—Concessionary Operating Lease (Lessor)—Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates</u>	
<u>Example 23B—Concessionary Finance Lease (Lessor)—Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates</u>	
Sale and Leaseback Transactions .....	IE11
Example 24—Sale and Leaseback Transaction	
<u>Example 25—Sale at Market Terms and Leaseback at Below-Market Terms</u>	

---

## Illustrative Examples

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

...

### Identifying a Lease

IE2. The following examples illustrate how an entity determines whether a contract is, or contains, a lease.

...

#### Example 10B—Access Rights

A Government agency (Supplier) enters into a contract with a private sector entity (Customer) to grant the right to access to land in a forest and use small station cabins that serve as life support in case of bad weather. The Customer uses the land to feed animals that are to be sold in the due course of its business. The portion of land used by Customer may vary from season to season, and also at Supplier's discretion depending on other Supplier's activities that take place on the land. The Customer pays consideration to the Government agency for the use of the land and small station cabins.

The contract does not contain a lease of land or of small station cabins.

Although the land used by Customer is specified in the contract, there is no identified asset. The contract is to use land and small station cabins, and this can change without much impact on both Supplier's and Customer's activities.

The Customer does not have the right to obtain substantially all of the economic benefits of service potential from the use of the land and of the small station cabins because the Supplier can still obtain much more economic benefits and service potential from other activities.

The Customer does not have the right to direct the use because the Supplier can change the land and the small station cabins that the Customer is allowed to use.

#### Example 10C—Shared Properties

Government agency B (Customer) enters into a contract with Municipality A (Supplier) to use a community center hall for three years. The Supplier also continues to use the community center hall for the majority of the time and coordinates with the Customer the dates that each can use it to their own activities. The Customer pays consideration based on the number of days that is planning to use in the three years contract.

The contract does not contain a lease of the community center hall.

Although the Customer has the right to direct the use of the community center hall in the days that is using it, the Customer does not have the right to obtain substantially all of the economic benefits or service potential from the use of the community center hall because the Supplier continues to use the community center hall for the majority of the time during the contract term and therefore, obtaining substantially all of the economic benefits or service potential from the use of the community center hall.



...

**Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A, and AG60–AG62)**

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

**Example 10C—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, which is the current market rate. 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 at inception and at commencement dates.

**Lease Incentives and Lease Concessions (see paragraphs 5, 18A–18D, AG32A–AG32B, and AG60–AG62)**

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

**Example 10D—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 Government entity~~ has lesser credit risk. Government agency X ended up entering into the lease because private sector entity Y reduced the price of the lease payments by CU5,000 per month, to match market rates at inception.*

The CU5,000 per month reduction is a lease incentive at inception and at commencement dates.

**Example 10E—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 of 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 at inception and at commencement dates.

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

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 to provide medical services to the population over a period of 5 years. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- The lease 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-lessee's incremental borrowing rate implicit in the lease~~ is 5 percent per annum which is readily determinable by ~~the~~ lessee.

- The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for 5 years. To the extent the compliance obligation is not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The compliance obligation is met on a straight-line basis.
- Depreciation of the right-of-use asset is not considered in the example for simplification purposes.

**Analysis**

It is a concessionary lease as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The 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 concession component of CU6,900,000 is accounted for in accordance with IPSAS 47, and the present value of annual contractual 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-lessee~~ recognizes the following (the ~~entity-lessee~~ subsequently measures the lease liability at amortized cost):

Dr	Right-of-use asset	CU23,000,000	-
	Cr Lease liability (refer to Table 1 below)	-	CU16,100,00
	Cr Liability (refer to Table 1 below)	-	CU6,900,000

*Recognition of the lease at the present value of payments for the lease at market rates based on the current use of the asset.*

*IPSAS 47 is considered in recognizing either a liability or revenue for the concession component of the lease. Paragraph IE308 of that Standard provides journal entries for the recognition and measurement of the concession component of the lease.*

