



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

MARIO G. LIPANA
Commissioner
Officer-in-Charge

May 5, 2023

Mr. IAN CARRUTHERS
Chair
International Public Sector Accounting Standards Board (IPSASB)

Dear **Mr. Carruthers**:

Relative to the release by the IPSASB of Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)*, we are submitting the comments/inputs of this Commission on the said ED.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Mario G. Lipana', written over the text 'Very truly yours,'. The signature is fluid and cursive, with a long vertical stroke extending downwards from the end of the signature.



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

Government Accountancy Sector
Accounting Systems Development and Other Services Office

Comments and Recommendations

Subject: IPSASB's Exposure Draft 84, *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)*

Date : March 17, 2023

PROVISION	COMMENT(S) AND RECOMMENDATION(S)
<p>Specific Matter for Comment 1:</p> <p>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.</p>	<p>We agree with the proposed amendments to IPSAS 43 and IPSAS 23 which provide new accounting guidance for concessionary leases for lessees and right-of-use assets in-kind. As can be seen in the Feedback Statement for <i>Other Lease-Type Arrangements</i>, concessionary leases are prevalent in the public sector, which is why the proposed guidance on identification, classification, recognition, measurement and disclosures of concessionary leases will be of great help to end-users of the IPSASs.</p> <p>The new policies introduced will explain to the lessees the rationale of proposing 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, as the initial measurement of the related right-of-use asset.</p> <p>The illustrative examples will also serve as additional guidance to the lessees and may facilitate the possible implementation of this new accounting policy to their respective concessionary leases.</p> <p>Similarly, the consequential amendment to IPSAS 23 to provide guidance on revenue recognition of the concession component in concessionary leases for lessees and the guidance on the identification, recognition, measurement, and disclosures of right-of-use assets in kind and on the revenue recognition of the concession are</p>

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	<p>also a welcome addition to the existing guidance on the relevant IPSASs.</p> <p>While we deemed that the explanations provided in the Basis for Conclusions (BCs), both for the amendments to IPSAS 43 and IPSAS 23, sufficiently discussed the actions taken by the IPSASB in coming up with the new accounting guidance, we suggest the following:</p> <ol style="list-style-type: none"> 1. As to the proposed amendments to IPSAS 23, including additional provisions to elaborate further on the right-of-use assets in-kind for ease implementation of the policy. 2. Adding more discussions on the determination of concessionary leases and/or lease contract below- market terms in addition to 18A- 18D and AG 60-62. 3. Considering the application of materiality test or percentage difference threshold in identifying leases below-market terms. The sample cases in IG60 and IE5 highlight the 30% difference while Example 10A had a glaring 85% difference. 4. Clarifying whether the goals/intent of the parties in entering into a contract of lease has weight in the determination of concessionary leases since all the examples seem to include the reasons of the lessors in granting the lease.
<p>Specific Matter for Comment 2:</p> <p>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.</p>	<p>We agree with the decision of IPSASB to propose accounting for lessors of leases at below-market terms in the same way as for leases at market terms based on the additional provisions in the BC138-BC149 of IPSAS 43 as this is deemed the most practical and most realistic to be used by lessors. However, for clarity, we recommend specifying whether BC148 pertains to concessionary operating lease or concessionary finance lease, <i>to wit</i>:</p> <p><i>“BC148. The IPSASB concluded that the cost of the concession will be the difference between the:</i></p> <ol style="list-style-type: none"> <i>(a) Depreciation of the underlying asset,</i> <i>other expenses related to the underlying asset,</i>

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	<p><i>and the impairment charge related to the underlying asset, if any; and</i></p> <p><i>(b) Revenue obtained in the lease payments received from the lessee.”</i></p> <p>We likewise suggest the following:</p> <ol style="list-style-type: none"> 1. Providing additional provisions in the Basis for Conclusions in cases of concessionary operating leases wherein the lessee made default payments and how it would affect the amount to be recognized by lessors. 2. Completing the illustrative example provided in Example 10A by illustrating the accounting requirements on leases at below-market terms in the lessor’s books for finance lease. 3. Providing provision on sample transaction illustrating BC146 (either by completing the Example 10A) showing recognition of loss by the lessors, related with the derecognition of the underlying asset in a concessionary finance lease.
<p>Specific Matter for Comment 3:</p> <p>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 the 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.</p>	<p>Concessionary leases are leases often entered into by an entity at below-market terms. As such, we concur with the proposals of the IPSASB as we deem it more appropriate to measure the right-of-use assets in concessionary leases and the right-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, instead of measuring these assets using the new fair value which implies a new definition associated with the definition of highest and best use.</p> <p>Obtaining the highest and best use of an asset would mean that there may be other possible uses of the asset aside from the lease, where in fact, the right-of-use asset represents only the lessee’s right to use an underlying asset for the lease term.</p>
<p>Specific Matter for Comment 4:</p> <p>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</p>	<p>We agree with the IPSASB’s proposal to initially measure the right-of-use assets in concessionary leases at the present value of contractual payments for the lease when the payments for the lease at market rates based on the current use of the underlying asset are not readily available.</p>

