17 May 2023

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

Dear Ross

**ED 84 Concessionary Leases and Right-of-Use Assets In-Kind**

Thank you for the opportunity to comment on ED 84 *Concessionary Leases and Right-of-Use Assets In-Kind* (ED 84). ED 84 has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

We disagree with the proposals in ED 84 for several reasons:

- It is not clear that there are significant unmet user needs or public financial management issues with respect to concessionary leases.
- ED 84 makes an arbitrary distinction between concessionary leases and other lease-like arrangements, resulting in different accounting outcomes for arrangements of similar substance.
- The number of concessionary leases that will be accounted for at market rates in practice under ED 84 will be limited to a small subset of leases; the costs of application would outweigh the benefits.
- Concessionary leases have commonalities with service concession arrangements and services in-kind. As such, it is inappropriate to ignore these analogies when developing accounting requirements for concessionary leases to fit within the IPSAS suite.

Rather than performing standard setting on concessionary leases, we recommend that the IPSASB develops guidance materials highlighting existing requirements, explores service performance reporting and allows entities to recognise concessionary leases at cost as currently required under IPSAS 43 *Leases*.

The full reasoning for our recommendation is set out in Appendix A. If you have any queries or require clarification of any matters in this letter, please contact Jamie Cattell ([Jamie.Cattell@xrb.govt.nz](mailto:Jamie.Cattell@xrb.govt.nz)) or me.

Yours sincerely,

Carolyn Cordery
Chair – New Zealand Accounting Standards Board
Appendix A

Executive summary

We disagree with the proposals in ED 84 for several reasons, as summarised below:

(a) **User needs** – The user information need that the proposals in ED 84 aims to meet has not been clearly identified or explained by the IPSASB. Based on our targeted consultation, current accounting practice does not result in significant unmet user needs in New Zealand. Further, our stakeholders considered that the existing requirements in other IPSASs already require entities to disclose information about concessionary leases.

(b) **Public Sector Financial Management** – Public sector entities are more likely to be the lessor in a concessionary lease and therefore continue recognising the underlying asset in the statement of financial position. Our targeted consultation showed that in New Zealand lessors undertake robust governance and management oversight processes with respect to concessionary leases. The proposals in ED 84, which focus on the lessee side, will not improve public sector financial management.

(c) **Scope of the ED** – the IPSASB needs to adequately consider the substance of concessionary leases and their role in the public sector, rather than draw an arbitrary distinction based on their legal form. Additionally, the scope of concessionary leases that will be accounted for at market rates in practice under ED 84 will be limited to a small subset of leases while imposing significant costs on preparers.

(d) **Conceptual rationale** – We do not agree that all concessionary arrangements which meet the definition of a lease in IPSAS 43 are financing transactions, nor do we agree that a donated asset is the only appropriate analogy. Concessionary leases are typically viewed as a means to achieve particular objectives. We consider that services in-kind and service concession arrangements are also appropriate analogies, both of which imply different accounting treatment than that proposed in ED 84.

Considering the matters described in (a) – (d) above, it is not clear that there is a user need significant enough to warrant standard setting specific to concessionary leases, nor do the proposals in ED 84 adequately reflect the substance of many concessionary leases. Instead of pursuing standard setting, we recommend:

(a) Developing guidance material which highlights the existing standards which may require disclosures of concessionary leases, including IPSAS 20 *Related Party Transactions*, going concern disclosures under IPSAS 1 *Presentation of Financial Statements*, and presentation as a separate class of assets under IPSAS 43.

(b) Considering service performance reporting and whether its ability to reflect how concessionary leases achieve a public sector entity’s objectives could more comprehensively meet user needs.

If the IPSASB determines that standard setting specifically related to concessionary leases is needed, more work is required to consider the appropriate scope of ED 84 and what the appropriate accounting requirements are. In this respect, we recommend that concessionary leases and ROU assets in-kind should be accounted for at cost and supported with additional disclosures which is consistent with the core requirements of IPSAS 43 *Leases*, IPSAS 47 *Revenue*, and aligns with the primary objective of public sector measurement outlined in IPSAS 46 *Measurement*.
User needs

1. From a user needs perspective, we are concerned that it has not been clearly articulated what problem the proposals in ED 84 are trying to solve. To identify whether there is an issue with current accounting practice, we conducted targeted consultation with key stakeholders and queried whether they considered there are unmet user needs with respect to concessionary leases.