2. Year 1: The ~~entity-lessee~~ recognizes the following:

Dr	Interest expense (refer to Table 2 below)	CU805,000	-
	Cr Lease liability	-	CU805,000

*Recognition of interest using the effective interest method (CU16,100,000 × 5%)*

Dr	Lease liability (refer to Table 2 below)	CU3,718,694	-
	Cr Bank	-	CU3,718,694

*Recognition of lease payment*

3. Year 2: The ~~entity-lessee~~ recognizes the following:

Dr	Interest expense	CU659,315	-
	Cr Lease liability	-	CU659,315

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

Dr	Lease liability	CU3,718,694	
	Cr Bank		CU3,718,694

*Recognition of lease payment*

4. Year 3: The ~~entity-lessee~~ recognizes the following:

Dr	Interest expense	CU506,346	-
	Cr Lease liability	-	CU506,346

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

Dr	<u>Lease liability</u>	<u>CU3,718,694</u>	
	Cr <u>Bank</u>		<u>CU3,718,694</u>

Recognition of lease payment

5. Year 4: The ~~entity~~-lessee recognizes the following:

Dr	<u>Interest expense</u>	<u>CU345,729</u>	-
	Cr <u>Lease liability</u>		<u>CU345,729</u>

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

Dr	<u>Lease liability</u>	<u>CU3,718,694</u>	
	Cr <u>Bank</u>		<u>CU3,718,694</u>

Recognition of lease payment

6. Year 5: The ~~entity~~-lessee recognizes the following:

Dr	<u>Interest expense</u>	<u>CU177,081</u>	-
	Cr <u>Lease liability</u>		<u>CU177,081</u>

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

Dr	<u>Lease liability</u>	<u>CU3,718,694</u>	
	Cr <u>Bank</u>		<u>CU3,718,694</u>

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>Concession component of the lease to be recognized as revenue</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>5=(2)-(4)</u>
<u>Year 1</u>	<u>5,312,420</u>	<u>5,059,448</u>	<u>3,718,694</u>	<u>3,541,614</u>	<u>1,517,834</u>
<u>Year 2</u>	<u>5,312,420</u>	<u>4,818,522</u>	<u>3,718,694</u>	<u>3,372,965</u>	<u>1,445,557</u>
<u>Year 3</u>	<u>5,312,420</u>	<u>4,589,068</u>	<u>3,718,694</u>	<u>3,212,348</u>	<u>1,376,721</u>
<u>Year 4</u>	<u>5,312,420</u>	<u>4,370,541</u>	<u>3,718,694</u>	<u>3,059,379</u>	<u>1,311,162</u>
<u>Year 5</u>	<u>5,312,420</u>	<u>4,162,421</u>	<u>3,718,694</u>	<u>2,913,694</u>	<u>1,248,726</u>
<u>Total</u>	<u>26,562,100</u>	<u>23,000,000</u>	<u>18,593,470</u>	<u>16,100,000</u>	<u>6,900,000</u>

**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>
<u>Beginning balance</u>	<u>16,100,000</u>	<u>13,186,306</u>	<u>10,126,927</u>	<u>6,914,579</u>	<u>3,541,614</u>	

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
Concession component of the lease to be recognized as revenue over five years.						6,900,000

### **Lessor Measurement (see paragraphs 71A, 81A, AG60, and AG62)**

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

#### **Example 23A—Concessionary Operating 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 based on the current use of the underlying asset 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 the lessee.*

- *Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.*
- *The annual expenses (depreciation and maintenance) of the building are CU4,200,000.*

### **Analysis**

*It is a concessionary lease as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The concessionary operating lease has two distinct 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 (CU3,500,000 per year);*

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU1,500,000 (CU5,000,000 – CU3,500,000)); and

The contractual payments are accounted for in accordance with IPSAS 43.

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

<u>Dr Cash</u>	<u>CU3,500,000</u>
<u>Cr Lease revenue</u>	<u>CU3,500,000</u>

<sup>(1)</sup> As revenue in an operating lease is recognized on either a straight-line basis or another systematic basis, there is no need to discount the lease payments.