PROVISION	COMMENT(S) AND RECOMMENDATION(S)
<p>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.</p>	<p>However, paragraph 26C in the ED stated that if payments for the lease at market rates based on the current use of the underlying asset are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24-26, which provide the measurement of right-of-use asset at cost. This is inconsistent with BC132 that requires the measurement of the right-of-use asset as a result of a concessionary lease using the contractual payments if payments for the lease at market rates based on the current use of the underlying asset is not readily available. Thus, we recommend the revision of paragraph 26C in accordance with BC132, unless the term “contractual payments” is also considered as the cost of the right-of-use asset, which composition is provided in paragraph 25 of IPSAS 43, <i>Leases</i>.</p> <p>Further, we suggest providing additional discussions/justifications in the Basis for Conclusions for clear guidance, just in case that the provision on the <i>present value of contractual payments for the lease</i> will be used as measurement for the right-of-use assets for concessionary leases, when the payments for the lease at market rates based on the current use of the underlying asset are not readily available.</p>
<p><i>EXPOSURE DRAFT 84, CONCESSIONARY LEASES AND RIGHT-OF-USE ASSETS IN-KIND (AMENDMENTS TO IPSAS 43 AND IPSAS 23)</i></p> <p><i>Page 7</i></p> <p><u>18B. xxx. In other circumstances, such as when an entity enters into a lease at below-market terms, the lease is a concessionary lease. In this case, the lease can have exchange and non-exchange components. In determining whether a lease has an identifiable exchange or non-exchange component on initial recognition, professional judgment is exercised.</u></p>	<p>We recommend providing additional guidance in instances where the exchange and non-exchange components cannot be distinguished separately.</p>

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<p><i>Page 13</i></p> <p>AG32B. The diagram below establishes the classification, scope, and recognition of leases for lessors.</p> <div style="border: 1px dashed black; padding: 10px; margin: 10px auto; width: fit-content;"> <table style="border-collapse: collapse; width: 100%;"> <tr> <td style="border: 1px solid black; padding: 5px; width: 50%; text-align: center;"> Gross investment in lease = lease payments + unguaranteed residual value (paragraph 5) </td> <td style="text-align: center; vertical-align: middle; padding: 0 10px;">Minus</td> <td style="border: 1px solid black; padding: 5px; width: 50%; text-align: center;"> Unearned finance revenue = gross investment in lease, less present value of gross investment in lease (paragraph 5) </td> </tr> </table> </div>	Gross investment in lease = lease payments + unguaranteed residual value (paragraph 5)	Minus	Unearned finance revenue = gross investment in lease, less present value of gross investment in lease (paragraph 5)	<p>To be consistent with the definition of terms as contained under paragraph 5 of IPSAS 43, <i>Leases</i>, we recommend the following revisions in the diagram:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 5px;"> Gross investment in lease = lease payments <u>plus</u> unguaranteed residual value (paragraph 5) </td> <td style="text-align: center; vertical-align: middle; padding: 5px;"><u>Less</u></td> <td style="padding: 5px;"> Unearned finance revenue = gross investment in lease, less <u>net investment in the lease</u> (present value of gross investment in lease) (paragraph 5) </td> </tr> </table>	Gross investment in lease = lease payments <u>plus</u> unguaranteed residual value (paragraph 5)	<u>Less</u>	Unearned finance revenue = gross investment in lease, less <u>net investment in the lease</u> (present value of gross investment in lease) (paragraph 5)
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Gross investment in lease = lease payments <u>plus</u> unguaranteed residual value (paragraph 5)	<u>Less</u>	Unearned finance revenue = gross investment in lease, less <u>net investment in the lease</u> (present value of gross investment in lease) (paragraph 5)					
<p><i>Page 20</i></p> <p><u>BC139. In a finance lease, the substance or main issue of the lease is the underlying asset being transferred with the attached financing (net investment in the lease). The accounting for the transfer of the underlying asset is made in accordance with IPSAS 16, IPSAS 17, and IPSAS 31 as appropriate. Xxx.</u></p> <p><u>BC143. For concessionary finance leases, the IPSASB decided to continue measuring the transfer of the underlying asset to the lessee at its carrying amount because it is:</u></p> <p style="padding-left: 40px;"><u>(a) Xxx</u></p> <p><u>Consistent with the derecognition principles in IPSAS 16, <i>Investment Property</i>, IPSAS 17, <i>Property, Plant and Equipment</i>, and IPSAS 31, <i>Intangible Assets</i> for disposals.</u></p>	<p>We recommend to be consistent whether or not to specify IPSAS titles in the additional Basis for Conclusions of IPSAS 43.</p>						
<p><i>Page 23</i></p> <p><u><i>Example 10B–Lease Incentives</i></u></p> <p><u><i>Private sector entity Y (Lessor) has for lease ten units in a building for office</i></u></p>	<p>We recommend rephrasing Illustrative Example 10B-Lease Incentives for clarity, as well as removing the repeated terms "(Lessee)" and "(Lessor)" to be consistent with other illustrative examples, as follows:</p>						