2. In general, the feedback we received was that there are not any significant issues with the information users were receiving about concessionary leases. However, it was noted that there may be circumstances in which more information would benefit users. The following examples were identified.

   (a) Funding decisions based on the assets available to a lessee – although it was also noted that in these circumstances, funders typically have the power to compel the lessee to produce additional information.

   (b) Providing concessionary leases is part of a lessor’s key activities.

   (c) A lessee is reliant on a concessionary lease to carry out their key activities or to continue operating.

   (d) A concessionary lease is provided by a lessor in inappropriate circumstances.

3. We queried with stakeholders what information they considered that users needed about concessionary leases in the above circumstances. The following information was identified.

   (a) Details of the underlying asset.

   (b) The nature of the concession.

   (c) The period of the lease.

   (d) Any relevant conditions or restrictions.

   (e) Degree of reliance on the underlying asset.

4. A generally held view was that there were already several mechanisms in place through which users could obtain information about concessionary leases both outside and within general purpose financial reports (GPFRs). Due to these existing mechanisms stakeholders did not consider that additional requirements are needed. However, they also suggested that if additional information was needed, it would be most effectively provided by disclosures.

5. We acknowledge that ED 84 proposes additional disclosures for concessionary leases and ROU assets in-kind from both the lessee and lessor perspective of the purpose and terms of the various types of concessionary leases, including the nature of the concessions. We support the intention underpinning these disclosures as they reflect our stakeholder’s views of the information that should be disclosed for concessionary leases and ROU assets in-kind. However, we do not consider amendments to IPSAS 43 are necessary to provide a mechanism for these disclosures nor should they be confined to the narrow scope of arrangements covered by ED 84.
6. Stakeholders raised the following examples of how information about concessionary leases could currently be provided within GPFRs, further details of each along with specific references have been provided in Appendix B. We have not summarised the mechanisms outside GPFRs because they arise from New Zealand specific legislation.

**Statement of service performance**

7. In New Zealand we consider that lessors and lessees could be required to provide information about concessionary leases as part of their statement of service performance. For lessees, such disclosures would be relevant when the goods or services provided are reliant on an asset subject to a concessionary lease. For lessors they would be relevant where providing concessionary leases is in alignment with the entity’s service performance objectives.

8. The IPSASB does not currently require the provision of service performance information. Instead, this information could be incorporated by entities optionally applying IPSASB RPG-3.

**Related party transaction disclosures**

9. We consider that the requirements in IPSAS 20 Related Party Transactions may be relevant where there is a risk of an entity inappropriately providing concessionary leases. By their nature, concessionary leases are not on ordinary terms and conditions, and we consider there is a greater risk that one would be granted in inappropriate circumstances when a related party is involved than between unrelated parties.

**Going concern**

10. We consider that in circumstances where an entity is reliant on a concessionary lease to continue in operation, disclosures about the concessionary lease would be required under the requirements in IPSAS 1 Presentation of Financial Statements. Specifically, an entity in this circumstance, would be required to disclose any material uncertainties and any judgements made about the concessionary lease when assessing the entity as a going concern.

**Presentation as a separate class of assets**

11. Finally, where an entity is party to a lease, they are already required to disclose information so that users of financial statements can assess the effect that leases have on the entity’s financial position, performance, and cash flows. Additional qualitative and quantitative information about leasing activities should be provided where necessary to achieve this objective. We consider that concessionary leases are already captured by these requirements and where relevant should be presented separately from other leases with additional qualitative and quantitative information as necessary.

