



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

Our Ref: STA/001

17 May 2021

The Technical Director,
International Public Sector Accounting Standards Board,
International Federation of Accountants,
277 Wellington Street,
4th Floor Toronto Ontario M5V 3H2,
CANADA.

Dear Sir,

**REQUEST FOR INFORMATION (RFI) CONCESSIONARY LEASES AND OTHER
ARRANGEMENTS SIMILAR TO LEASES**

The Institute of Certified Public Accountants of Uganda (ICPAU) welcomes the opportunity to provide responses to IPSASB's Request for Information *Concessionary Leases and Other Arrangements Similar to Leases*.

ICPAU considered that public sector entities in Uganda might have similar arrangements as those described in the RFI and might benefit from additional guidance.

The Institute consulted its members, targeting public sector stakeholders to obtain information about the nature of any lease-type arrangements that they might be familiar with. Our submission is therefore informed by member feedback and responses to the specific questions raised by the Board are herein attached.

We hope you will find our comments helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'M Omona', written over a circular stamp or watermark.

CPA Mark Omona
DIRECTOR, STANDARDS & REGULATION

Appendix: Response to IPSASB's Request for Information *Concessionary Leases and Other Arrangements Similar to Leases*

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APPENDIX: ICPAU'S RESPONSE TO IPSASB'S REQUEST FOR INFORMATION CONCESSIONARY LEASES AND OTHER ARRANGEMENTS SIMILAR TO LEASES

Which arrangements are you aware of?

Members generally agreed that;

1. Concessionary leases (leases at below market terms) and shared properties with/without a lease arrangement (arrangements including sharing of property by entities to provide services - colocation) were the commonest arrangements.
2. Leases for zero or nominal consideration and social housing rental arrangements were the least common.
3. Members were somewhat aware of arrangements that transfer access rights or rights of access to property/land and arrangements allowing right-of-use.

What accounting issues did you encounter with these arrangements?

Members disclosed the following accounting issues they had encountered with these arrangements:

1. Lack of official documentation to certify leases and determine ownership.
2. Public Sector entities normally have no required rate of return or cost of capital, which creates a problem in computing the present value of minimum lease payments.
3. Lease agreements for many public sector entities usually appear perpetual or indefinite, with no lease-term period stated except the terms of termination.

What standards-level or other guidance is needed to address the accounting issues identified?

Additional guidance would be welcome to address the following issues:

The determination of whether the specific arrangements in the RFI meet the definition of a lease under ED 75. The definition of a lease in paragraph 5 of ED 75 is that 'a lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. Para 10 of ED75 sets out the criteria for identifying a lease at inception of a contract - that a contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Para AG 10 further clarifies that the right to control use of an asset is conveyed where throughout the period of the contract, the customer has both the right to obtain substantially all of the economic benefits or service potential from use of the identified asset; and the right to direct the use of the identified asset.

From the above definition and identifying criteria, concessionary leases and leases for zero or nominal consideration appear to be largely similar to ordinary lease

arrangements with the exception of the amount of consideration transferred. We believe concessionary leases meet the criteria for identifying a lease set out in the ED 75 because they include a transfer of consideration (even when the amount is below market) and should be included within the scope of ED 75.

On the other hand, leases for zero or nominal consideration may not meet the definition of a lease because they do not involve the exchange of consideration. There are also cases where leases for zero or nominal consideration have restrictions on the rights of the lessee, which may indicate that full rights to control the use of the asset have not been conveyed.

Access rights arrangements and arrangements allowing right-of-use may not meet the definition of a lease as they involve conveyance of only a portion of the rights attached to the asset as opposed to the full rights to control use of the asset. In the case of right-of-use arrangements it is also noted that these may not be in the form of a written arrangement and therefore may not be a contract or part of a contract.

Social housing rental arrangements may not meet the definition of a lease as it is common for these arrangements to lack a defined period. This is sometimes due to restrictions in legislation or because the rental agreements do not specify an end term.

It is also common in the public sector for entities to co-locate activities in a single building. These arrangements may not meet the definition of a lease as they often do not involve the exchange of consideration or lack of documentation in form of formal agreements.