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<p><u>operations for CU110,000 per month. Government agency X (Lessee) is interested to lease those ten units because it is vacant for a prolonged period of time, and the Government entity has lesser credit risk. Government agency X (Lessee) ended up entering into the lease because private sector entity Y (Lessor) reduced the price of the lease payments by CY5,000 per month.</u></p>	<p><u>Example 10B–Lease Incentives</u></p> <p><u>Private sector entity Y (Lessor) has ten units for lease in a building for office operations for CU110,000 per month. Government agency X (Lessee) is interested to lease those ten units because it has been vacant for a prolonged period of time, and the entity has lesser credit risk. Government agency X ended up entering into the lease because private sector entity Y reduced the price of the lease payments by CY5,000 per month.</u></p>																								
<p>Page 24</p> <p>Lessee Measurement (see paragraphs 19-42, xxx)</p>	<p>While it is provided in the title that the illustrative example in IE5 provides only an illustration on how a lessee measures right-of-use assets, lease liabilities and concessionary leases, we recommend providing the illustrative example for the counterpart accounting treatment on the part of the lessor, for complete guidance of the intended users of the standard.</p>																								
<p>Pages 25-26</p> <p><u>Journal entries to account for the concessionary lease from numbers 1-6.</u></p> <p><u>The journal entries to account for the concessionary lease are as follows:</u></p> <p><u>1. On initial recognition, the entity recognizes the following (the entity subsequently measures concessionary lease at amortized cost):</u></p> <table border="0" data-bbox="236 1429 719 1619"> <tr> <td>Dr</td> <td>Right-of-use asset</td> <td>23,000,000</td> <td>.</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Cr Lease liability (refer to Table 1 below)</td> <td></td> <td>16,100,00</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Cr Liability (refer to Table 1 below)</td> <td></td> <td>6,900,000</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>	Dr	Right-of-use asset	23,000,000	.						Cr Lease liability (refer to Table 1 below)		16,100,00						Cr Liability (refer to Table 1 below)		6,900,000					<p>For consistency with Illustrative Examples of other IPSASs, we recommend inserting CU before the debit and credit amounts in numbers 1-6 of the journal entries to account for the concessionary lease, e.g., CU23,000,000, CU16,100,000 and CU6,900,000.</p>
Dr	Right-of-use asset	23,000,000	.																						
	Cr Lease liability (refer to Table 1 below)		16,100,00																						
	Cr Liability (refer to Table 1 below)		6,900,000																						
<p>Page 27 of the PDF</p> <p>Lessor Measurement (see paragraphs 71A, 81A, xxx)</p>	<p>While it is provided in the title that the illustrative example in IE10A provides only an illustration on how a lessor measures and accounts for concessionary leases, we recommend providing the illustrative example for the counterpart accounting treatment on the part of the lessee, for complete guidance of the intended users of the standard.</p>																								