



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

17 May 2021

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

**REQUEST FOR INFORMATION, CONCESSIONARY LEASES AND OTHER
ARRANGEMENTS SIMILAR TO LEASES**

The Malaysian Institute of Accountants ("MIA") is pleased to provide information on the International Public Sector Accounting Standards Board ("IPSASB") Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases* as attached in Appendix 1 to this letter.

We hope our information would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli, Deputy Executive Director of Digital Economy, Reporting and Risk at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

f **DR NURMAZILAH DATO' MAHZAN**
Chief Executive Officer

Request for Information

Question 1:

In your jurisdiction, do you have concessionary leases (or similar arrangements) as described in this RFI? If yes, please:

- (a) Describe the nature of these leases (or similar arrangements) and their concessionary characteristics; and**
- (b) Describe the accounting treatment applied by both parties to the arrangement to these types of leases (or similar arrangements), including whether the value of the concession is reflected in the financial statements.**

The Federal Government of Malaysia (FGOM) typically has concessionary leases where land is leased by the FGOM to government agencies such as federal statutory bodies (FSBs). The FSBs will be granted the right to use the land such as constructing and occupying the office building on the land for public service delivery. The consideration for such lease arrangement is at below market value. Based on our assessment of IPSAS 13, *Leases*, such arrangement does not meet the characteristics of a finance lease under the lessor accounting. Accordingly, it is classified as an operating lease. While the FSB has recorded this as a rental expense in the income statement.

Another one is an arrangement between a public sector entity and a private sector entity. It is a concession and lease agreement between an airport company (a private sector entity) and FGOM). GoM granted the operating rights to the airport company as a licensed airport operator and manager of an airport. This is currently treated as a service concession arrangement under IPSAS 32, *Service Concession Arrangements*.

Question 2:

In your jurisdiction, do you have leases for zero or nominal consideration as described in this RFI? If yes, please:

- (a) Describe the nature and characteristics of this type of lease (or similar arrangement); and**
- (b) Describe if and how the value of the concession is reflected in the financial statements of both parties to the arrangement.**

In many cases, the FGOM leases the State Government's reserved lands for the purpose of public service delivery such as building public schools. The consideration for such transaction is normally zero.

Currently, the FGOM does not treat it as a lease but recognises the land in accordance with IPSAS 17, *Property, Plant and Equipment* as a transfer of asset and measures the value at a nominal amount. While the State Government derecognises the land from the balance sheet.

Question 3:

Does your jurisdiction have arrangements that provide access rights for a period of time in exchange for consideration? If yes, please describe the nature of these

arrangements and how they are reflected in the financial statements of both parties to the arrangement.

Where the FGOM builds small roads to access villages from the main roads, permission is granted by the landowner without any consideration. Such transactions are not recorded in the financial statements.

Question 4:

In your jurisdiction, do you have arrangements with the same or similar characteristics to the one identified above? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

Yes. We do have this arrangement in the FGOM where there is a letter of authorization issued to grant the right to use. It is not accounted for in the FGOM's financial statements.

Question 5:

In your jurisdiction, do you have arrangements involving social housing with lease-type clauses or other types of lease-like arrangements with no end terms? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of the social housing provider.

In Malaysia, we have the following arrangements:

- The rental arrangement is converted to a purchase arrangement in cases where the tenant shows the ability to pay the rent over a period of time, for example, 10 years. The arrangement is called rent-to-own agreement. This is currently treated as an operating lease. When the rental income is earned, the lessor recognises the rental income. When the rental agreement has been converted to a purchase agreement, the buyer is required to make a full payment upon the signing of the agreement. Upon full payment by the buyer, cost of goods sold is recognised while the inventory is derecognised.
- A transit house arrangement is where the government places the residents who need to vacate their houses and land for construction purpose. This is a temporary placement. An extension can be applied but there is a rental being charged. The accounting treatment is similar the one illustrated Question 6 below. The house will remain as an asset of the transit house owner such as a local council.

Question 6:

In your jurisdiction, do you have arrangements involving the sharing of properties without a formal lease contract? If yes, please describe the nature of these

arrangements and how they are reflected in the financial statements of both parties to the arrangement.

There are arrangements where a Ministry provides a building to an entity with no consideration paid. This is not reflected by both parties other than the Ministry who accounted it as property, plant and equipment in its financial statements.

Question 7:

In your jurisdiction, do you have other types of arrangements similar to leases not mentioned in this RFI? If so, please describe the characteristics of these arrangements and how they are presently being reflected in the financial statements of both parties to the arrangement.

In Malaysia, there are many Private Public Partnership (PPP) projects which meet lease definition. Under this arrangement, the private entity will construct an asset (for example, building or infrastructure asset) for the government's own use. When completed, the asset is leased to the government for a period of time as stipulated in the contract. At the end of the lease term, the identified asset will be transferred to the government. This arrangement is called Build-Lease-Transfer (BLT) or Build-Lease-Manage-Transfer (BLMT).

This arrangement normally involves two parties in which the public sector entity is a lessee and the private sector entity is a lessor. However, there are cases where there are three parties in the contract (i.e. a tripartite agreement) where:

- Entity A: A private sector entity who constructs and provides the use of an underlying asset for a period of time in exchange for consideration;
- Entity B: A public sector entity (such as a federal statutory body) who obtains the right to use an underlying asset for a period of time in exchange for consideration and owns the asset at the end of the lease term; and
- Entity C: The FGOM who funds the repayment of the consideration.

This arrangement has been treated as a finance lease by both the public sector entity (lessee – Entity B) and the private entity (lessor-Entity A). The FGOM (Entity C) does not record the arrangement as it does not satisfy the requirements in IPSAS 13 and IPSAS 17.