Exposure Draft 84
January 2023
Comments due: May 17, 2023

IPSAS®

Proposed International Public Sector Accounting Standard ®

Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23)

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft (ED), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23), was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 17, 2023.**

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 file and a Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

IPSASB's Leases Project

In January 2018, the IPSASB published ED 64, *Leases* proposing a single right-of-use model for lease accounting that would replace the risks and rewards incidental to ownership model adopted in IPSAS 13, *Leases*. ED 64 also proposed new public sector-specific accounting requirements for leases at below-market terms (also known as "concessionary leases") for both lessors and lessees.

After careful consideration of the feedback received, the IPSASB decided not to proceed with the proposed accounting model in ED 64, but instead to adopt a phased approach to this project, as follows:

(a) Phase One – addressing accounting for leases which would be aligned with IFRS 16, *Leases*; and

(b) Phase Two – addressing public sector issues specific to concessionary leases and other arrangements similar to leases.

In January 2022, the IPSASB published IPSAS 43, *Leases*, which is aligned with IFRS 16, *Leases*. The publication of IPSAS 43 completed phase one of the IPSASB's Leases project.

The Basis for Conclusions to IPSAS 43 explains how the IPSASB addressed the comment letters in developing IPSAS 43 and the reasons to have a phased approach to the Leases project.

Phase Two of the Leases project led to the publication in January 2021 of Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The objective of phase two of the Leases project is to develop additional guidance on concessionary leases and other arrangements similar to leases.

This ED is based on the work undertaken in phase two of the Leases project. This ED does not address some of the arrangements identified in the RFI because the current IPSAS provide the principles on how to account for those arrangements.

Objective of the ED

The objective of this ED is to provide additional guidance for concessionary leases and for right-of-use assets in-kind.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the ED are provided below.

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.

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.

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 IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

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 IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

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

CONTENTS

Objective

1. The objective of this Exposure Draft (ED) is to propose amendments to IPSAS 43, *Leases* on accounting for concessionary leases and consequential amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers),* as well as proposing amendments to IPSAS 23 for new accounting for right-of-use assets in-kind.

2. This ED is part of phase two of the Leases project.

Request for Comments

3. The IPSASB welcomes comments on all the matters proposed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, where applicable, provide a suggestion for alternative wording.

IPSAS Addressed

IPSAS	**Summary of Proposed Change**
IPSAS 43, *Leases*	Provide guidance on identification, classification, recognition, measurement, and disclosures of concessionary leases.
IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*	• Consequential amendment to provide guidance on revenue recognition of the concession component in concessionary leases for lessees; and • Provide guidance on identification, recognition, measurement, and disclosures of right-of-use assets in-kind and on the revenue recognition of the concession.

Amendments to IPSAS 43, *Leases*

Paragraphs 6, 42, 54, 109, 118, and 120 are amended. Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103A, 117A–117F, AG32A, AG32B, and AG60–AG62 are added. Headings above paragraphs 18A, 64A, 96A, 96B, 117A, 117E, 117F, AG32A, AG32B, AG60 are added. New text is underlined and deleted text is struck through.

Recognition Exemptions (see paragraphs AG4–AG9)

6. A lessee may elect not to apply the requirements in paragraphs 18A–18D and 23–52 to:

    (a) Short-term leases; and

    (b) Leases for which the underlying asset is of low value (as described in paragraphs AG4–AG9).

…

Identifying a Lease (see paragraphs AG10–AG34, AG60–AG62)

…

Assessing Whether the Transaction is at Market Terms or at Below-Market Terms

18A. An entity will determine whether the transaction is at market terms or at below-market terms, including the level of consideration being exchanged.

18B. In certain circumstances, such as when an entity enters into a lease at market terms, the lease is an exchange transaction. In other circumstances, such as when an entity enters into a lease at below-market terms, the lease is a concessionary lease. In this case, the lease can have exchange and non-exchange components. In determining whether a lease has an identifiable exchange or non-exchange component on initial recognition, professional judgment is exercised.

18C. As concessionary leases are granted or received at below-market terms, the present value of contractual payments (consideration) on initial recognition of the lease will be lower than the present value of payments for the lease at market rates based on the current use of the underlying asset. At initial recognition, an entity, therefore, analyzes the substance of the lease granted or received into its component parts, and accounts for those components using the principles in paragraphs AG60–AG62.

18D. An entity firstly assesses whether the substance of the concessionary lease is in fact a lease transaction, a concession or a combination thereof, by applying the principles in this Standard and paragraphs 39–58 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

…

Lessee

…

Measurement

Initial Measurement

Initial Measurement of the Right-of-Use Asset

…

<u>26A.</u> <u>**Where a right-of-use asset is acquired through a concessionary lease, its cost shall 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.**</u>

<u>26B.</u> <u>The payments for the lease at market rates based on the current use of the underlying asset shall be discounted using the interest rates identified in paragraph 27. The carrying value of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).</u>

<u>26C.</u> <u>If payments for the lease at market rates based on the current use of the underlying asset are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24–26.</u>

Initial Measurement of the Lease Liability

…

<u>29A.</u> <u>**Where a lease liability is recognized through a concessionary lease, its cost shall be measured in accordance with paragraphs 27–29.**</u>

…

42. In applying paragraph 41, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined. <u>In the case of a concessionary lease, a lessee shall apply the discount rate identified in paragraph 27.</u>

Disclosure

54. **The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64<u>A</u> specify requirements on how to meet this objective.**

…

<u>*Concessionary Leases*</u>

<u>64A.</u> <u>For concessionary leases received, a lessee shall disclose:</u>

<u>(a)</u> <u>The amount of the lease concession on initial recognition;</u>

<u>(b)</u> <u>The amount of the 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;</u>

(c) The purpose and terms of the various types of concessionary leases, including the nature of the concession; and

(d) Significant assumptions used in estimating the present value of the lease payments at market rates based on the current use of the underlying asset.

Lessor

Classification of Leases (see paragraphs AG54–AG60)

…

Finance Leases (see paragraph AG62(a))

Recognition and Measurement

…

71A. At the commencement date, a lessor shall recognize assets under a concessionary finance lease applying the requirements in this Standard.

…

Operating Leases (see paragraph AG62(b))

Recognition and Measurement

…

81A. A lessor shall recognize revenue under a concessionary operating lease applying the requirements in this Standard.

…

Disclosure

…

Concessionary Finance Leases

96A. For concessionary finance leases granted, a lessor shall disclose:

(a) Carrying amount of the underlying assets transferred during the period in accordance with the relevant IPSAS;

(b) The net investment in the lease at the commencement date in accordance with this Standard;

(c) The difference between (a) and (b); and

(d) The purpose and terms of the various types of concessionary finance leases, including the nature of the concession.

Concessionary Operating Leases

96B. For concessionary operating leases granted, a lessor shall disclose:

(a) Contractual value of the lease payments received during the period; and

(b) The purpose and terms of the various types of concessionary operating leases, including the nature of the concession.

…

Sale and Leaseback Transactions

…

97A. An entity shall assess whether a sale and leaseback transaction contains an embedded concession at the inception of the lease.

97B. If an entity (the seller-lessee and the buyer-lessor) identifies below-market terms embedded in the leaseback transaction as a concession, the seller-lessee shall account for the concession in accordance with IPSAS 23, and the buyer-lessor shall account for the concession in accordance with this Standard. Otherwise, the entity shall account for the below-market terms as prepayments in accordance with paragraph 100(a).

…

Effective Date and Transition

Effective Date

…

103A. **Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 117A–117F, AG32A, AG32B, and AG60–AG62 were added and paragraphs 6, 42, 54, 109, 118, and 120 were amended by [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) issued in [Month YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [MM DD, YYYY] it shall disclose that fact and apply IPSAS 43 at the same time.**

…

Transition

…

Lessees

…

109. A lessee shall apply this Standard to its leases either:

(a) Retrospectively to each prior reporting period presented applying IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs 111–117F.

…

Concessionary Leases

Leases Previously Classified as Operating Leases

117A. If a lessee elects to apply this Standard in accordance with paragraph 109(b), the lessee shall:

(a) Recognize a lease liability at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) Recognize a right-of-use asset at the date of initial application for concessionary leases previously classified as an operating lease applying IPSAS 13. The lessee shall, on a lease-by-lease basis, measure that right-of-use asset at its carrying amount as if this Standard had been applied since the commencement date, but using the payments for the lease at market rates based on the current use of the underlying asset and discounted using the lessee's incremental borrowing rate at the date of initial application.

117B. Notwithstanding the requirements in paragraph 117A, for concessionary leases classified as operating leases applying IPSAS 13, a lessee is not required to make any adjustments on transition for concessionary leases previously accounted for as investment property using the fair value model in IPSAS 16. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IPSAS 16 and this Standard from the date of initial application.

117C. A lessee may use one or more of the practical expedients in paragraphs 114(a), 114(b), 114(d), and 114(e) when applying this Standard retrospectively in accordance with paragraph 109(b) to concessionary leases previously classified as operating leases applying IPSAS 13.

117D. A lessee may elect not to apply the requirements in paragraph 117A to concessionary leases for which the lease term ends within 12 months of the date of initial application. In this case, the lessee shall include the cost associated with those concessionary leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

Leases Previously Classified as Finance Leases

117E. If a lessee elects to apply this Standard in accordance with paragraph 109(b), for concessionary leases that were classified as finance leases applying IPSAS 13, at the date of initial application the lessee shall:

(a) Measure the lease liability at the carrying amount of the lease liability immediately before that date measured applying IPSAS 13; and

(b) Recognize a right-of-use asset and measure in accordance with paragraph 117A(b).

For those concessionary leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

117F. If a lessee elects to apply this Standard in accordance with paragraph 109(b) for concessionary leases, the lessee shall disclose information according to paragraphs 116 and 117, as appropriate.

Lessors

118. Except as described in paragraph 119, a lessor is not required to make any adjustments on transition for leases, including concessionary leases, in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

…

Sale and Leaseback Transactions Before the Date of Initial Application

120. An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether:

(a) T~~t~~he transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale~~.~~; and

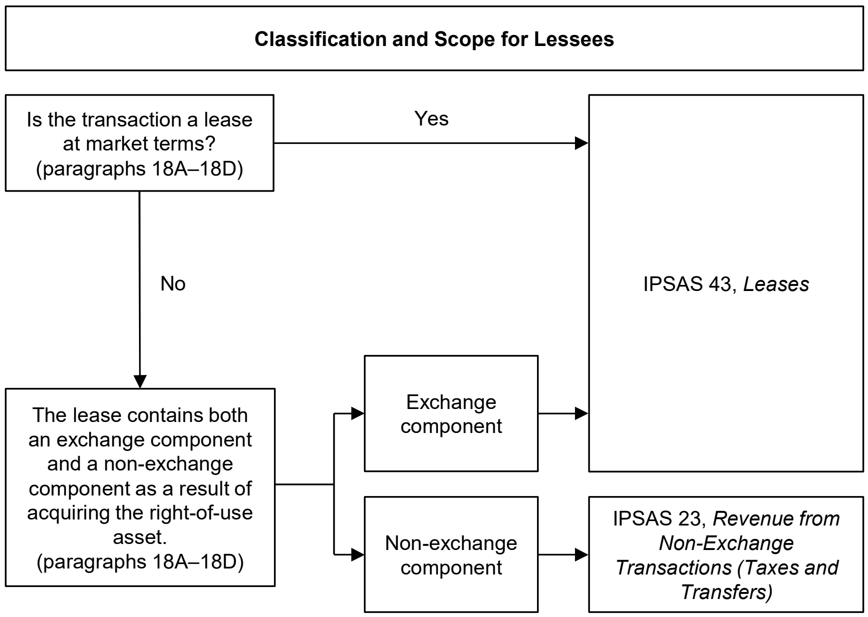
(b) Satisfies the requirements in this Standard to be accounted for as a concessionary leaseback.

Application Guidance

…

Classification of Leases At Market Terms and At Below-Market Terms and Scoping for Lessees (paragraphs 18A–18D)

