

May 15, 2023

Mr. Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

Comments on Exposure Draft 84 “Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23).”

Dear Mr. Smith,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Exposure Draft 84 “Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)” (hereafter “ED”).

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.

Comment:

We agree, except for the following point:

It is provided that an entity firstly assesses whether the substance of the concessionary loan is in fact a loan, a non-exchange transaction, a contribution from owners or a combination thereof (IPSAS 41.AG124).

On the other hand, however, there is no guidance for concessionary leases like the one above for concessionary loans. An entity should also be required to assess whether the substance of the concessionary lease is a non-exchange transaction, a contribution from owners or a combination thereof.

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.

Comment:

We agree, except for the following point:

It should be specified either in the Basis for Conclusions or Staff Questions and Answers that whether the cost of the concession can be capitalized or not.

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.

Comment:

We agree, except for the following points:

- (1) It should be clarified that whether paragraph 64A of IPSAS 43 requires a lessee to disclose “(a) the amount of the lease concession on initial recognition” only for the fiscal year in which the lease is initially recognized or at the end of every reporting period over the lease term.
- (2) It should be clarified whether the “current use” means the use for the lessor before the lease or the use for the lessee after the lease.
- (3) In addition to the disclosures required in paragraphs IPSAS 23.107A–107C, an entity should also be required to disclose “the purpose and terms of the various types of concessionary leases, including the nature of the concession” and “significant assumptions used in estimating the present value of the lease payments at market rates based on the current use of the underlying asset” as required in paragraphs IPSAS 43.64A (c) and (d).

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.

Comment:

We agree, except for the following point:

For the initial measurement of the right-of-use asset in a concessionary lease, it is allowed to use the contractual rates “if the payments for the lease at market rates based on the current use of the underlying asset are not readily available.” We are afraid that this exception may be abused because, in the public sector, underlying assets often have special uses, therefore, the market rates are not readily available. As such, the exception should be applicable only if it is “impracticable” to use market rates, rather than if they are “not readily available” in order to ensure the appropriate measurement of right-of-use assets at market rates and the disclosure thereof.

Yours sincerely,

Kaneko Yasushi

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants