



Exposure Draft (ED) 84 Summary—*Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23)

This summary provides an overview of [ED 84](#), [Concessionary Leases and Right-of-Use Assets In-kind \(Amendments to IPSAS 43 and IPAS 23\)](#).

- Project Objective:** The objective of the ED is to propose new accounting requirements for concessionary leases and right-of-use assets in-kind.
- The Project Stage:** The IPSASB issued ED 84 in January 2023.
- Next Steps:** The IPSASB seeks feedback on ED 84 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®) that introduces new accounting requirements for concessionary leases and right-of-use assets in-kind.
- Comment Deadline:** ED 84 is open for public comment until May 17, 2023.
- How to Respond:** Respondents are asked to submit their comments electronically through the IPSASB website, using the [“Submit a Comment”](#) link. Please submit comments in both a PDF and a Word file. All comments will be considered a matter of public record and will be posted on the website.

Brief History of the IPSASB's Leases Project

Why is IPSASB Undertaking the Leases Project?

IPSAS 13, *Leases* was drawn primarily from International Accounting Standard (IAS) 17, *Leases*, issued by the International Accounting Standards Board (IASB). In January 2016, the IASB issued International Financial Reporting Standard (IFRS) 16, *Leases*. IFRS 16 replaces IAS 17 and several related interpretations.

After consultation with constituents, the IPSASB decided to revise its IPSAS 13 leasing requirements. The IPSASB also decided to consider public sector issues, including concessionary leases, which are prevalent in the public sector.

Phased Approach to the Leases Project

The IPSASB adopted a phased approach to this project:

- (a) Phase One, addressing lease accounting model(s) for both lessees and lessors based on IFRS 16. [IPSAS 43, *Leases*](#) was published in January 2022; and
- (b) Phase Two, addressing public sector-specific issues, such as concessionary leases, access rights, and other similar 'lease-like' arrangements in the public sector informed by responses to a [Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*](#).

Request for Information, ED 84, and Feedback Statement

In response to the Request for Information consultation process, the IPSASB published:

- (a) ED 84, proposing new accounting requirements for concessionary leases and right-of-use assets in-kind; and
- (b) A Feedback Statement summarizing the IPSASB's basis for decisions related to the responses received to the Request for Information.

What New Requirements Does ED 84 Propose for Concessionary Leases?

Concessionary leases are leases at below-market terms.

ED 84 proposes to initially measure the right-of-use asset in a concessionary lease at the present value of payments for the lease at market rates based on the current use of the underlying asset.

Proposed Amendments to IPSAS 43 and IPSAS 23— Lessees

ED 84 proposes that lessees:

- (a) Recognize a right-of-use asset measured at the present value of payments for the lease at market rates based on the current use of the underlying asset;
- (b) Recognize a lease liability measured at the present value of the contractual payments for the lease; and
- (c) Recognize non-exchange revenue for the concession component as the difference between (a) and (b), except if a present obligation exists. Where a present obligation exists, it is recognized as a liability. As the lessee satisfies the present obligation, the liability is reduced, and an equal amount of revenue is recognized.

ED 84 proposes measuring the right-of-use asset at the present value of payments for the lease at market rates based on the current use of the underlying asset because:

- (a) There would be an increased difficulty of measuring the right-of-use asset at the highest and best use as implicit in the new fair value definition drawn from IFRS 13,

Fair Value Measurement that will replace the current definition of fair value in IPSAS 9, *Revenue from Exchange Transactions (Taxes and Transfers)*; and

- (b) Quite often there is no active market for right-of-use assets to obtain the highest and best use.

ED 84 also proposes new disclosures for concessionary leases related to the proposed accounting model (for example, the amount of the lease concession on initial recognition).

Proposed Amendments to IPSAS 43— Lessors

ED 84 proposes that accounting for concessionary leases should follow the accounting for leases at market terms in accordance with IPSAS 43.

In a concessionary operating lease, the amount of the concession would be the difference between the lease revenue and expenses with the underlying asset.

In a concessionary finance lease, the amount of the concession would be the difference between the carrying amount of the derecognized underlying asset and the newly recognized net investment in the lease.

What New Requirements Does ED 84 Propose for Right-of-Use Assets In-kind?

Right-of-use assets in-kind are right-of-use assets transferred to an entity without charge.

ED 84 proposes to initially measure the right-of-use asset in-kind at the present value of payments for the lease at market rates based on the current use of the underlying asset.

Amendments to IPSAS 23—Identification of Right-of-Use Assets In-kind

ED 84 proposes that an entity identify right-of-use assets in-kind applying the principles in IPSAS 43, with the necessary adaptations in the absence of lease payments.

Amendments to IPSAS 23—Recognition of Right-of-Use Assets In-kind

ED 84 proposes recognizing right-of-use assets in-kind when they are received or there is a binding arrangement to receive them.

If right-of-use assets in-kind are received without conditions attached, revenue is recognized immediately.

If conditions are attached, a liability is recognized, which is reduced, and revenue recognized as the conditions are satisfied.

Amendments to IPSAS 23—Measurement of Right-of-Use Assets In-kind

ED 84 proposes initially measuring right-of-use assets in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets in concessionary leases because both types of assets arise from non-exchange transactions.

ED 84 proposes subsequently measuring right-of-use assets in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets in leases at market terms.

Amendments to IPSAS 23—Disclosures

ED 84 proposes enhanced disclosures for right-of-use assets in-kind, such as:

- (a) Nature and type of major classes of right-of-use assets in-kind;
- (b) Depreciation charge; and
- (c) Carrying amount at the end of the reporting period by class of underlying asset.

If right-of-use assets in-kind meet the definition of investment property or are measured at revalued amounts applying IPSAS 17, *Property, Plant, and Equipment*, the entities should apply the disclosures requirements in IPSAS 16, *Investment Property* and paragraph 92 of IPSAS 17, respectively.

If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 17, an entity shall disclose the information required by paragraph 92 of IPSAS 17 for those right-of-use assets in-kind.

What Changes Does ED 84 Propose for Sale and Leaseback Transactions?

ED 84 proposes new guidance on sale and leaseback transactions with embedded below-market terms that are identified as concessions.

Concessionary leasebacks not linked to prepayments

IPSAS 43 provides guidance on sale and leaseback transactions at below-market terms if:

- The fair value of the consideration for the sale of an asset does not equal the fair value of the asset; or
- The payments for the lease are not at market rates.

ED 84 proposes new public sector-specific guidance where the below-market terms of the leaseback is not linked to a prepayment. For example, the agreed purchase price of the underlying asset is the same as its fair value.

In this situation, ED 84 proposes that the accounting for concessionary leaseback should follow the same principles as for concessionary leases.

Next Steps

The deadline for comments is **May 17, 2023**.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.



How Can I Comment on the Proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and a Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay Informed

The IPSASB’s website will indicate the meetings at which feedback on the ED will be discussed. The dates and the locations of 2023 meetings are available at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/other-lease-type-arrangements>

Specific Matters for Comment

The four Specific Matters for Comment asked in ED 84 cover the following issues:

SMC 1: Accounting guidance for concessionary leases for lessees and right-of-use assets in-kind.

SMC 2: Accounting guidance for concessionary leases for lessors.

SMC 3: Initial measurement of right-of-use assets in concessionary leases and right-of-use assets in-kind.

SMC 4: Initial measurement of 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.

Feedback Statement

The IPSASB published a Feedback Statement together with ED 84. The feedback received on the Request for Information may inform other future IPSASB’s projects.