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

Municipality Y (Lessor) enters into a finance 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 based on the current use of the underlying asset 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 the lessor.

- The carrying amount of the underlying asset is CU20,000,000.
- The residual value is CU0 (zero) for simplification purposes.
- The lease includes compliance obligations. 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**

It is a concessionary finance lease as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The concessionary finance lease has two distinct components:

- (a) 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 the net investment in the lease (CU16,100,000);
- (b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU6,900,000 (CU23,000,000 – CU16,100,000)); and

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

1. On initial recognition, the ~~entity~~-lessor recognizes the following (the ~~entity~~ lessor subsequently measures the lease receivable (net investment in the lease) at amortized cost):

Dr	<u>Lease receivable (refer to Table 1 below)</u>	<u>CU16,100,000</u>	-
Dr	<u>Surplus or deficit</u>	<u>CU3,900,000</u>	
Cr	<u>Derecognition of the underlying asset</u>	-	<u>CU20,000,00<sup>1</sup></u>

Recognition of the contractual payments for the lease and derecognition of the underlying asset.

2. Year 1: The ~~entity~~-lessor recognizes the following:

Dr	<u>Lease receivable</u>	<u>CU805,000</u>	-
Cr	<u>Interest revenue (refer to Table 2 below)</u>	-	<u>CU805,000</u>

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr	<u>Bank</u>	<u>CU3,718,694</u>	-
Cr	<u>Lease receivable (refer to Table 2 below)</u>	-	<u>CU3,718,694</u>

Recognition of lease payment

3. Year 2: The ~~entity~~-lessor recognizes the following:

Dr	<u>Lease receivable</u>	<u>CU659,315</u>	-
Cr	<u>Interest revenue</u>	-	<u>CU659,315</u>

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

Dr	<u>Bank</u>	<u>CU3,718,694</u>	
Cr	<u>Lease receivable</u>		<u>CU3,718,694</u>

Recognition of lease payment

4. Year 3: The ~~entity~~-lessor recognizes the following:

<sup>1</sup> Net of accumulated depreciation.

Dr	<u>Lease receivable</u>	<u>CU506,346</u>	-
	Cr <u>Interest revenue</u>	-	<u>CU506,346</u>

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

Dr	<u>Bank</u>	<u>CU3,718,694</u>	
	Cr <u>Lease receivable</u>	-	<u>CU3,718,694</u>

*Recognition of lease payment*

5. Year 4: The ~~entity~~ lessor recognizes the following:

Dr	<u>Lease receivable</u>	<u>CU345,729</u>	-
	Cr <u>Interest revenue</u>	-	<u>CU345,729</u>

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

Dr	<u>Bank</u>	<u>CU3,718,694</u>	
	Cr <u>Lease receivable</u>	-	<u>CU3,718,694</u>

*Recognition of lease payment*

6. Year 5: The ~~entity~~ lessor recognizes the following:

Dr	<u>Lease receivable</u>	<u>CU177,081</u>	-
	Cr <u>Interest revenue</u>	-	<u>CU177,081</u>

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

Dr	<u>Bank</u>	<u>CU3,718,694</u>	
	Cr <u>Lease receivable</u>	-	<u>CU3,718,694</u>

*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>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>
<u>Year 1</u>	<u>5,312,420</u>	<u>5,059,448</u>	<u>3,718,694</u>	<u>3,541,614</u>
<u>Year 2</u>	<u>5,312,420</u>	<u>4,818,522</u>	<u>3,718,694</u>	<u>3,372,965</u>
<u>Year 3</u>	<u>5,312,420</u>	<u>4,589,068</u>	<u>3,718,694</u>	<u>3,212,348</u>
<u>Year 4</u>	<u>5,312,420</u>	<u>4,370,541</u>	<u>3,718,694</u>	<u>3,059,379</u>
<u>Year 5</u>	<u>5,312,420</u>	<u>4,162,420</u>	<u>3,718,694</u>	<u>2,913,694</u>
<u>Total</u>	<u>26,562,100</u>	<u>23,000,000</u>	<u>18,593,470</u>	<u>16,100,000</u>