12. The requirements in IPSAS for the mechanisms within GPFRs above have been summarised in Appendix B. While these requirements are clearly stated within the related IPSAS, additional guidance highlighting the requirements and how they apply to concessionary leases (and other lease-like arrangements) would be helpful for preparers when determining what disclosures they should make about concessionary leases and where in their GPFRs they need to disclose it.
13. The proposals in ED 84 assume that recognising concessionary leases and ROU assets in-kind as assets in the statement of financial position will improve public sector financial management. However, it is not clear to us why this would be the case or how it will be achieved. One possible reason could be application of the “what gets measured gets managed” mantra.

14. Assuming that this is the primary argument for how the proposals in ED 84 will lead to improved public financial management, we have two primary concerns.

15. First, we do not consider it is obvious that the mantra is applicable with respect to concessionary leases. If the mantra is the reason, this implies that there is something that is not being measured. However, in most cases the underlying asset in a concessionary lease remains recognised by the lessor. Therefore, the underlying asset in a concessionary lease is already being measured and managed by virtue of its continued recognition as an asset on the statement of financial position.

16. This is consistent with our targeted consultation, in which constituents noted that there are generally robust governance processes established in relation to the granting of concessionary leases by public sector entities. These processes ensure formal application, approval, and monitoring processes are being followed when granting concessionary leases over public sector property.

17. While new accounting requirements can lead to improved governance and management processes, this is not their primary objective. The main goal of accounting standards is to provide useful information to users of general-purpose financial reports. Improvements in governance and management can be a welcome side effect of a new standard but should not be the primary driver for its development.

18. Second, we consider that in a concessionary lease public sector entities are more likely to be the lessor than the lessee. To improve public financial management, the proposals in ED 84 would therefore need to focus on measuring the effect of the transaction from the lessor side. However, we note that the burden of the proposals in ED 84, if adopted, would overwhelmingly fall on the lessee. In fact, under the proposals in ED 84, lessors would face minimal change from current accounting practice. We therefore find it difficult to identify how the proposals could improve any public financial management issues.
Scope of the ED

19. We have two primary concerns with the scope of ED 84

   (i) the overarching scope of the ED and specifically the distinction between concessionary leases and other lease-like arrangements.

   (ii) the number of concessionary leases that would be measured at market rates in practice will be very limited because market rates based on current use are typically not readily available.

Overarching scope concerns

20. Throughout our targeted consultation a topic of frequent comment was the scope of what is a concessionary lease under the proposals in ED 84. Our stakeholders noted that some of the lease-like arrangements which the IPSASB previously consulted on are not included in the proposals. Further, they frequently raised examples of arrangements which would likely not meet the definition of a lease in IPSAS 43 because:

   (a) the lease term is in perpetuity, or the term is undefined - for example, a lease agreement for a scout hall or a school may not have a specified lease term.

   (b) the lessee does not have the right to direct the use of the underlying asset - for example, a government agency may provide a building for use by a not-for-profit organisation but retain control over the principal use of the building.

21. We acknowledge that arrangements with similar characteristics are discussed in the feedback statement published alongside ED 84. However, the frequency with which these other arrangements are thought of as concessionary leases leaves us concerned that there is a deeper conceptual issue here and that the distinction drawn is an arbitrary one, based on the legal form of the arrangements over their economic substance.

22. The approach taken in developing ED 84 started with the private sector conception of leases and then scoped out arrangements which did not fit that template. From our consultations with stakeholders, their perspective of concessionary leases does not align with the private sector perception of leases as only being financing transactions. Instead, their perspective of concessionary leases could be described as transactions in which the rights associated with an asset are transferred primarily as a means to achieve particular objectives, rather than as a means of financing.

23. Their objective focused nature means reporting on concessionary leases will sit more comfortably as part of service performance than as part of financial statements. In its focus on the private sector perspective of leases, ED 84 misses the opportunity to consider these arrangements from this objective focused perspective.

Scope of what will be measured at market rates

24. For those agreements that do meet the definition of a lease, in many cases market rates will not be readily available. For many concessionary leases in New Zealand, the assets are specialised which compounds the difficulty of identifying a market rate for the asset itself, let alone what payments for a lease over that asset at market rates would be. For example, a dental clinic on school grounds or a surf
These circumstances are contemplated by ED 84, which allows for an entity to recognise the lease based on the contract payments where payments for the lease at market rates are not readily available. While readily available is not clearly defined, the Basis for Conclusions makes it clear that entities are expected to apply reasonable effort before concluding that this is the case.