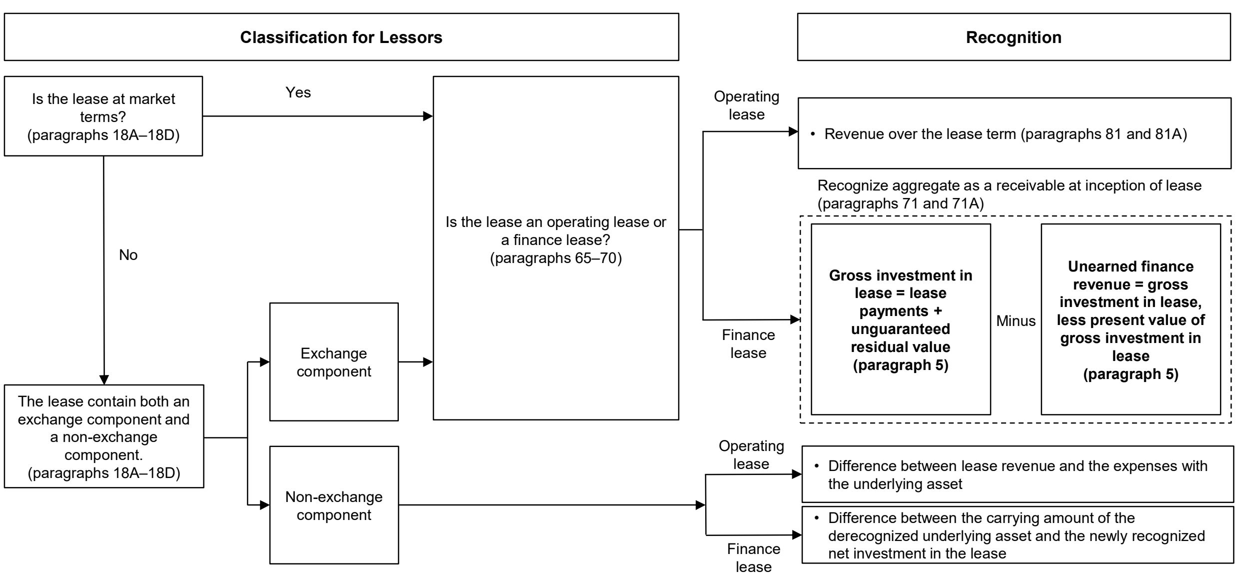
AG32A. The diagram below establishes the classification and scope of leases for lessees.



Classification of Leases at Market Terms and at Below-Market Terms, Scoping, and Recognition for Lessors (paragraphs 18A–18D)

AG32B. The diagram below establishes the classification, scope, and recognition of leases for lessors.

…



Concessionary Leases (see paragraphs 18A–18D, 26A–26C, 29A, 42, 64A, 71A, 81A)

AG60. Concessionary leases are granted to or received by a lessee at below-market terms. Examples of concessionary leases include leases to international organizations or to other public sector entities with public policy objectives.

AG61. If a lessee receiving the right-of-use asset has determined that the transaction is a combination of a lease transaction and a concession, any difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the present value of contractual payments is accounted for in accordance with IPSAS 23.

AG62. If a lessor granting a lease has determined that the transaction is a combination of a lease transaction and a concession:

(a) In a finance lease, the entity derecognizes the underlying asset in accordance with the applicable IPSAS and recognizes the net investment in the lease in accordance with this Standard; and

(b) In an operating lease, the entity recognizes lease revenue in accordance with this Standard and may assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative Examples are provided in paragraph IG60 of IPSAS 23 as well as in paragraphs IE5, IE10A and IE11 accompanying this Standard.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 43.

…

Revision of IPSAS 43 as a result of [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) issued in [Month and Year]

BC105. In January 2021, the IPSASB issued the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*. The paragraphs below present the Basis for Conclusions on how the IPSASB addressed some of the topics in that Request for Information based on the information received from respondents.

Definitions

BC106. The IPSASB reconsidered whether to modify the definition of a lease to include other types of arrangements that are not contracts.

BC107. The IPSASB decided not to extend the definition of a lease to non-binding arrangements because a lease includes enforceable rights and enforceable obligations for the lessor and lessee; a non-binding arrangement does not.

BC108. Regarding binding arrangements that are not contracts, the IPSASB, when developing IPSAS 43, decided to expand the types of arrangements within the scope of the definition of a contract by adding paragraph AG3 and clarifying that IPSAS 43 is designed only for arrangements that:

(a) Are in substance a contract rather than having the legal form of a contract; and

(b) Have the following three elements:

   (i) Willing parties;

   (ii) Rights and obligations for the parties to the contract; and

   (iii) The remedy for non-performance is enforceable by law.

BC109. The fundamental difference between the definition of a contract in IPSAS 43 and the definition of a binding arrangement is that in the latter one the enforceability is broader and includes "equivalent means". In other words, binding arrangements are enforceable both within and outside the legal system, whereas contracts are enforceable only within the legal system. Compliance through equivalent means includes laws and regulations, including legislation, executive authority, cabinet, or ministerial directives.

BC110. The IPSASB's Conceptual Framework acknowledges that there are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect to enforce the rights and obligations in those arrangements.

BC111. Sometimes in the public sector, there are binding arrangements, although conveying the right to use an underlying asset, are not, in substance, contracts. For example:

(a) One or both parties to the arrangement is not a willing party (for example: a government conveys to another party the right to use an underlying asset on a unilateral basis);

(b) The enforceable rights and obligations did not arise from a contract (for example: the rights and obligations are stipulated by a government unilaterally); and

(c) Binding arrangements with enforceability mechanisms outside of the legal system (for example: compliance is achieved through executive authority, cabinet, or ministerial directives).

BC112. By extension, when entities do have arrangements as described in paragraph BC111, the IPSASB noted that they should not apply IPSAS 43 because:

(a) Those arrangements are not, in substance, contracts, as leases are contractual arrangements by nature; and

(b) It was designed to be applicable to arrangements that are in substance lease contracts, provided that the arrangement conveys the right to obtain substantially all of the economic benefits or service potential from the use of the identified asset and the right to direct the use of the identified asset[1].

BC113. Therefore, the IPSASB decided to retain the definition of a lease to contractual arrangements in IPSAS 43 because:

(a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts; and

(b) It is consistent with IPSAS 41, *Financial Instruments*, which is only applicable to contracts.

BC114. The IPSASB also considered whether to provide a definition or a description of a concessionary lease. The IPSASB noted that concessionary leases may vary depending on the level of consideration being exchanged, which may make them at below-market terms. In these cases, professional judgment may be required to assess whether, in substance, the transaction meets the definition of a lease or whether it is, in substance, a concession of the whole transaction.

BC115. The IPSASB decided to provide a description rather than a definition of a concessionary lease because:

(a) It prevents an apparent contradiction of labeling as a lease an arrangement that conveys the right to use an underlying asset without the exchange of consideration;

(b) It is consistent with the approach in IPSAS 41, *Financial Instruments*, where concessionary loans are not defined, but only described; and

(c) The accounting for arrangements that convey the right to use an underlying asset without consideration is the same as arrangements that convey the right to use an underlying asset with consideration at below-market terms.

BC116. The IPSASB noted that there are transactions that convey the right to use an underlying asset without consideration (right-of-use asset in-kind). The IPSASB is of the view that transactions that convey the right to use an underlying asset without consideration do not meet the definition of a lease as defined in IPSAS 43.