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

	<u>Year 1</u> <u>CU</u>	<u>Year 2</u> <u>CU</u>	<u>Year 3</u> <u>CU</u>	<u>Year 4</u> <u>CU</u>	<u>Year 5</u> <u>CU</u>	<u>Total</u>
<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 revenue	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>	
Carrying amount of the derecognized underlying asset						20,000,000
Less: Present value of cash inflows (lease receivable on initial recognition)						16,100,000
Loss component with concessionary finance lease.						3,900,000

### 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) has ~~run into faced~~ some financial difficulties due to expected increasing maintenance costs to fulfill new safety requirements due to their ~~architecturally~~ unique ~~architectural~~ building. Therefore, ~~museum~~ Museum A sells the building to local government X (Buyer-lessor) at its ~~actual-current~~ 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 its ~~current market price~~ (fair value) for cash of CU1,800,000, which ~~corresponds to has~~ a total useful life of 25.5 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/IPSAS 47, Revenue~~. 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-compliance obligations~~ 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 payments for the lease at market rates 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-CU1,459,199) 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>Dr Cash</u>	<u>CU1,800,000</u>	
<u>Dr Right-of-use asset</u>	<u>CU810,666</u>	
<u>Cr Building</u>		<u>CU1,000,000</u>
<u>Cr Lease liability</u>		<u>CU1,259,204</u>
<u>Cr Revenue</u>		<u>CU199,995</u>
<u>Cr 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>Dr Building</u>	<u>CU1,800,000</u>	
<u>Dr 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>Dr <span style="color: red;">Surplus or deficit (Concession expense)</span></u>	<u>CU199,995</u>	
<u>Cr Cash</u>		<u>CU1,800,000</u>
<u>Cr Building (value of the rights transferred to the seller-lessee)</u>		<u>CU1,459,199</u>

Cr Building (unguaranteed residual value) CU340,801

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

DRAFT

### **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 on concessionary leases 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 on concessionary leases for both lessees and lessors, whereas GFS does not.

## Amendments to IPSAS 47, *Revenue*

Paragraphs 194A, 203A, AG153A–AG153B, AG202A–~~AG202K~~AG202J, BC141–~~BC151~~BCXX, IE1A–IE1J, IE296A, and IE308 are added. Paragraphs AG1 and AG154 are amended. The headings above paragraphs AG153A, AG202A, AG202C, AG202D, AG202F, ~~AG202H~~AG202G, BC141, IE1A, IE1B, IE1E, IE1H, IE296A, and IE308 are added. New text is underlined and deleted text is struck through.

## Effective Date and Transition

### Effective Date

...

194A. Paragraphs 194A, 203A, AG153A–AG153B, AG202A–AG202J were added and paragraphs AG1 and AG154 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48)* issued in August 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, IPSAS 47, and IPSAS 48 at the same time.

...

### Transition

...

203A. The transition requirements for right-of-use assets in ~~paragraphs 106–117, 123, and 124–126 of~~ IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

## Appendix A

### Application Guidance

*This Appendix is an integral part of IPSAS 47.*

AG1. This Application Guidance is organized into the following categories:

...

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

...

(va) Concessionary Leases for Lessees (paragraphs AG153A–AG153B):

...

(xiv) Bill-and-Hold Arrangements (paragraph AG199–AG202); and

(xv) Right-of-use Assets In-kind (paragraphs AG202A–~~AG202K~~AG202J); and

...

### Application of Principles to Specific Transactions

...

#### Concessionary Leases

AG153A. Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether any difference between present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue that should be accounted for in accordance with this Standard.

AG153B. Where a lessee determines that the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue, a lessee recognizes the difference as revenue, except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.

#### Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity received consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

...

(d) Right-of-use assets held by a lessee acquired through concessionary leases are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with IPSAS 43.

...

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

#### Identification

AG202A. Right-of-use assets in-kind are right-of-use assets received without consideration. 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 payments.

