Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48)

This summary provides an overview of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48).

Project Objective: To develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements.

Approved: The International Public Sector Accounting Standards Board® (IPSASB®) approved *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) in June 2024. It was issued in October 2024.

Project History: In January 2021, the IPSASB issued Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases* to inform on the issues that need to be considered to develop public sector-specific guidance in Phase Two of the Leases project.

Informed by the RFI consultation, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23) in January 2023, and ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) in March 2024.

Concessionary Leases and Other Arrangements Conveying Rights over Assets responds to ED 84 and ED 88, adding public sector guidance to IPSAS 43, *Leases* (issued in January 2022 and aligned with IFRS 16, *Leases*), IPSAS 47, *Revenue*, IPSAS 48, *Transfer Expenses* and completes IPSASB's longstanding Leases project.

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Project Overview

The purpose of Phase Two of the IPSASB's Leases project is to develop additional guidance identifying and addressing lease-related accounting issues associated with lease-type arrangements that are prevalent in the public sector.

Why the IPSASB Undertook this Project?

The IPSASB issued IPSAS 43 in January 2022. IPSAS 43 is aligned with IFRS 16.

As part of the development of IPSAS 43, the IPSASB agreed additional public sector guidance would need to be added to address arrangements that are prevalent in the public sector.

The IPSASB undertook the public sector-specific phase of the project following the publication of IPSAS 43.

Enhancements to IPSAS 43, IPSAS 47, and IPSAS 48

The new guidance enhances IPSAS 43, IPSAS 47, and IPSAS 48 by addressing the accounting for arrangements that are prevalent in the public sector consistent with the principles in those Standards.

Benefits of *Concessionary Leases and Other Arrangements Conveying Rights over Assets*

The enhancements introduced by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* have the following benefits:

(a) Increased transparency related to right-of-use assets acquired through leases at below-market terms (concessionary leases);

(b) Increased comparability between financial statements of entities that acquire assets without the exchange of consideration (goods in-kind) and entities that acquire the right to use the same type of assets also without the exchange of consideration (right-of-use assets in-kind); and

(c) The new implementation guidance and illustrative examples help preparers applying the principles in IPSAS 43, IPSAS 47, and IPSAS 48 to specific arrangements that are prevalent in the public sector.

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What Are the New Requirements for Concessionary Leases?

Concessionary leases are leases at below-market terms.

For lessees, right-of-use assets are initially measured at the present value of payments for the lease at market rates based on the current use of the underlying asset.

For lessors, there is no change in the IPSAS 43 risks and rewards incidental to ownership model.

Amendments to IPSAS 43 and IPSAS 47—Lessees

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 revenue for the concession component as the difference between (a) and (b), except if a compliance obligation exists. Where a compliance obligation exists, the lessee considers if it gives rise to the existence and recognition of a liability. As the lessee satisfies the compliance obligation, the liability is reduced, and an equal amount of revenue is recognized.

Lessees disclose, among other information, the amount of the concession on initial recognition, purpose and terms of the concessionary leases, and significant assumptions used in measuring the right-of-use asset.

Amendments to IPSAS 43—Lessors

The accounting for concessionary leases for lessors follows the accounting for leases at market terms in accordance with IPSAS 43 because:

(a) In a concessionary operating lease, the amount of the concession is the difference between the lease revenue and the expenses with the underlying asset. This means that no economic benefits or service potential associated with the transaction will flow to the lessor higher than the cash received by the lessor in the form of lease payments by the lessee.

(b) In a concessionary finance lease, the amount of the concession is the difference between the carrying amount of the derecognized underlying asset and the newly recognized net investment in the lease, which is related to the economic benefits or service potential given up measured by the carrying amount of the underlying asset.

Lessors are required to disclose, among other information, the concession amounts described in the above paragraphs.

What Are the New Requirements for Sale and Leaseback Transactions?

Entities should assess whether a sale and leaseback transaction contains an embedded concession at the inception of the lease.

