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The International Public Sector Accounting Standards Board

277 Wellington St. West  
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Submission via website

17 May 2023

Dear Ross

**COMMENTS ON EXPOSURE DRAFT 84 ON CONCESSIONARY LEASES AND RIGHT-OF-USE ASSETS IN-KIND (AMENDMENTS TO IPSAS 43 AND IPSAS 23)**

We thank you for the opportunity to provide comments on the Exposure Draft (ED).

We have issued the ED concurrently for comment in our jurisdiction. We arranged two roundtable discussions to solicit views from preparers, auditors, technical advisors, academics, consultants, professional bodies, government officials, users and other interested parties. The comment received was used to develop our response. The views in this comment letter are those of the Secretariat of the ASB and not the Board.

We support the development of guidance to address public sector issues specific to concessionary leases and other arrangements similar to leases.

General comment

1. We question the linkages between the guidance in this ED and the recently approved IPSAS on *Measurement* (IPSAS 46), *Revenue* (IPSAS 47) and *Transfer Expenses* (IPSAS 48). We are of the view that the IPSASB should undertake a comprehensive review to identify any consequential amendments needed to IPSAS 46, IPSAS 47 and IPSAS 48, and additional changes to this ED when those IPSAS become effective, to ensure that the principles across IPSAS are consistent. We were unable to fully assess the potential interactions of these recently approved IPSAS with the ED as they were not yet published by the time we submitted this letter.
2. We are concerned about the application of the ED being limited to contractual arrangements. This is inconsistent with the approach followed in IPSAS 47 and IPSAS 48 where the principles from the IFRS Accounting Standard® on *Revenue from Contracts with Customers* (IFRS 15) were amended to include the broader public sector concept of a binding arrangement, rather than to limit the guidance to a contract.

Board Members: Mr C Braxton (Chair), Ms A Muller, Mr A van der Burgh, Mr D Dlamini, Mr S Khan,  
Ms P Moalusi (Deputy-Chair), Ms N Themba, Ms W de Jager,  
Chief Executive Officer: Ms J Poggiolini      Technical Director: E van der Westhuizen

Annexure A includes detailed comment on these matters.

Our responses to the specific matters for comment are outlined in Annexure B.

Should you have any questions regarding the comments outlined in our letter, please feel free to contact me.

Your sincerely

A handwritten signature in black ink, appearing to read 'Elizna van der Westhuizen'.

Elizna van der Westhuizen

Technical Director

**GENERAL COMMENT****1. Link of the ED to recently approved IPSAS****(a) Timing of publication of recently approved IPSAS**

We see linkages between this ED and the recently approved IPSAS 46, IPSAS 47 and IPSAS 48. These linkages are discussed further in (b) to (d) below.

Although these IPSAS were recently approved, they were not yet published by the time we submitted this letter and our comment below is based on a preliminary understanding of the guidance to be included in these IPSAS. We therefore recommend that the IPSASB undertake a thorough review of the interaction of the ED with these IPSAS to identify potential changes that may be required.

**(b) IPSAS 46 Measurement**

We note the IPSASB's decision in paragraphs BC126 to BC131 that the new fair value definition in IPSAS 46, drawn from the IFRS Accounting Standard® on *Fair Value Measurement* (IFRS 13), is inappropriate to measure the right-of-use asset in a concessionary lease.

With the approval of IPSAS 46 and the introduction of current operational value (COV) as a public sector measurement basis, the IPSASB will need to consider if, and how, the application of COV impacts the guidance proposed in this ED.

If necessary, any amendments to the guidance in this ED should be considered as part of the second phase of the Measurement project to ensure that the measurement principles in this ED include the relevant public sector guidance.

**(c) IPSAS 23 on Revenue from Non-exchange Transactions (Taxes and Transfers) versus IPSAS 47 on Revenue**

At the time this ED was developed, IPSAS 47 was not finalised. As a result, this ED used the principles in IPSAS 23 to assess if a lease arrangement is a combination of a lease transaction and a concession. Consequential amendments are proposed to IPSAS 23, including additional disclosures to be provided by the lessee and lessor for a concessionary lease and/or a right-of-use asset in-kind.

We are of the view that the IPSASB should undertake a separate due process to identify additional consequential amendments to IPSAS 47 when this ED becomes effective, and/or additional consequential amendments to this ED when IPSAS 47 replaces IPSAS 23, to ensure that the principles in the IPSAS are consistent. Such a process should consider the following:

- This ED requires an entity to determine if the lease has an identifiable exchange and non-exchange component. While guidance is included in IPSAS 23 to assist an entity in making this distinction, different guidance would be needed to make this distinction when IPSAS 47 replaces IPSAS 23.
- Guidance should be included in IPSAS 43 to explain what IPSAS 47 principles should be applied to account for a concessionary lease and/or a right-of-use asset in-kind. For example, when and in what circumstances should the principles on revenue with a binding arrangement and revenue without a binding arrangement be applied.

- The scope of IPSAS 47 should be updated. Currently the scope of IPSAS 47 excludes lease contracts within the scope of IPSAS 43. If an entity applies the guidance in IPSAS 47 to account for the concessionary component in a concessionary lease and/or a right-of-use asset in-kind, the current scope exclusion in IPSAS 47 may be inappropriate.