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[1] IPSAS 43 introduced extensive application guidance on the assessment of both rights.

BC117. The IPSASB concluded that a transaction that conveys a right-of-use asset in-kind is in substance a non-exchange transaction and, therefore, the principles in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* are applicable to this type of transaction.

Identification, Classification, and Scope

BC118. IPSAS 43 introduced new guidance on identifying a lease as a result of an exchange transaction. Building on this guidance, the IPSASB proposed additional guidance to identify, classify, and scope concessionary leases.

BC119. The IPSASB proposed this new guidance because it would help preparers:

(a) Distinguish leases at market terms from leases that have embedded concessions;

(b) Understand the relationship between IPSAS 43 and other IPSAS; and

(c) Apply the IPSAS 43 principles to leases at market terms and apply the principles in other IPSAS to the concessions, as appropriate.

Variable Lease Payments Other than Those Referred in IPSAS 43

BC120. The IPSASB considered whether to include additional specific guidance on variable lease payments other than those referred in IPSAS 43 when identifying and classifying leases at market or at below-market terms. Lease payments that are dependent of lessee's sales might influence the identification of a concessionary lease.

BC121. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

Lease Modifications

BC122. The IPSASB considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC123. The IPSASB decided not to include additional guidance on lease modifications because an entity needs to apply professional judgment when assessing the conditions in IPSAS 43.

Lessee

Recognition and Measurement

BC124. IPSAS 43 measures the right-of-use asset at cost. This is consistent with the measurement of many other non-financial assets, such as assets within the scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant, and Equipment*, and IPSAS 31, *Intangible Assets* that are a result of exchange transactions. However, for non-exchange transactions a cost measurement basis does not reflect the economics of the transaction because it does not capture the embedded concession.

BC125. To address this issue, when developing the guidance to account for leases as a result of a non-exchange transaction (concessionary leases) in [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23), the IPSASB considered the principles in the above IPSAS as well as in IPSAS 23 and in IPSAS 41, *Financial Instruments* to account for the right-of-use asset and the concession component.

BC126. The IPSASB noted that the above IPSAS require that assets acquired through non-exchange transactions to be measured at their fair value as at the date of acquisition. The IPSASB considered requiring measuring the right-of-use asset also at fair value in a concessionary lease because:

(a) It is consistent with IPSASB's literature on the accounting for non-exchange transactions, including concessionary loans;

(b) It provides information on operating and financial capacity as referred in the Conceptual Framework for accountability and decision-making purposes; and

(c) Recognizing the implicit concession in a lease at below-market terms would enhance Public Financial Management (PFM) to the extent that the improvements would outweigh the costs associated with such a change for accountability and decision-making purposes.

BC127. However, the IPSASB noted that when an entity values the right-of-use asset at fair value it should measure the right to use the underlying asset, not the underlying asset itself, which are reflected in the payments for the lease at market rates. Therefore, the IPSASB decided to propose measuring 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 because:

(a) It is a measurement technique consistent with the fair value measurement basis;

(b) It helps preparers in measuring the right-of-use asset using a measurement technique that already exists in IPSAS 43 when dealing with leases that are not at market rates; and

(c) When comparing them with the present value of the contractual payments, preparers can measure the embedded concession.

BC128. The IPSASB also noted that the current definition of fair value in IPSAS 9, *Revenue from Exchange Transactions* will be replaced by a new fair value definition drawn from IFRS 13, *Fair Value Measurement*.

BC129. The IPSASB also noted that the new fair value definition is associated with the definition of highest and best use, which was not present in the fair value definition in IPSAS 9.

BC130. The IPSASB decided to refer to the present value of payments for the lease at market rates based on the current use, instead of the highest and best use as implied in the new fair value definition. The IPSASB considered the new fair value definition would not be appropriate because:

(a) The measurement of the right-of-use asset would no longer be based on the current use of the underlying asset, once the current fair value definition is replaced;

(b) There would be an increased difficulty of measuring the right-of-use asset as it would be based on other possible uses of the asset to achieve the highest and best use; and

(c) Quite often there is not an active market for right-of-use assets to obtain the highest and best use.

BC131. In reaching this decision, the IPSASB noted that measuring a right-of-use asset at the present value of the lease payments at market rates based on the current use of the underlying asset is determined by considering right-of-use assets that have similar economic benefits or service potential.

BC132. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset as a result of a concessionary lease using the contractual payments if the payments for the lease at market rates based on the current use of the underlying asset are not readily available, in order to address the increased difficulty of measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets).

BC133. When initially measuring the right-of-use asset in a concessionary lease, the IPSASB expects preparers to apply a reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset. The IPSASB noted that the lease liability would still be reliably measured using the contractual payments for the lease.

BC134. The IPSASB also decided to account for the concession component in a concessionary lease following the principles applicable to concessionary loans in IPSAS 23 because:

(a) Both transactions are at below-market terms at inception;

(b) Have a concession to the price of the resource being transferred;

(c) Have the objective to provide/receive resources with a price at below-market terms;

(d) Whether transferring a resource in cash or in-kind it should not modify the accounting for the concession component as non-exchange revenue in both transactions, as concessionary leases are in substance a financing transaction; and

(e) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.

Recognition Exemptions

BC135. The IPSASB considered the applicability to lessees of the general model to account for concessionary leases that are short-term leases and leases for which the underlying asset is of low value.

BC136. The IPSASB decided not to require the general model to account for concessionary leases to lessees' recognition exemptions because:

(a) Leases for which the underlying asset is of low value are not material enough to warrant specific concessionary lease accounting; and

(b) Of cost-benefit reasons for short-term leases as they have a lease term of 12 months or less.

Disclosures

BC137. The IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases and related to the accounting model.

Lessor

Recognition and Measurement

BC138. IPSAS 43 requires lessors to classify leases as either an operating lease or a finance lease under a risks and rewards dual model. Operating leases are viewed as a service, and the net investment in finance leases is viewed as a financial instrument.

BC139. In a finance lease, the substance or main issue of the lease is the underlying asset being transferred with the attached financing (net investment in the lease). The accounting for the transfer of the underlying asset is made in accordance with IPSAS 16, IPSAS 17, and IPSAS 31, as appropriate. The accounting for the attached financing (net investment in the lease) is made in accordance with IPSAS 43, which includes the accounting for the lease payments and the residual value.

BC140. In an operating lease, the substance or main issue of the lease is the stream of cash-flows received by the lessor in the form of lease payments, as the lessor continues to recognize the underlying asset.