As a result, we are concerned that only a small subset of arrangements which meet the definition of a lease will end up being recognised at the present value of payments for the lease at market rates based on current use. We are therefore concerned that significant cost and effort will be expended to demonstrate that market rates for those arrangements are not readily available.

We consider that both scope issues discussed above present a significant risk of inconsistency. From a conceptual perspective we are concerned that ED 84 and any subsequent requirements developed for other lease-like arrangements could result in two transactions with similar economic substance being treated differently. From a practical perspective, due to both the degree of effort involved and the ambiguity over the meaning of readily available, two entities which have similar lease agreements for similarly specialised assets may arrive at different assessments of market rates (or the lack thereof) due to differences in their interpretation or methodology.

**Conceptual rationale in ED 84**

28. Based on our understanding of the project and the proposals it appears to us that there are two key conceptual assumptions underpinning the IPSASB’s approach to accounting for concessionary leases and right-of-use (ROU) assets in-kind in ED 84.

   (a) Concessionary leases are financing transactions; and

   (b) Concessionary leases and ROU assets in-kind are analogous to donated assets (and the concessionary component should therefore be measured at fair value).

29. Setting aside our broader concerns about the scope above, we also disagree with applying these assumptions broadly to concessionary leases and ROU assets in-kind in the public sector.

**Concessionary leases are not financing transactions**

30. IFRS 16 was developed with the rationale that leases are fundamentally a form of financing, and that financing belongs on the balance sheet. As IPSAS 43 is closely aligned with IFRS 16 and covers the same transactions this rationale has been applied. However, extending that rationale to other transactions without critically examining their underlying economic reality is, in our view, a fundamental error.

31. We consider that most concessionary leases in the public sector are not financing transactions analogous to concessionary loans or non-concessionary leases. This is because the objectives of the parties when entering into concessionary leases are fundamentally different from those of non-concessionary leases or concessionary loans.
32. From a lessee’s perspective, a concessionary lease is often the only means of obtaining access to an asset that is not commercially available. In other words, without the concessionary lease, the lessee would not be able to carry out the intended activity. For example, consider a surf lifesaving tower provided by a Council on an area of beach which cannot otherwise be leased. In these cases, the transaction is about access, not financing.

33. From a lessor’s perspective, a concessionary lease is usually entered into because the lessee intends to carry out an activity that indirectly benefits the lessor. For instance, the activity may complement an existing activity carried out by the lessor or be an activity that the lessor would otherwise need to carry out themselves. Where the latter is the case, the lessor likely expects that another entity (typically a not-for-profit who may have volunteers) can use the asset to deliver the service more effectively but wants to retain ownership of the asset rather than donating it. This is different from a lease at market rates, where the lessor’s objective is to make a financial return from the transaction.

34. In many cases, the lessee’s objectives enable the lessor to further their own objectives and therefore providing use of an asset at below market terms is simply how that objective is achieved. In other cases, the lessor provides the lease at concessionary rates because they believe that the lessee’s objectives are beneficial for the community. In either case, the underlying driver of the transaction is supporting the achievement of the lessee’s objectives rather than the desire to provide resources at below market rates.

**Concessionary leases and ROU assets in-kind are not analogous to donated assets**

35. We understand the IPSASB’s view is that concessionary leases and ROU assets in-kind are analogous to donated assets because both a donated asset and a concessionary lease result in an entity obtaining the ability to use an asset at below market terms. However, we do not consider that this is the only analogy worth considering and rather there are other analogies within the full suite of IPSAS that may, individually or collectively, provide a better understanding.

36. Specifically, we consider the following are highly relevant to the topic of concessionary leases.

   (a) Services in-kind – where a service is being provided without receiving any good, service, or other asset in return.

   (b) Service concession arrangements – an arrangement between a grantor and an operator in which the operator uses the service concession asset (from the grantor) to provide a public service on behalf of the grantor for a specified period of time and the operator is compensated for its services.

