

08 March 2023

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Dear Sir/Madam

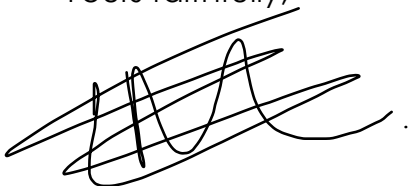
BOTSWANA ACCOUNTANCY OVERSIGHT AUTHORITY'S SUBMISSION ON IPSASB'S EXPOSURE DRAFT: CONCESSIONARY LEASES AND RIGHT - OF - USE ASSETS IN - KIND (AMENDMENTS TO IPSAS 43 AND IPSAS 23)

The Botswana Accountancy Oversight Authority (the Authority) takes this opportunity to comment on the IPSASB's Exposure Draft: Concessionary Leases and Right - of - Use Assets In - Kind (Amendments to IPSAS 43 and IPSAS 23)

Please refer to the Appendix to this letter to see our comments on the questions raised in this Request for Information.

If you would like to discuss our comments in detail kindly e-mail us at enkanga@baoa.org.bw or call us on +267 3919735.

Yours faithfully,



Ephifania Nkanga
Director, Technical

Appendix

Specific matter for comment 1

The IPSASB decided to propose new accounting guidance for concessionary leases for lessees (see paragraphs IPSAS 43. BC124-BC 137) and right of use assets in kind (see paragraphs IPSAS 23. BC28-BC 30). Do you agree with the proposed amendments to IPSAS 43 and IPSAS 23? If not, explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Response

We agree with the proposed amendments to IPSAS 43 and IPSAS 23. The amendment to IPSAS 43 of measuring the right of use asset in a concessionary lease at the present value of payments for the lease at market value based on the current use of the underlying assets is consistent with the fair value measurement basis and will not cause undue burden on the preparers. The standard has made an exception that preparers in a public sector can also use the contractual payments, in order to address the increased difficulty of measuring the right of use asset in a concessionary lease.

The proposed new accounting guidance in IPSAS 23, to create a new type of asset—the right of use asset in kind, is appropriate as it seeks to cover other arrangements which are not leases but similar to leases, that is, arrangements that conveyed the right to use an underlying asset for zero consideration.

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.

Response

The matter for comment states that the IPSASB has decided to adopt for lessors the same accounting treatment for concessionary leases as for normal leases and refers to Basis of Conclusion (BC) paragraphs 138-149.

These paragraphs, however, discuss the treatment of operating concessionary leases and financial concessionary leases and do not present an argument as to why concessionary leases should be treated in the same manner as non-concessionary leases. Given that the Exposure Draft elsewhere notes that concessionary right of use in kind asset leases may not be contractual, and,

therefore, may not represent a lease in accordance with IPSAS 43, it would seem inappropriate to apply the treatment of commercial leases to this type of concessionary lease, even if it is appropriate for concessionary leases which include some consideration. However, the Basis for Conclusions paragraphs do not explore this issue.

In addition, we note that the structure of the Basis for Conclusions paragraphs for lessors differs significantly to the paragraphs for lessees, with the former beginning with a discussion of valuation against cost or market value, while the latter begins by distinguishing between operating and finance leases. Both of these issues are significant for both lessors and lessees and there appears no obvious explanation for this divergence in layout.

We agree with the proposal, nonetheless, we, however, propose that the suggestions made above be taken into consideration because it is our opinion that the reasons stated in the Basis for Conclusions do not come out clearly and should be revisited.

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.

Response

We agree with the IPSASB proposal to initially measure rights-of-use assets in concessionary leases and rights-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.

However, the same concerns therefore apply, that the value of the current use of the asset (as opposed to the value of the asset per se) may be difficult to determine and ambiguity may lead to disagreements with auditors as to whether valuation has been conducted correctly.

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.

Response

We welcome the proposal for entities to use the present value of contractual payments as the basis for valuation of right of use assets when information on market rates is not readily available. This will help in simplifying/guiding valuations of complex assets which do not have available market information.

However, the Exposure Draft highlights that in the absence of consideration the lease arrangement may not represent a contract. It may also not include any stipulated payments. It is not clear what basis of valuation would be used in the event that the asset is provided in kind for a defined period with no consideration or payments required by the lessee.

General comment

IPSASB should consider providing guidance on how the lessee distinguishes between contribution from owners versus revenue from non-exchange transactions.