BC141. As a consequence of the different economics of leases under the risks and rewards dual model, in a:

(a) Concessionary finance lease, the concession is related to the price of the underlying asset transferred to the lessee; and

(b) Concessionary operating lease, the concession component is related to the price of lease payments received from the lessee.

BC142. This means that lessors can have two types of transactions:

(a) Concessionary finance leases—which can be equivalent to transferring of a non-cash asset (the underlying asset) at below-market terms attached with financing for a portion of the value of the asset transferred; and

(b) Concessionary operating leases—which can be equivalent to services partially in-kind, as the lessor continues to recognize the underlying asset.

BC143. For concessionary finance leases, the IPSASB decided to continue measuring the transfer of the underlying asset to the lessee at its carrying amount because it is:

(a) The cost of the concession incurred by the lessor, being the economic benefits or service potential given up measured by the carrying amount of the underlying asset; and

(b) Consistent with the derecognition principles in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant and Equipment,* and IPSAS 31, *Intangible Assets* for disposals.

BC144. For concessionary operating leases, the IPSASB decided to continue measuring the lease payments received by the lessor in accordance with IPSAS 43 because:

(a) No economic benefits or service potential associated with the transaction will flow to the entity higher than the cash received by the lessor in the form of lease payments made by the lessee; and

(b) It is consistent with revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions*.

BC145. In reaching this decision, the IPSASB noted that the terms and conditions of the concessionary operating lease might help an entity assess whether there is an indication that the underlying asset may be impaired in accordance with IPSAS 21, *Impairment from Non-Cash Generating Assets* or IPSAS 26, *Impairment from Cash Generating Assets*, as appropriate.

BC146. Following a cost measurement basis for concessionary leases, the IPSASB noted that lessors recognize the loss related with the derecognition of the underlying asset in a concessionary finance lease in accordance with the applicable IPSAS. This means that the cost of the concession would be the difference between the value of the carrying amount of the underlying asset derecognized and the value of the recognition of the net investment in the lease, if any.

BC147. For concessionary operating leases, the IPSASB noted that lessors continue recognizing as revenue the cash received in the form of lease payments made by lessees and there would be no separate recognition of the concession. This situation occurs because the concession is related to the foregone revenue related to the lease payments. As foregone revenue is not recognized under IPSAS 9, the IPSASB did not identify an economic reason to provide an exception to this principle in the context of concessionary operating leases.

BC148. The IPSASB concluded that the cost of the concession will be the difference between the:

(a) Depreciation of the underlying asset, other expenses related to the underlying asset, and the impairment charge related to the underlying asset, if any; and

(b) Revenue obtained in the lease payments received from the lessee.

Disclosures

BC149. Similar to lessees, the IPSASB noted that IPSAS 43 already requires disclosures for leases at market terms for lessors. Therefore, the IPSASB decided to require additional disclosures that are specific to concessionary leases for both concessionary finance leases and concessionary operating leases and related to the dual accounting model.

Sale and Leaseback Transactions

BC150. The IPSASB considered whether to amend the requirements in IPSAS 43 on sale and leaseback transactions at below-market terms to be consistent with the requirements of concessionary leases.

BC151. The IPSASB noted that, in principle, from a conceptual perspective concessionary leases and leasebacks at below-market terms have two key differences:

(a) Different starting points—A leaseback at below-market terms is linked to a previous sale with the same party as interdependent transactions, while a concessionary lease is not linked to a previous sale with the same party; and

(b) Different objectives—A sale and leaseback transaction has the objective of obtaining cash through the sale of the underlying asset and refunding the cash proceeds in the form of lease payments, while a concessionary lease has the objective of conveying a concession through the right to use an underlying asset at below-market terms.

BC152. However, there might exist leasebacks at below-market terms in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback as the agreed purchase price of the underlying asset is the same as its fair value.

BC153. The IPSASB noted that this may be a public sector-specific situation because normally in the private sector both the sale and leaseback are either at above-market terms or at below-market terms, not only the leaseback being at below-market terms.

BC154. Therefore, the IPSASB decided to amend IPSAS 43 requirements on sale and leaseback transactions to address the situation where the below-market terms of the leaseback are not linked to a prepayment.

Transition

BC155. The IPSASB considered the transition requirements for concessionary leases. The IPSASB decided to propose transition requirements on concessionary leases similar to leases at market terms, where applicable, in order not to require extra efforts by preparers in applying the new proposed guidance on concessionary leases.

BC156. The IPSASB encourages preparers to apply IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* on transition because of the prevalence in the public sector of concessionary leases with very long terms.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 43

…

Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A –AG32B, and AG60–AG62)

IE2A. The following examples illustrate how an entity assesses whether a lease is at market terms or at below-market terms.

Example 10A—Assessing Whether the Lease is at Market Terms or at Below-Market Terms

Municipality A (Lessee) enters into a lease contract with Government agency B (Lessor) to use ten units in a building for its office operations for a ten-year period. The lease contract states that Municipality A agrees to pay government agency B CU100,000 per month. Government agency B usually leases those units for CU185,000 per month to private sector entities for the same purpose. Government agency B decided to lease those units at below-market terms because municipality A is running a specific sports program for youth.

The lease is at below-market terms.

Leases Incentives and Lease Concessions (see paragraphs 5, 18A–18D, AG32A–AG32B, and AG60–AG62)

IE2B. The following examples illustrate how an entity distinguishes a lease incentive from a lease concession.

Example 10B—Lease Incentives

Private sector entity Y (Lessor) has for lease ten units in a building for office operations for CU110,000 per month. Government agency X (Lessee) is interested to lease those ten units because it is vacant for a prolonged period of time, and the Government entity has lesser credit risk. Government agency X (Lessee) ended up entering into the lease because private sector entity Y (Lessor) reduced the price of the lease payments by CU5.000 per month.

The CU5.000 per month reduction is a lease incentive.

Example 10C—Lease Concessions

Government agency Z (Lessor) has built and has for lease a multi-purpose sports complex for youth. The local sports club W (Lessee) wants to expand its activities in terms of numbers of athletes and types of sports being offered by the club. Government agency Z intends to expand the sports activity among youth in the area of the multi-purpose sports complex as a way to support its goals in terms of youth from low-income households. By leasing out the sports complex to sports club W, it would meet its policy objectives. However, the local sports club W does not have the financial capacity to pay the lease payments of CU150.000 per month, which are the market terms for a similar multi-purpose sports complex with the same dimension, and pay, at the same time, the costs of managing such a large facility. Government agency Z and local sports club W ended up signing up the lease contract for CU45.000 per month because local sports club W was the right partner to achieve Government agency Z's goals.

The CU105.000 per month reduction is a lease concession.