**(d) *IPSAS 48 on Transfer Expenses***

As with IPSAS 47, IPSAS 48 was not finalised when the IPSASB developed this ED. After the approval of IPSAS 48, the interaction of this ED and IPSAS 48 should be considered as a separate due process. This could result in additional consequential amendments to IPSAS 48 when this ED becomes effective, and/or additional consequential amendments to this ED when IPSAS 48 becomes effective. Such a process should consider the following:

- A lessor also needs to assess if the lease arrangement is undertaken at, or below market terms by applying paragraphs .18A to .18D. Similar to the comment in section (c) above, guidance should be included in IPSAS 48 (or IPSAS 47) to assist an entity in making this distinction.
- As noted in our comment on IPSAS 47, the scope exclusion of leases in IPSAS 48 should be reconsidered.
- We recommend that the interaction of guidance in the ED and IPSAS 48 be considered for the loss on the derecognition of the asset in a finance lease, and/or a right-of-use asset in-kind. For example, when and in what circumstances should the principles on a transfer expense with a binding arrangement, and a transfer expense without a binding arrangement be applied.

**2. Existence of a contract**

In our jurisdiction, legislation and similar means establish certain rights and obligations relating to property for public sector entities. For example, legislation may identify a specific entity as the custodian of all land within a province. It is therefore not possible in our jurisdiction to assess entities' rights and obligations relating to the use of property without considering legislation and similar means.

Our understanding of IPSAS 47 and IPSAS 48 is that they distinguish the accounting for revenue and transfer expenses based on the existence of a binding arrangement. Both IPSAS explain that, for an arrangement to be binding, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, as long as the mechanism(s) provide the entity with the ability to enforce the terms of the binding arrangement and hold the parties accountable for the satisfaction of stated obligations. These IPSAS amend the IFRS 15 principle of a contract to include the broader public sector concept of a binding arrangement.

We question the need to, and reasons for limiting this ED to contractual arrangements. We found the explanation in paragraph BC112 unconvincing and inconsistent with the approach followed in IPSAS 47 and IPSAS 48. This is because binding arrangements have enforceable rights and obligations on the parties to the arrangement in the same way that a contract does. Information about these rights and obligations enable an entity to apply the guidance in the ED.

We recommend that the guidance should not be limited to contractual arrangements, but should be extended to binding arrangements.

If the IPSASB does not support this recommendation, we propose that guidance is provided elsewhere on concessionary leases and right-of-use assets in-kind that do not arise from a contract. The guidance could, for example, include non-authoritative guidance such as a flowchart to explain which IPSAS should be considered for concessionary leases and right-of-use assets in-kind that do not arise from a contract. In this instance, we further recommend that the basis for conclusions be amended to better explain the reasons why it would be inappropriate to apply the ED to binding arrangements.

Lastly, our stakeholders noted that contracts need not be in writing. They indicated that guidance on determining the right-of-use period in the absence of a written agreement will be helpful.

## SPECIFIC MATTERS FOR COMMENT

### 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. .*

**A majority of stakeholders support the guidance proposed for concessionary leases for lessees and right-of-use assets in-kind.**

A majority of stakeholders support that the concessionary component is recognised immediately, when no conditions are imposed on the use of the underlying asset.

A minority of stakeholders are of the view that the concessionary component in a concessionary lease and/or a right-of-use asset in-kind should be recognised over the term of the arrangement, as this is the period over which the lessee will receive the benefit. As the benefits of entering into the arrangement are obtained over the period of the arrangement, the lessee should recognise the concession over that same period, irrespective of any conditions attached on the use of the underlying asset. These respondents noted that when an entity receives an asset through a donation, the benefit should be recognised immediately (i.e. when the entity controls the asset), but in an arrangement that involves the use of an asset over a period, the benefit should be recognised over the period that the benefit is received.

### 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 support the principle that lessors account for leases at below-market terms in the same way as leases at market terms.**

As noted in our general response in Annexure A, we recommend that the interaction between this ED and IPSAS 48 be considered as a separate due process.

Our stakeholders recommend the inclusion of an illustrative example on the finance lease accounting of a lessor.

We recommend that the basis for conclusions clarifies that the lessor should recognise the difference between the carrying value of the asset and the investment in the lease as a concession without considering a further potential loss component on the derecognition of the asset compared to a marketed related lease.

### **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 the IPSASB's decision? If not, please explain your reasons.*

*If you agree, please provide additional reasons not already discussed in the Basis for Conclusions.*

**We support the principles that a right-of-use asset in a concessionary lease and a right-of-use asset in-kind should initially be measured 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.**

As noted in our general response in Annexure A, we recommend that the interaction between this ED and IPSAS 46 be considered as a separate due process.

### **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 the IPSASB's decision? If not, please explain your reasons.*

*If you agree, please provide additional reasons not already discussed in the Basis for Conclusions.*

**We support the principle that when the payments for the lease at market rates based on the current use of the underlying asset are not readily available, a right-of-use asset in a concessionary lease should initially be measured at the present value of contractual payments for the lease.**

However, we recommend that specific guidance is included in the ED on when the information is not readily available so that an entity must make a reasonable effort to obtain the market information. This will avoid that an entity applies the alternative without taking reasonable action to determine the market rate based on the current use of the underlying asset.

The disclosures requirements should be expanded to require an explanation for information on a lease at market rates based on the current use of the underlying asset that is not readily available.