



KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Exposure Draft 84,

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

***Comments on the Exposure Draft 84,
Concessionary Leases and Right-of-Use Assets
In-kind (Amendments to IPSAS 43 and IPSAS 23)***

May 17, 2023

May 17, 2023

Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

**Re: The comments on the Exposure Draft 84,
Concessionary Leases and Right-of-Use Assets In-kind
(Amendments to IPSAS 43 and IPSAS 23)**

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (GAFSC) at the Korea Institute of Public Finance (KIPF) appreciates the opportunity to comment on IPSASB's Exposure Draft 84 "Concessionary Leases and Right-of-Use Assets In-Kind".

Overall, we support IPSASB's approach toward the treatment of non-exchange lease transactions at below-market terms, i.e., concessionary leases and right-of-use assets in-kind. To elaborate on our opinion, we provide our responses to the Specific Matters for Comments in Appendix 1.

If you have any questions about our submission, please contact Jung-Hyuk Yim at +82 44 414 2553 or email him at junghyim@kipf.re.kr

Yours sincerely,



Park, Sung-Jin

Executive Director of GAFSC at KIPF

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.

We generally agree with IPSASB's proposal on the lessee's accounting treatment of concessionary leases and right-of-use assets in-kind. As indicated by the ongoing IPSASB Measurement Project related to the development of the current operational value (COV) measurement base, distinctive characteristics of public sector transactions may require special consideration of concessionary elements embedded in the below-market terms of the leases.

While IPSASB's proposed amendments adequately address this concern, we would like to suggest one minor change on page 35, para. 107A, which states "For right-of-use assets in-kind, **an entity shall disclose** in the notes to the general purpose financial statements the:

- (a) Depreciation charge; and
- (b) Carrying amount at the end of the reporting period by class of underlying asset".

We think that this paragraph may not always be clear to the users due to the following reason.

On page 33, para. 43A, it is stated that right-of-use assets in-kind are to be initially measured at the present value of payments for the leases at market rates based on the current use of the underlying asset in accordance with the requirements of IPSAS 43. At the same time, on page 8, para. 26C, it is also stated that when market rate-based lease payments are not readily available, lessees shall measure the right-of-use asset in the concessionary lease in accordance with, IPSAS 43 paragraphs 27-29.

However, IPSAS 43 paragraphs 27-29 are silent for leases with zero consideration (i.e., right-of-use assets in-kind). Given that IPSAS 43 para. 25 requires measuring right-of-use assets based on para. 27 (which is silent on zero payments), it becomes questionable on what basis the leases with zero payments and no applicable market rate-based lease payments can be measured. If the right-of-use assets in-kind are measured with zero value, they would have zero depreciation base and carrying amount, leaving no meaningful disclosure per para. 107A on page 35. If it was not intended to mandate all reporting entities for such disclosure, the paragraph can be modified to add "if applicable" or list depreciation charges and carrying amounts as "examples" of relevant information that need to be disclosed.

We acknowledge that the exercise of "professional judgment" is necessary to implement this principles-based lease accounting standard. Nonetheless, we believe that para. 107A on page 35 can be improved with additional clarifications.

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 fully agree with IPSASB's proposal on the treatment of concessionary finance and operating leases. We do not have any further opinions.

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 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.

Under the previously issued Exposure Draft 77 – Measurement, the current value model incorporating the current operational value (COV) method was proposed by introducing several principles and application of principles such as “existing asset”, “existing location”, “entry price (rather than exit price)”, and “entity-specific perspective”. These principles appear to be closely aligned with the notion of “current use of the underlying asset” described in the ED.

Given that IPSASB Measurement Project is currently working, IPSASB may need to consider cross-referencing the measurement rules in this Lease standard with the Measurement project.

Other than this, we agree with the proposed amendment of IPSAS 43.

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.

Yes, we agree with the proposed amendment for the initial measurement at the present value of (below-market rate) contractual payments in that case.