Amendments to IPSAS 43—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.

Concessionary Leases and Other Arrangements Conveying Rights over Assets includes new public sector-specific guidance where the below-market terms of the leaseback are 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, the accounting for concessionary leasebacks should follow the same principles as for concessionary leases.

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What Are the New Requirements for Right-of-Use Assets In-kind?

Right-of-use assets in-kind are right-of-use assets received without consideration.

Right-of-use assets in-kind are initially measured the at the present value of payments at market rates based on the current use of the underlying asset.

Amendments to IPSAS 47—Identification

Entities 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 47—Recognition

Right-of-use assets in-kind are recognized in accordance with IPSAS 16, *Investment Property* and IPSAS 45, *Property, Plant, and Equipment* if the meet the definition of investment property or property, plant, and equipment, respectively.

The timing of revenue recognition depends on the fulfillment of the compliance obligations.

Amendments to IPSAS 47—Measurement

Right-of-use assets in-kind are initially measured in accordance with the requirements of IPSAS 43 for right-of-use assets in concessionary leases because both have types of non-cash consideration.

Subsequently, right-of-use assets in-kind are measured in accordance with the requirements of IPSAS 43 for right-of-use assets in leases at market terms.

Amendments to IPSAS 47—Disclosures

Entities are required to disclose the following information on right-of-use assets in-kind:

(a) Nature and type of major classes of right-of-use assets in-kind, showing separately major classes of right-of-use assets in-kind received;

(b) Depreciation charge by class of underlying asset; 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 45 the entities should apply the disclosures requirements in IPSAS 16, *Investment Property* or paragraph 74 of IPSAS 45, respectively.

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What Are the New Illustrative Examples?

There are new illustrative examples on Lease Incentives, Lease Concessions, Concessionary Leases, Right-of-Use Assets In-kind, Access Rights, Arrangements Allowing the Right to Use an Asset, and Shared Properties.

New Illustrative Examples Accompanying IPSAS 43

There are new illustrative examples on access rights and shared properties. These illustrative examples showcase that these arrangements are not within the scope of IPSAS 43.

The new illustrative examples on leases incentives and lease concessions help distinguish between lease incentives and lease concessions.

The new illustrative examples on concessionary leases and sale at market terms and leaseback at below-market terms showcase the application of the principles in IPSAS 43, including the amendments to IPSAS 43 in *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

New Illustrative Examples Accompanying IPSAS 47

The new illustrative examples on Concessionary Leases for Lessees and in Right-of-Use Assets In-kind showcase the accounting for the concession in both arrangements.

The illustrative examples on Access Rights, Arrangements Allowing the Right to Use an Asset, and Shared Properties. These illustrative examples showcase that these arrangements are not Leases and are within the scope of IPSAS 47.

New Illustrative Examples Accompanying IPSAS 48

The new illustrative example on right-of-use assets in-kind relate to the usage of a sports field for zero consideration. This illustrative example showcases that this arrangement is within the scope of IPSAS 48 as the entity providing the services, does so, without directly receiving any good, service, or other asset in return.

Effective Date and Project History

The effective date of amendments to IPSAS 43 and IPSAS 47 is January 1, 2027.

Effective Date

The effective date of amendments to IPSAS 43 and IPSAS 47 is January 1, 2027, with earlier application permitted for entities that also apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* at the same time.

The IPSASB selected this effective date because it:

(a) Is broadly consistent with the three-year application period of IPSAS 43;

(b) Does not overwhelm preparers with more changes to be effective at the same time as IPSAS 43 to IPSAS 49; and

(c) Allows preparers one more year for planning and implementation of the amendments to IPSAS 43 and IPSAS 47 after implementing IPSAS 43 to IPSAS 49 in the previous years.

Project History

To learn more about the project history, and to view the consultation documents and responses, please visit:

https://www.ipsasb.org/consultations-projects/leases