AG202B. Right-of-use assets in-kind are transfers of assets that one entity makes to another, either free from requirements or may be subject to certain obligations. The resource provider may be an entity or an individual. ~~For 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 right-of-use asset in-kind.~~

#### Recognition

AG202C. Right-of-use assets in-kind are recognized as assets in accordance with ~~paragraphs 18–25~~ IPSAS 16 or IPSAS 45 if they meet the definition of investment property or property, plant, and equipment, respectively. ~~and the~~ The timing ~~recognition~~ of revenue ~~recognition~~ depends on ~~whether they arise from a transaction with a binding arrangement~~ the nature of the compliance obligations.

#### Measurement

AG202D. On initial recognition, right-of-use assets in-kind are measured at the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43. If payments for the right-of-use assets in-kind at market rates based on the current use of the underlying asset are not readily available, the right-of-use asset in-kind shall be measured in accordance with paragraphs 24–26 of IPSAS 43.

AG202E. After initial recognition, an entity shall subsequently measure right-of-use assets in-kind in accordance with paragraphs 30–36 of IPSAS 43 for right-of-use assets.

#### Presentation

##### Display

AG202F. 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 an entity 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 ~~either:~~
  - (i) ~~that within which the~~The corresponding underlying assets would be presented if they were owned; or
  - ~~(i)~~(ii) Other right-of-use assets; and
- (b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.



~~AG202G. An entity may present right-of-use assets in-kind together with other right-of-use assets.~~

Disclosure

~~AG202H~~AG202G. An entity shall disclose in the notes to the general purpose financial statements the nature and type of major classes of right-of-use assets in-kind, showing separately major classes of right-of-use assets in-kind received.

~~AG202I~~AG202H. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:

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

~~AG202J~~AG202I. 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 AG202I for those right-of-use assets in-kind.

~~AG202K~~AG202J. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets in-kind.

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, IPSAS 47.*

...

**Revision of IPSAS 47 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in August 2024**

## **Introduction**

BC141. [The Basis for Conclusions will be discussed at the July 2024 Check-in meeting.]

DRAFT

## Illustrative Examples

*These illustrative examples accompany, but is not part of, IPSAS 47.*

...

### Scope

IE1A. Examples 0A–0D0C illustrate the requirements in paragraph 3(d) of IPSAS 47 to assess whether the arrangement is in the scope of IPSAS 47, rather than in the scope of IPSAS 43, *Leases*.

#### Example 0A – Access Rights

IE1B. A Government Agency (Agency) enters into an arrangement with a public sector entity (Customer) to convey the right to access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its activities. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.

IE1C. The Entity has determined that this arrangement is not a lease because there are no identified assets as the assets ~~can be changed~~ may be determined by the Entity.

IE1D. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide access to the land and cabins (as may be determined by the Entity), in exchange for an enforceable right to receive payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

#### Example 0B – Arrangements Allowing the Right to Use an Asset

IE1E. Municipality A (the Entity) enters into an arrangement to provide Government Agency X (Customer) the right to use the Entity's properties, which are specifically designed to deliver education services as part of a national program for certifying the qualifications of the labor force for a period of seven years, in exchange for transaction consideration that is paid monthly. Throughout the seven-year period, the Entity can and will change the buildings where the certification occurs according to its needs, as long as it gives the Customer a 30-day notice for the Customer's planning purposes.

IE1F. The Entity has determined that this arrangement is not a lease because the Entity has substantive substitution rights.

IE1G. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide the right to use its properties for the Customer to deliver education services in exchange for an enforceable right to receive payments from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0C – Shared Properties

- IE1H. Municipality A (the Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it to ~~their~~-its own activities. The Customer pays transaction consideration upfront each month, based on the number of days it plans to use the office space.
- IE1I. The Entity has determined that this arrangement is not a lease because the Entity has not transferred to the Customer the right to obtain substantially all of the economic benefits or service potential from the use of the floor.
- IE1J. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to share the use of the office space with the Customer, in exchange for an enforceable right to payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

...