Lessee Measurement (see paragraphs 19–42, ~~and~~ AG35–AG42, and AG60–AG61)

IE5. The following example illustrates how a lessee measures right-of-use assets, ~~and~~ lease liabilities, and concessionary leases. It also illustrates how a lessee accounts for a change in the lease term.

…

Example 13B–Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Public sector not-for-profit entity X (Lessee) enters into a lease with municipality Y (Lessor) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- *The agreement stipulates that the lease should be paid over the 5-year period as follows*:

  Year 1: CU3,718,694

  Year 2: CU3,718,694

  Year 3: CU3,718,694

  Year 4: CU3,718,694

  Year 5: CU3,718,694

  This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- *The lease includes conditions. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.*

- *Depreciation of the right-of-use asset is not considered in the example for simplification purposes.*

Analysis

It is a concessionary lease as the present value of payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The public sector not-for-profit entity (Lessee) has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates–see Table 1 below–and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The non-exchange component of CU6,900,000 is accounted for in accordance with IPSAS 23, and the present value of annual contractual payments of CU16,100,000 in accordance with this Standard.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the entity recognizes the following (the entity subsequently measures concessionary lease at amortized cost):

Dr		Right-of-use asset	23,000,000	-
	Cr	Lease liability (refer to Table 1 below)	-	16,100,00
	Cr	Liability (refer to Table 1 below)	-	6,900,000

Recognition of the lease at the present value of payments for the lease at market rates based on the current use of the asset

IPSAS 23 is considered in recognizing either a liability or revenue for the non-exchange component of the lease. Paragraph IG60 of that Standard provides journal entries for the recognition and measurement of the non-exchange component of the lease.

2. Year 1: The entity recognizes the following:

Dr		Interest expense (refer to Table 2 below)	805,000	-
	Cr	Lease liability	-	805,000

Recognition of interest using the effective interest method (CU16,100,000 × 5%)

Dr		Lease liability (refer to Table 2 below)	3,718,694	-
	Cr	Bank	-	3,718,694

Recognition of lease payment

3. Year 2: The entity recognizes the following:

Dr		Interest expense	659,315	-
	Cr	Lease liability	-	659,315

Recognition of interest using the effective interest method (CU13,186,306 × 5%)

Dr		Lease liability	3,718,694	
	Cr	Bank		3,718,694

Recognition of lease payment

4. Year 3: The entity recognizes the following:

Dr		Interest expense	506,346	-
	Cr	Lease liability	-	506,346

Recognition of interest using the effective interest method (CU10,126,927 × 5%)

Dr		Lease liability	3,718,694	
	Cr	Bank	-	3,718,694

Recognition of lease payment

5. Year 4: The entity recognizes the following:

Dr		Interest expense	345,729	-
	Cr	Lease liability	-	345,729

Recognition of interest using the effective interest method (CU6,914,579 × 5%)

Dr		Lease liability	3,718,694	
	Cr	Bank	-	3,718,694

Recognition of lease payment

6. Year 5: The entity recognizes the following:

Dr		Interest expense	177,081	-
	Cr	Lease liability	-	177,081

Recognition of interest using the effective interest method (CU3,541,614 × 5%)

Dr		Lease liability	3,718,694	
	Cr	Bank	-	3,718,694

Recognition of lease payment

Calculations:

Table 1: Annual Payments (Using Market Interest Rate at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	**Present Value of Payments for the Lease at Market Rates**	**Undiscounted Annual Contractual Payments**	**Present Value of Annual Contractual Payments**	**Non-exchange component of the lease to be recognized as non-exchange revenue**
	(1)	**(2)**	**(3)**	**(4)**	**5=(2)-(4)**
Year 1	5,312,420	5,059,448	3,718,694	3,541,614	1,517,834
Year 2	5,312,420	4,818,522	3,718,694	3,372,965	1,445,557
Year 3	5,312,420	4,589,068	3,718,694	3,212,348	1,376,721
Year 4	5,312,420	4,370,541	3,718,694	3,059,379	1,311,162

Year 5	5,312,420	4,162,420	3,718,694	2,913,694	1,248,726
Total	**26,562,102**	**23,000,000**	**18,593,471**	**16,100,000**	**6,900,000**

Table 2: Calculation of Lease Liability Balance and Interest Using the Effective Interest Rate

	Year 1 CU	Year 2 CU	Year 3 CU	Year 4 CU	Year 5 CU	Total
Beginning balance	**16,100,000**	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	
Interest expense	805,000	659,315	506,346	345,729	177,081	2,493,471
Contractual payments	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	(3,718,694)	
Ending balance	**13,186,306**	**10,126,927**	**6,914,579**	**3,541,614**	**0**	

Right-of-use asset	23,000,000
Less: Present value of cash outflows (lease liability on initial recognition)	16,100,000
Non-exchange component of the lease to be recognized as non-exchange revenue over five years.	6,900,000

Lessor Measurement (see paragraphs 71A, 81A, AG60, and AG62)

IE10A. The following example illustrates how a lessor measures and accounts for concessionary leases.

Example 23A–Concessionary Lease (Lessor)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

Municipality Y (Lessor) enters into an operating lease with public sector not-for-profit entity X (Lessee) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. The municipality does not regulate the types of medical services provided to the population.

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,000,000.

- *The agreement stipulates that the lease should be paid over the 5-year period as follows*:

  Year 1: CU3,500,000

  Year 2: CU3,500,000

  Year 3: CU3,500,000

  Year 4: CU3,500,000

  Year 5: CU3,500,000

  This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- *Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.*

Analysis

As the lease payments at market rates based on the current use of the underlying asset are higher than the contractual payments, the lease is a concessionary lease. The annual payments for the lease at market rates represent the total economic value created by the lease contract and is divided in two components:

(a) An exchange component—Representing the portion of the economic value created by the lease contract to be received by the lessor as future cash inflows in the form of lease payments and accounted for as revenue; and

(b) A non-exchange component—Representing the portion of the foregone revenue, which is not accounted for as revenue.

The non-exchange component of CU1,500,000 per month is disclosed in accordance with IPSAS 23, and the lease payments are accounted for in accordance with this IPSAS.

The monthly journal entries to account for the concessionary lease are as follows:

Dr Cash	CU3,500,000	
Cr Lease revenue		CU3,500,000

Sale and Leaseback Transactions (see paragraphs 97–102)

IE11. Examples 24 and 25 illustrates the application of the requirements in paragraphs 97–102 of IPSAS 43 for a seller-lessee and a buyer-lessor.