37. There are two key reasons for our view, both of which reflect that there is a significant difference in the outcome of a concessionary lease when compared with a donated asset. First is the simple observation that, unlike a donated asset, a concessionary lease does not commonly result in the underlying asset being recognised by the lessee.¹ This is consistent with the two analogies above. In the case of services in-kind, any underlying asset used to provide the services either remains recognised by the transferor or is consumed in the process of providing the services. In a service concession arrangement, while the

¹ While it is possible that a concessionary lease could be a finance lease from the perspective of the lessor, (which would result in the underlying asset being derecognised by the lessor) our understanding is that these cases are exceptionally rare.
character of the underlying asset may be changed through reclassification as a service concession asset, it remains recognised by the grantor.

38. Second, even though a concessionary lease does involve the transfer of substantially all of the service potential of an asset to the lessee (for the duration of the lease), it often enables the lessor to retain some control over how that service potential is realised.

39. For example, the terms of the lease establishing the authorised use are usually more restrictive with a concessionary lease than a non-concessionary lease to ensure the asset is used in a manner that fulfils the lessor’s objectives. In some cases, the terms are specific that the asset must be used to provide specific services to specific people. Not only is this evocative of a service concession arrangement, but it is also consistent with the kind of control retained by a transferor of services in-kind in which the service potential is received by the entity subject to the discretion of the transferor.

Possible alternative accounting treatments consistent with IPSAS

40. For the reasons discussed above, our view is that donated assets is not the only relevant analogy in the current IPSAS suite of standards. Rather we consider there are three analogies, all of which warrant further collective consideration in the context of concessionary leases.

(a) Gifts, donations, and goods in-kind.

(b) Services in-kind.

(c) Service concession arrangements.

41. Their accounting treatment has been summarised in Appendix C. Note; in Appendix C and the discussion below we have referred to the forthcoming standards IPSAS 46 Measurement, and IPSAS 47 Revenue where relevant.

42. Donated assets under IPSAS 23 are required to be measured at fair value. However, under that standard and in the forthcoming IPSAS 47 Revenue, an entity is only required to recognise a donated asset at fair value, but not a donated service (services in-kind).

43. We note that entities are not currently required to recognise services in-kind as an asset and revenue, although an entity may elect to do so where they meet the definition of an asset and satisfy the recognition criteria. Under IPSAS 47 Revenue, these requirements are retained and supported with further rationale. IPSAS 47 explains that some services in-kind cannot be recognised as an asset because:

(a) they do not meet the definition of an asset as the entity has insufficient control over the services provided; or

(b) they do not meet the recognition criteria because the entity is unable to measure them reliably – In many instances, services in-kind are rendered by persons with little or no training and are therefore fundamentally different from the services the entity would acquire if the services in-kind were not available.

It is due to these uncertainties surrounding services in-kind that IPSAS generally does not require their recognition. However, an entity that elects to recognise services in-kind as an asset is required to measure the asset and associated revenue at fair value.
44. Where an entity does not recognise services in-kind as an asset or revenue, they are strongly encouraged to disclose qualitative information about the nature and type of major classes of services in-kind received, particularly if they are integral to the operations of the entity.

45. For the reasons we have previously outlined above in relation to the scope of ED 84, we expect that most concessionary leases will be recognised at cost but only after considerable effort and expense trying to determine whether market rates are readily available. We consider that the fundamental driver of this outcome is the conceptual basis on which ED 84 has been developed. A similar outcome could be achieved while imposing significantly less burden on preparers with no change to the extent to which users’ needs are met.

46. We consider that the rationale outlined in IPSAS 47 Revenue for not requiring recognition of services in-kind illustrates our point. If applied to concessionary leases, some concessionary leases will not meet the definition of an asset because:

(a) the entity has **insufficient control** over the leased asset; or

(b) the entity has control over the leased asset, but **may be able to measure them reliably at cost only rather than at fair value or at market rates** because:

   (i) the underlying asset in a concessionary lease is not available commercially and thus market rates are neither available nor relevant; or

   (ii) the underlying asset in a concessionary lease is **fundamentally different from the asset the entity would acquire if the concessionary lease were not available** (or the lessee would simply not carry out the activity for which they intended to use the underlying asset).

