



**MINISTÈRE  
DE L'ÉCONOMIE,  
DES FINANCES  
ET DE LA SOUVERAINETÉ  
INDUSTRIELLE ET NUMÉRIQUE**

*Liberté  
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**Le Président**

**Conseil de normalisation  
des comptes publics**

Paris, April 18, 2023

Mr Ross Smith  
Technical director  
International Public Sector Accounting  
Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th floor  
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**Re: Response to Exposure Draft ED84, *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)***

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft ED84, *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)* published in January 2023 (the ED).

We commend the IPSASB for addressing concessionary leases that are indeed specific to the public sector.

However, as already expressed in our previous comment letters on the Leases project (responses to ED64 and ED75), we find IPSAS 43 ill-suited for the public sector. This is due to the absence of symmetry between the lessor and the lessee and to the rights-based approach. We still question the added-value of the rights-based approach that blurs the responsibility of the entity that controls and manages the underlying physical asset.

We believe that phase II of the project has merits in helping scope-in concessionary leases that are specific to the public sector, and we agree with the proposed accounting treatment. However, more specifically for specialised assets, we believe that a qualitative assessment of the concessionary nature of the lease could be introduced as an additional step in the approach. Once leases have been qualified as concessionary leases based on that qualitative assessment, management may decide to recognise the non-exchange components applying paragraph AG61 or to apply the practical expedient set out in paragraph 26C and provide relevant

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disclosures. On that note, in the public interest, we would like to emphasise the critical importance of the practical expedient in paragraph 26C that we believe would allow preparers in the public sector to strike the right balance between good quality financial information and a favourable cost/benefit ratio.

Last but not least, while we appreciate the effort to introduce the notion of “right-of-use asset in-kind” based on the feedback received to the Request for Information (RFI), we note that this notion is not defined in the proposed amendment to IPSAS 23, therefore creating a risk of inconsistent application.

We present detailed responses to the Specific Matters for Comments in the appendix.

Yours sincerely,

Michel Prada

## APPENDIX

### ***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.*

With respect to concessionary leases, we agree that the accounting treatment in the proposed amendments to IPSAS 43 reflects well the economy of the transaction in the context of IPSAS 43. We would like to emphasise though that those proposed amendments are to be considered together with the practical expedient mentioned in paragraph 26C. This expedient is indeed critical in the public sector.

However, we believe that the concessionary nature of the lease should be first assessed from a qualitative perspective. Such an assessment would be usually facilitated by the existence, in the contracts, of obligations to act for the benefit of the public or to put forward the service potential of the underlying asset rather than the economic benefits that can be derived from its use. This qualitative assessment would notably ease the analysis of leases of specialised assets such as heritage assets, assets that cannot be sold, etc. for which the notion of "market terms" is complex to implement. Once leases on specialised assets have been qualified as concessionary based on that qualitative assessment, management may recognise the non-exchange components applying paragraph AG61 if market rates are readily available, else apply the practical expedient set out in paragraph 26C and provide relevant disclosures.

From the perspective of implementing the principles, our constituents note that market terms is a subjective call and is difficult to assess reliably, especially for those specialised assets for which market rates are not readily available. In practice, professional judgement used to assess market terms is based on hypotheses that we believe should be clearly required to be exposed in the notes to the financial statements. Therefore, we would appreciate if a requirement to disclose the basis for exercising professional judgement to assess market terms could be added to the list of disclosures.

On a detailed level, we would like to alert the IPSASB on the wording in paragraph 18A that we fail to fully understand. More specifically, we do not fully grasp to what the end of the sentence ("*...* including the level of consideration being exchanged.") refers to. In our opinion, determining the level of consideration being exchanged is the basis for assessing whether the transaction is at market terms or at below-market terms.

We would also suggest that paragraphs 18C and 18D should be reordered to flow better. Indeed, we think that a last paragraph stating "firstly" may create confusion as to the order of the steps to follow to determine the substance of the transaction.

In the Illustrative Examples and more specifically with regards to IE10A on Lessor measurement, we are unsure why the period of time mentioned in the last two paragraphs of the Analysis section is not consistent throughout the example. In other words, in the Analysis section of IE10A, we would suggest replacing “per month” and “monthly” with “per annum” and “annual” for internal consistency purposes within the example.

With respect to right-of-use assets in-kind, we would appreciate that more thoughts be given to the definition of that new notion introduced alongside gifts and donations, still bearing fundamental differences with those other elements referred to in IPSAS 23.93.

### ***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.*

We agree conceptually for consistency purposes.

With a view to share our experience, we do not see such situations happening in France as financial leases are carried out by financial institutions exclusively within the private sector.

Finally, we consider that paragraphs IPSAS 43.BC138-149 describe a rationale that is complex to grasp, and that AG 62(a) as currently worded does not reflect that complexity. We are concerned that this gap may lead to poor quality application of the requirements.

### ***Specific Matter for Comment 3***

*The IPSASB decided 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.*

We agree conceptually on that decision. However, our constituents question the application in practice of the measurement principle in those situations where right-of-use assets in-kind are concerned. Indeed, because there is no contractual payment, the expedient discussed in SMC4 cannot apply in those specific cases. Constituents would therefore appreciate further guidance in those situations that feature a right-of-use asset in-kind for which no market rate is readily available, namely for specialised assets.

#### **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 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.*

For the sake of simplicity and of a favourable cost/benefit ratio in the public sector, we fully agree with the IPSASB's proposal that when the payments for the lease at market rates based on the current use of the underlying asset are not readily available, right-of-use assets in concessionary leases should be measured initially at the present value of contractual payments for the lease.

With a view to help applying the practical expedient in the appropriate instances, we believe that the Board could also provide guidance as to what "readily available" means, namely by introducing in paragraph 26C the parallel with concessionary loans in IPSAS 41, *Financial Instruments*, so that users would know where to refer to.