…

Example 25–Sale at Market Terms and Leaseback at Below-Market Terms

Museum A (Seller-lessee) has run into some financial difficulties due to expected increasing maintenance costs to fulfill new safety requirements due to their unique architectural building. Therefore, museum A sells the building to local government X (Buyer-lessor) at its actual market price. Seller-lessee enters into a contract with buyer-lessor for the right to use the building for 18 years with an annual payment which is at below-market terms. Buyer-lessor ensures, with this contract, that the main tourist attraction in the region keeps open for all visitors.

Museum A (Seller-lessee) sells the building to local government X (Buyer-lessor) at fair value for cash of CU1,800,000, which corresponds to a total useful life of 25.5 years. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Museum A (Seller-lessee) enters into a contract with local government X (Buyer-lessor) for the right to use the building for 18 years, with annual payments of CU103,553 at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IFRS 15, *Revenue from Contracts with Customers*. This example ignores any initial direct costs. The annual payment at market rates is CU120,000 payable.

As the sale is at fair value, the sale is at market terms. As the lease payments are at below-market terms, the leaseback has an embedded concession.

Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale at market terms and a leaseback at below-market terms.

The interest rate implicit in the lease is 4.5 percent per annum, which is readily determinable by Seller-lessee. The present value of the contractual annual payments (18 payments of CU103,553 discounted at 4.5 percent per annum), amounts to CU1,259,204.

There are no conditions attached to the leaseback transaction.

Seller-lessee

At the commencement date, Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU810,667. This is calculated as: CU1,000,000 (the carrying amount of the building) ÷ CU1,800,000 (the fair value of the building) × CU1,459,199 (the discounted payments for the lease at market rates for the 18-year right-of-use asset).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU151,467 calculated as follows. The gain on sale of building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU648,533 (CU1,459,200 × CU800,000 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and

(b) CU151,467 (CU340,801 × CU800,000 ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

Further calculations:

(c) CU340,801 (CU1,800,000-CU1,259,204) related to rights retained by the buyer-lessor (unguaranteed residual value at the beginning of the lease).

(d) CU199,995 (CU1,459,199-CU1,259,204) related to the concession.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Dr Cash	CU1,800,000	
Dr Right-of-use asset	CU810,666	
Cr Building		CU1,000,000
Cr Lease liability		CU1,259,204
Cr Revenue		CU199,995
Cr Gain on rights transferred		CU151,467

Buyer-lessor

The buyer-lessor classifies the lease as a finance lease.

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Dr Building	CU1,800,000
Dr Financial asset	CU1,600,005 (18 payments of CU103,553, discounted at 4.5 per cent per annum

(CU1,259,204) + unguaranteed residual value (CU340,801))

Dr Concession expense	CU199.995	
Cr Cash		CU1,800,000
Cr Building (value of the rights transferred to the seller-lessee)		CU1,459,199
Cr Building (unguaranteed residual value)		CU340,801

After the commencement date, the Seller-lessee and Buyer-lessor account for the lease by treating CU103,553 as lease payments.

Comparison with IFRS 16

IPSAS 43, *Leases* is drawn primarily from IFRS 16 (2016) *Leases,* including amendments up to March 2021.

The main differences between IPSAS 43 and IFRS 16 are as follows:

- IPSAS 43 uses different terminology from IFRS 16. For example, IPSAS 43 uses the terms “revenue”, “operation”, “accumulated surpluses/(deficits)” and “segment”, while IFRS 16 uses the terms “income”, “business unit”, “retained earnings” and “business segment’, respectively.
- IPSAS 43 refers to both “economic benefits” and “service potential”, where appropriate, in the section on identifying a lease, while IFRS 16 refers only to “economic benefits”.
- IPSAS 43 does not include specific requirements for manufacturer or dealer lessors, whereas IFRS 16 does.
- IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas IFRS 16 does not.
- IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas IFRS 16 does not.

Comparison with GFS

In developing IPSAS 43, *Leases*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- IPSAS 43 applies a right-of-use model for lessees and a risks and rewards model for lessors, while GFS applies a risks and rewards model for both lessees and lessors.
- Under IPSAS 43, lessors classify leases as finance lease or operating lease and lessees do not classify leases as finance lease or operating lease. Under GFS, leases are classified as financial lease, operating lease, or resource lease.
- Under IPSAS 43, lessees recognize a right-of use asset and a lease liability. Under GFS, an underlying asset and a loan are recognized in a financial lease and lease payments from operating leases are recognized as use of goods and services.
- IPSAS 43 provides an optional recognition exemption for lessees on short-term leases and leases for which the underlying asset is of low value. GFS does not provide such recognition exemption.
- <u>IPSAS 43 includes specific measurement requirements on concessionary leases for lessees, whereas GFS does not.</u>
- <u>IPSAS 43 includes specific disclosure requirements on concessionary leases for both lessees and lessors, whereas GFS does not.</u>

Amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 83, 93, 96, and 107 are amended. Paragraphs 28A, 43A–43B, 105C–105F, 107A–107C, 123A and 124H are added. The headings above paragraph 43B, 105C, and 105E are added. New text is underlined.

Definitions

…

<u>Right-of-use Assets In-kind</u>

<u>28A. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10–12 and AG10–AG34 of IPSAS 43, *Leases* for identifying a lease, with the necessary adaptations in the absence of lease payments.</u>

Recognition of Assets

…

Measurement of Assets on Initial Recognition

…

<u>43A. Right-of-use assets held by a lessee acquired through a concessionary lease and right-of-use assets in-kind acquired through a transaction that transfers the right to use an underlying asset for zero consideration are initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in accordance with the requirements of IPSAS 43.</u>

<u>Subsequent Measurement of Right-of-Use Assets In-kind</u>

<u>43B. After the commencement date, an entity shall measure the right-of-use asset in-kind in accordance with the requirements of IPSAS 43 for right-of-use assets.</u>

…

Transfers

…

Measurement of Transferred Assets

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with IPSASs. As noted previously, inventories, property, plant, equipment, or investment property acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition, in accordance with the requirements of IPSAS 12, IPSAS 16, and IPSAS 17. <u>Right-of-use assets held by a lessee and right-of-use assets in-kind acquired through non-exchange transactions are to be initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset in</u>

accordance with IPSAS 43. Financial instruments, including cash and transfers receivable that satisfy the definition of a financial instrument, and other assets, will also be measured at fair value as at the date of acquisition in accordance with paragraph 42 and the appropriate accounting policy.

…

Gifts and Donations, including Goods In-kind and Right-of-Use Assets In-kind

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, right-of-use assets in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets, ~~and~~ goods in-kind, and right-of-use assets in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.