**Application of Principles to Specific Transactions**

...

Concessionary Leases

Example 54A – Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IE296A. Public sector entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of 5 years. The Lessor does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

The lease stipulates that it should be paid ~~for~~ 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 the lessee. The lessee's incremental borrowing rate is 5 percent per annum, which is readily determinable by the lessee.~~

The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for 5 years. The compliance obligation is met on a straight-line basis.

### Analysis

It is a concessionary lease, as the present value of the payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The 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 revenue of CU6,900,000 is accounted for in accordance with IPSAS 47, 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 lessee 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>LiabilityBinding arrangement liability</u>	<u>CU6,900,000</u>

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

<u>Dr</u>	<u>LiabilityBinding arrangement liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Revenue</u>	<u>CU1,380,000</u>

(1/5 of the compliance obligation 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 lessee will recognize the following (the lessee subsequently measures the concessionary lease at amortized cost):

<u>Dr</u>	<u>LiabilityBinding arrangement liability</u>	<u>CU1,380,000</u>	
	<u>Cr</u>	<u>Revenue</u>	<u>CU1,380,000</u>

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

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

<u>Dr</u>	<u>LiabilityBinding</u>	<u>CU1,380,000</u>	
-----------	-------------------------	--------------------	--

arrangement liability

Cr    Revenue CU1,380,000

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

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

Dr    LiabilityBinding CU1,380,000  
       arrangement liability

Cr    Revenue CU1,380,000

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

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

Dr    LiabilityBinding CU1,380,000  
       arrangement liability

Cr    Revenue CU1,380,000

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

If the concessionary lease was granted with ~~no~~a compliance obligation that is met in the first year, the lessee would recognize the following on initial recognition:

Dr    Right-of-use asset CU23,000,000

Cr    Lease liability CU16,100,000

Cr    Revenue CU6,900,000

...

Right-of-Use Assets In-kind

Example 59 – Right-of-Use Assets In-kind

IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for 5 years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types or pricing of sports services ~~and their pricing~~ that Entity Z provides.

A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for 5 years and is considered market rates. This information is publicly available on the Government agency's website.

Entity Z's incremental borrowing rate is 5 percent per annum.

Case A – With a Binding Arrangement with Compliance Obligation Met over 5 Years

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, and that it has an enforceable obligation (because the Agency can terminate the arrangement if that field is not being used by youth at any time in the 5 years). Entity Z determines that the arrangement meets the definition of a binding arrangement, and it includes a

compliance obligation to ensure that only youth use the sports field. The compliance obligation is satisfied over time, on a straight-line basis.

Entity Z confirmed that the substance of the right-of-use is not a contribution from owners.

### **Analysis**

Entity Z acquired a right-of-use asset for zero consideration. The present value of payments at market rates is CU1,298,843 (refer to Table 1), which corresponds to the value of the right-of-use asset and total revenue. IPSAS 45 is applied to subsequently account for the right-of-use asset in-kind.

The journal entries to account for the right-of-use asset and revenue are as follows:

1. On initial recognition, the Entity Z will recognize the following:

Right-of-use asset CU1,298,843

Cr LiabilityBinding CU1,298,843  
arrangement liability

2. Year 1: Entity Z will recognize the following:

LiabilityBinding CU259,769  
arrangement liability

Cr Revenue CU259,769

(1/5 of the compliance obligation met by Entity Z CU1,298,843)

3. Year 2: Entity Z will recognize the following:

LiabilityBinding CU259,769  
arrangement liability

Cr Revenue CU259,769

(1/5 of the compliance obligation met CU1,298,843)

4. Year 3: Entity Z will recognize the following:

LiabilityBinding CU259,769  
arrangement liability

Cr Revenue CU259,769

(1/5 of the compliance obligation met CU1,298,843)

5. Year 4: Entity Z will recognize the following:

LiabilityBinding CU259,769  
arrangement liability

Cr Revenue CU259,769

(1/5 of the compliance obligation met CU1,298,843)

