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Submitted via website

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**Comments to IPSASB's  
ED 84 "Concessionary Leases and Right-of-Use Assets In-kind  
(Amendments to IPSAS 43 and IPSAS 23)"**

Dear Mr. Carruthers,

We are pleased to contribute to the development of public sector-specific guidance for the accounting for leases. We would first provide some general comments before we respond to the specific matters for comments of the ED.

In general, we support the IPSASB's proposals made in ED 84. Guidance in the area of concessionary leases and right-of-use assets in-kind will certainly be of help to preparers and auditors.

For clarity purposes, we suggest that a "concessionary lease" is defined in IPSAS 43 and a "right-of-use asset in-kind" in IPSAS 23 (as well as in the new IPSASs on revenue and transfer expenses).

In light of the forthcoming issuance of the IPSASs on Revenue and Transfer Expenses, it is important that the IPSASB considers whether it is necessary to issue a new Exposure Draft on Concessionary Leases and Right-of-Use Assets In-kind referring to those new standards. The reasons for that proposal are that IPSAS 23 will be replaced by the new revenue standard and that no guidance on the accounting for transfer expenses was in place when ED 84 was issued (e.g. the accounting from the perspective of a public sector lessor).

**SMC 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 agree with the proposed amendments to IPSAS 43 and IPSAS 23. The proposed approach is in line with other IPSASs, mainly IPSAS 23 or IPSAS 41 for the accounting of non-exchange transactions (e.g., concessionary loans).

We confirm that within a concessionary lease, an entity would have to measure the right to use regarding the underlying asset and not the underlying asset itself, and we agree with the proposed measurement approach.

However, we have identified the following improvement opportunity: BC127 (a) states that the proposed measurement for the right-of-use asset in a concessionary lease "present value of payments for the lease at market rates based on the current use of the underlying asset" is a measurement technique consistent with the fair value measurement basis. However, as it focuses on the current use and not the highest-and-best use, it is not fully consistent with the fair value measurement basis.

Furthermore, it is important to consider whether the underlying asset is used for its financial or operational capacity, to determine whether the market rates based on the current use or the highest-and-best use is appropriate. For instance, if an underlying asset is used for its financial capacity, the market rates based on the highest-and-best use is more relevant than those based on its current use. This distinction is already included in light of IPSAS 45, Property, Plant and Equipment.

**SMC 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 with the IPSASB's view to propose accounting for leases at below-market terms in the same way as for leases at market terms as the approach taken is in line with IFRS as well as in line with the existing IPSAS requirements.

However, given that leases rights and obligations are outside the scope of IPSAS 41, we suggest to clarify in BC138, that although the net investment in a finance lease is viewed as a financial instrument, it is not in the scope of IPSAS 41, *Financial Instruments*.

**SMC 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.**

We agree with the IPSASB's decision to initially measure right-of-use assets in concessionary leases and right-of-use assets in-kind at the present value of payments for the lease at market rates of the underlying asset as at the commencement date of the lease. However, we do think that whether the underlying asset is used for its financial or operational capacity should be considered in determining whether the current use or the highest-and-best use assumption is appropriate.

**SMC 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.**

Generally, we agree with the IPSASB's decision. However, we would suggest incorporating the "reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset" in the body of the Standard and not only mention it in the Basis for Conclusions.

In addition, the IPSASB could consider differentiating between those assets held for their operational and financial capacity:

- For those assets held for their operational capacity, the first choice would be the payments for the lease at market rates based on the current use. When the data is not available, the second choice would be the payments at market rates based on the highest and best use, and the third choice would be using the contractual payments.
- For those assets held for their financial capacity, the first choice would be the payments for the lease at market rates based on the highest-and-best use. When the data is not available, the second choice would be the payments at market rates based on the current use, and the third choice would be using the contractual payments.

Sincerely,



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Partner and Global Leader of Public Sector Accounting

Ernst & Young GmbH  
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