…

96. Goods in-kind and right-of-use assets in-kind are recognized as assets when the goods and right-of-use assets in-kind, are received, or there is a binding arrangement to receive the goods or the right-of-use assets in-kind. If goods in-kind and 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.

…

Concessionary Leases

105C. Concessionary leases are leases granted to or received by a lessee at below-market terms. The portion of the lease that is payable, along with interest payments, is accounted for in accordance with IPSAS 43. A lessee considers whether the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue that should be accounted for in accordance with this Standard.

105D. Where a lessee determines that the difference between the value of the right-of-use asset on initial recognition and the present value of contractual payments is non-exchange revenue, a lessee recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred asset (the right-of-use asset) by the lessee result in a present obligation. 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.

Presentation of Right-of-Use Assets In-kind

105E. An entity shall present in the statement of financial position or disclose in the notes right-of-use assets in-kind separately from other assets. If an entity does not present right-of-use assets in-kind separately in the statement of financial position, the entity shall:

(a) Include right-of-use assets in-kind within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

(b) Disclose which line items in the statement of financial position include those right-of-use assets in-kind.

105F. An entity may present right-of-use assets in-kind together with other right-of-use assets.

Disclosures

…

107. An entity shall disclose in the notes to the general purpose financial statements:

(a) The accounting policies adopted for the recognition of revenue from non-exchange transactions;

(b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;

(c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and

(d) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind and right-of-use assets in-kind received.

107A. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:

(a) Depreciation charge; and

(b) Carrying amount at the end of the reporting period by class of underlying asset.

107B. If right-of-use assets in-kind meet the definition of investment property, an entity shall apply the disclosure requirements in IPSAS 16. In that case, an entity is not required to provide disclosures in 107A for those right-of-use assets in-kind.

107C. 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.

Transitional Provisions

…

123A. The transitional provisions for right-of-use assets in IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

Effective Date

…

124H. **Paragraphs 83, 93, 96, and 107 were amended and paragraphs 28A, 43A–43B, 105C– 105F, 107A–107C, and 123A were added by [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) issued in [Month YYYY]. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after [MM DD, YYYY]. Earlier application is permitted. If an**

entity applies the amendments for a period beginning before [MM DD, YYYY] it shall disclose that fact and apply IPSAS 43 at the same time.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

…

Revision of IPSAS 23 as a result of [draft] IPSAS [X] (ED 84), *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) issued in [Month and Year]

BC28. In January 2021, the IPSASB issued the Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*. The paragraphs below present the Basis for Conclusions on how the IPSASB addressed some of the topics in that Request for Information based on the information received from respondents.

Right-of-Use Assets In-kind

BC29. The IPSASB noted that some respondents to the Request for Information had identified in their jurisdiction arrangements that conveyed the right to use an underlying asset for zero consideration. As this type of arrangement does not meet the definition of a lease because they lack consideration and with the approval of IPSAS 43 it was decided to create a new type of asset –the right-of-use asset in-kind– that did not exist at the time of approval of IPSAS 23, the IPSASB decided to amend this Standard to provide guidance on accounting for this type of arrangement.

BC30. The IPSASB decided that accounting for right-of-use assets in-kind should follow the same principles as for right-of-use assets acquired through a concessionary lease because both are non-exchange transactions.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 23

…

Concessionary leases (paragraphs 105C and 105D)

Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IG60. Public sector not-for-profit entity X (Lessee) enters into a lease with municipality Y (Lessor) to use a building over a period of 5 years with the condition to use it for providing medical services to the population in general. *The municipality does not regulate the types of medical services provided to the population.*

The annual payment for the lease at market rates based on the current use of the underlying asset is CU5,312,420.

- The agreement stipulates that the lease should be paid over the 5-year period as follows:

  Year 1: CU3,718,694

  Year 2: CU3,718,694

  Year 3: CU3,718,694

  Year 4: CU3,718,694

  Year 5: CU3,718,694

  This represents an agreed reduction of 30% to the lease payments at market rates. The interest rate implicit in the lease is 5 percent per annum which is readily determinable by lessee.

- The lease includes conditions. To the extent the conditions are not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The conditions are met on a straight-line basis.

Analysis

It is a concessionary lease as the present value of the payments for the lease at market rates based on the current use of the underlying asset is higher than the present value of the contractual payments. The public sector not-for-profit entity (Lessee) has effectively received a concession of CU6,900,000, which is the difference between the present value of the payments for the lease at market rates and the present value of the contractual payments. (Note: An entity would consider whether the substance of the CU6,900,000 is a contribution from owners or revenue; assume for purposes of this example that the CU6,900,000 is revenue).

The non-exchange component of CU6,900,000 is accounted for in accordance with this Standard, and the lease, with its related contractual interest and lease payments, in accordance with IPSAS 43.

The journal entries to account for the concessionary lease are as follows:

1. On initial recognition, the entity will recognize the following:

Dr		Right-of-use asset	CU23,000,000	
	Cr	Lease liability		CU16,100,000
	Cr	Liability		CU6,900,000

2. Year 1: the entity will recognize the following:

Dr		Liability	CU1,380,000	
	Cr	Non-exchange revenue		CU1,380,000

(1/5 of the conditions met by the lessee CU6.900.000)

(Note: The journal entries for the repayment of interest and capital and interest accruals, have not been reflected in this example as it is intended to illustrate the recognition of revenue arising from concessionary leases. A comprehensive example is included in the Illustrative Examples to IPSAS 43.)

3. Year 2: the entity will recognize the following (the entity subsequently measures the concessionary lease at amortized cost):

Dr		Liability	CU1,380,000	
	Cr	Non-exchange revenue		CU1,380,000

(1/5 of the conditions met X CU6,900,000)

4. Year 3: the entity will recognize the following:

Dr		Liability	CU1,380,000	
	Cr	Non-exchange revenue		CU1,380,000

(1/5 of the conditions met X CU6,900,000)

5. Year 4: the entity will recognize the following:

Dr		Liability	CU1,380,000	
	Cr	Non-exchange revenue		CU1,380,000

(1/5 of the conditions met X CU6,900,000)

6. Year 5: the entity will recognize the following:

Dr		Liability	CU1,380,000	
	Cr	Non-exchange revenue		CU1,380,000

(1/5 of the conditions met X CU6,900,000)

If the concessionary lease was granted with no conditions, the entity would recognize the following on initial recognition:

Dr		Right-of-use asset	CU23,000,000	
	Cr	Lease liability		CU16,100,000
	Cr	Non-exchange revenue		CU6,900,000

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