47. This would imply the same accounting treatment as services in-kind is also appropriate and entities should be able to recognise concessionary leases at cost. Where an entity recognises concessionary leases at cost, they would be encouraged to disclose additional quantitative and qualitative information about concessionary leases, with a particular emphasis on disclosing qualitative information for concessionary leases which are integral to their operations.

48. We also note that this is consistent with the core requirements of IPSAS 43 Leases which generally requires recognition of leases at cost.

49. Finally, the principles in IPSAS 46 Measurement state that public sector measurement should take into account both the primary objective of most public sector entities (to deliver services to the public) and the type of assets and liabilities that such entities hold (which are likely to reflect this objective). They also state that the objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity, and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

50. We consider that recognising concessionary leases at 'cost' would most fairly reflect:

   (a) the cost of services provided using the underlying asset – as reflected by the contract payments;

   (b) the operational capacity of the underlying assets – which are usually provided to support delivery of specific services rather than generate a profit; and
(c) the financial capacity of the lessee – who often would be unwilling or unable to obtain an alternative asset to provide the services or carry out the activity they intended to, using the leased asset.

Recommendation

51. We do not think there are unmet user needs in relation to concessionary leases; if any do exist, they are unlikely to be met by the proposals in ED 84. As such we consider that standard setting specific to concessionary leases is not required.

52. Instead of pursuing standard setting, we recommend:

(a) Developing guidance material which highlights the existing standards which may require disclosures of concessionary leases, including IPSAS 20 Related Party Transactions, going concern disclosures under IPSAS 1 Presentation of Financial Statements, and presentation as a separate class of assets under IPSAS 43 Leases.

(b) Considering service performance reporting and whether its ability to reflect how concessionary leases achieve a public sector entity’s objectives could more comprehensively meet user needs.

53. If the IPSASB consider standard setting specific to concessionary leases is required, then more work is needed to clearly identify and articulate:

(a) whether there are currently unmet user needs in relation to concessionary leases and ROU assets in-kind under current accounting practice and the perspective from which those needs are unmet. That is, from the lessee’s or lessor’s perspective; and

(b) what the current public financial management issue is in relation to concessionary leases.

54. If the IPSASB concludes that standard setting is specifically needed in relation to concessionary leases, we recommend considering in more detail the appropriate scope of ED 84 and what the appropriate accounting requirements are. In this respect, we recommend that concessionary leases and ROU assets in-kind should be accounted for at cost and supported with additional disclosures. This treatment would be consistent with the core requirements of IPSAS 43, IPSAS 47, and would also align with the primary objective of public sector measurement outlined in IPSAS 46.

55. Due to the significant cost involved to preparers and users in shifting to a new model of lease accounting we also strongly encourage that further work on ED 84 should include a robust cost-benefit assessment.
### Appendix B - Other disclosures in GPFRs relevant to concessionary leases