6. Year 5: Entity Z will recognize the following:

LiabilityBinding CU259,769  
arrangement liability

Cr Revenue CU259,769

(1/5 of the compliance obligation met CU1,298,843)

*Case B – Without a Binding Arrangement with a Compliance Obligation Met in the First Year*

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, ~~but there is no an enforceable obligation that is met in the first year (because the Agency is not able to force Entity Z to restrict use of the field to youth only). Thus, Entity Z determines that the arrangement is not a binding arrangement.~~

Dr Right-of-use asset CU1,298,843

Cr Revenue CU1,298,843

**Table 1: Annual Payments (Using Incremental Borrowing Rate of Z at 5%)**

	<u>Undiscounted Annual Payments for the Lease at Market Rates</u>	<u>Present Value of Payments at Market Rates (Value of Right- of-use asset and total revenue)</u>
	<u>(1)</u>	<u>(2)</u>
<u>Year 1</u>	<u>300,000</u>	<u>285,714</u>
<u>Year 2</u>	<u>300,000</u>	<u>272,109</u>
<u>Year 3</u>	<u>300,000</u>	<u>259,151</u>
<u>Year 4</u>	<u>300,000</u>	<u>246,811</u>
<u>Year 5</u>	<u>300,000</u>	<u>235,058</u>
<u>Total</u>	<u>1,500,000</u>	<u>1,298,843</u>



## AMENDMENTS TO IPSAS 48, *TRANSFER EXPENSES*

Paragraphs BC41–**BCXX** and IE12A–~~IE12F~~ IE12C are added. Paragraph IE2 is amended. The headings above paragraphs BC41, ~~and~~ IE12A ~~and IE12E~~ are added. New text is underlined.

### Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 48.*

...

**Revision of IPSAS 48 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48)* issued in August 2024.**

### Introduction

BC41. **[The Basis for Conclusions will be discussed at the July 2024 Check-in meeting.]**

## Illustrative Examples

*These examples accompany, but are not part of, IPSAS 48.*

...

### Scope

IE2. Examples 1–2A illustrate the requirements in paragraphs 3–5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

...

#### Example 2A – Right-of-Use Assets In-kind: Usage of A Sports Field for Zero Consideration

##### Case A—Usage of A Sports Field for Zero Consideration

IE12A. A Government Agency (~~Agency~~the Entity) enters into an arrangement with a public sector entity Z (Entity Z) for 5 years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types and pricing of sports services and their pricing that Entity Z provides.

~~IE12B. A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for 5 years. This information is publicly available on the Agency's website.~~

~~IE12C~~IE12B. The binding arrangement includes a compliance obligation, specifically the sports field should be used by youth. To the extent the compliance obligation is not met by Entity Z, the binding arrangement is cancelled, and the right to use the sports field returns to the Government agency. Entity Z's compliance obligation is met on a straight-line basis.

~~IE12D~~IE12C. The conveying of the right to use for free of a sports field is within the scope of IPSAS 48 because the Agency provides the right to use to Entity Z without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs. The transfer consideration is already reflected in the cost of resources to be transferred (see paragraph 30 of IPSAS 48), which may include depreciation, maintenance, and other costs.

##### Case B—Social Housing without Consideration

~~IE12E. The national government publishes new legislation which requires municipal governments to take action to reduce the number of homeless in their community. To implement the legislation requirements, Municipality Z (the Entity) engages with a public sector organization (Organization) to operate social housing services for the homeless in the local community. Under the 10-year arrangement, the Organization is able to use the Entity's 100 vacant social housing units (to temporarily house the homeless until they find a more permanent place to live) for zero consideration.~~

~~IE12F. The provision of the right to use social housing units to the Organization for zero consideration is within the scope of IPSAS 48 because the Entity provides services to the Organization without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would~~

~~measure the transfer expense using the cost of resources to be transferred (see paragraph 30),  
which may include depreciation, maintenance, and other costs.~~

DRAFT

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

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

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

Copyright © August 2024 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © August 2024 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

DRAFT