<table>
<thead>
<tr>
<th>Topic</th>
<th>Service Performance Reporting</th>
<th>Going Concern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant circumstances</td>
<td>When concessionary leases are involved in a key service performance activity of the entity</td>
<td>When an entity is dependent on the concessionary lease to continue in operation.</td>
</tr>
<tr>
<td>Disclosed by</td>
<td>Both lessees and lessors</td>
<td>Lessee</td>
</tr>
<tr>
<td>Required disclosures</td>
<td>Lessees - The quantity of goods and services delivered using the asset subject to the concessionary lease and an acknowledgement of the use of donated goods or services which have not been recognised in the financial statements. Lessors - Quantitative and qualitative measures that provide information about the concessionary leases granted and how doing so relates to the entity’s objectives.</td>
<td>Any material uncertainties about the continuation of the lease on which the entity depends and any judgements made about this in relation to the entity’s ability to continue in operation.</td>
</tr>
<tr>
<td>References</td>
<td>PBE FRS 48² paragraphs 15, 18, 20, 27, 28, 44</td>
<td>IPSAS 1, 38, 41.1, 41.2</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic</th>
<th>Related Party Transactions</th>
<th>Presentation as a separate class of asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant circumstances</td>
<td>When a concessionary lease is established between related parties</td>
<td>When an entity is party to a concessionary lease</td>
</tr>
<tr>
<td>Disclosed by</td>
<td>Both lessees and lessors</td>
<td>Both</td>
</tr>
<tr>
<td>Required disclosures</td>
<td>Entities must disclose the nature of their relationship with related parties involved in concessionary leases, the description and volume of these leases, and elements necessary to clarify their significance to the entity’s operations. A summary of the broad terms and conditions of the concessionary leases, including how these terms and conditions differ from normal leases with unrelated parties.</td>
<td>Lessees - Shall present ROU assets separately from or include them within the same line item as the underlying assets would be if owned and disclose which line items include those ROU assets. Additional information includes the nature of leasing activities, future cash outflows, to which the lessee is exposed that are not reflected in the lease liabilities, restrictions or covenants imposed by leases, and sale and leaseback transactions. Lessors - Shall present underlying assets subject to operating leases according to the nature of the underlying asset. Additional information includes the nature of leasing activities and how the risks associated with retained rights in the underlying assets are managed.</td>
</tr>
<tr>
<td>References</td>
<td>PBE IPSAS 20, 27, 27.1, 28, 29, 30</td>
<td>IPSAS 43 paragraphs 50 – 64, 87 – 91</td>
</tr>
</tbody>
</table>

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² PBE FRS 48 Service Performance Reporting is a New Zealand specific standard. The references have been included here to illustrate how concessionary leases can be incorporated into guidance on service performance reporting.
# Appendix C – Treatment of analogous arrangements under IPSAS

<table>
<thead>
<tr>
<th>Relevant circumstances</th>
<th>Gifts, donations, goods in-kind</th>
<th>Services in-kind</th>
<th>Service concession arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation of an asset</td>
<td>Services provided for no consideration</td>
<td>Binding arrangement in which a grantor’s asset is used by an operator to provide a public service on their behalf in exchange for consideration.</td>
<td></td>
</tr>
<tr>
<td>Concessionary rates?</td>
<td>Yes – asset granted for no consideration</td>
<td>Yes – services provided for no consideration</td>
<td>Not usually – Entities are generally compensated for the services they provide using the service concession asset based on market rates</td>
</tr>
<tr>
<td>Type of asset</td>
<td>Tangible assets (such as property, plant and equipment, and inventories) or intangible assets (such as a software licence)</td>
<td>Right to receive services - where an entity elects to recognise services in-kind that meet the criteria for recognition as an asset.</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Treatment of underlying asset</td>
<td>Derecognised by transferor and recognised by the recipient when transferred.</td>
<td>N/A</td>
<td>Transferor reclassifies the underlying asset as a service concession asset if: (a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and (b) The grantor controls any significant residual interest in the asset at the end of the term of the arrangement.</td>
</tr>
<tr>
<td>Measurement</td>
<td>Fair value</td>
<td>Policy choice - fair value or not recognised</td>
<td>Cost or fair value in accordance with the treatment of the asset under PBE IPSAS 17 or PBE IPSAS 31.</td>
</tr>
<tr>
<td>Disclosures</td>
<td>The nature and type of goods received in-kind showing separately major classes of goods in-kind received.</td>
<td>Disclosure of qualitative information strongly encouraged for classes of unrecognised services in-kind which are integral to its operations. Qualitative and quantitative information about services in-kind that have been recognised.</td>
<td>Grantor discloses: A description of the arrangement, significant terms, rights and obligations and changes occurring in the period.</td>
</tr>
<tr>
<td>Relevant paragraphs</td>
<td>Draft IPSAS 47 Revenue paragraphs 171(e), AG164 – AG167.</td>
<td>Draft IPSAS 47 Revenue paragraphs 171(f), 176 - 177, AG143 – AG149.</td>
<td>PBE IPSAS 32 Service Concession Arrangements: Grantor paragraphs 12, 32</td>
</tr>
</tbody>
</table>