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IPSAS®

International Public Sector Accounting Standard ®

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

IPSASB International Public Sector Accounting Standards Board®

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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.

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CONCESSIONARY LEASES AND OTHER ARRANGEMENTS CONVEYING RIGHTS OVER ASSETS (AMENDMENTS TO IPSAS 43, IPSAS 47, AND IPSAS 48)

CONTENTS

Amendments to IPSAS 43, *Leases*

Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 103E, 117A–117F, AG32A, AG60–AG62, and BC105–BC206 are added. Paragraphs 6, 54, 109, 118, and 120 are amended. Headings above paragraphs 18A, 64A, 96A, 96B, 117A, 117E, 117F, AG32A, AG60, BC105, BC111, BC123, BC125, BC131, BC143, BC153, BC156, BC158, BC160, BC163, BC167, BC169, BC170, BC172, BC174, BC175, BC177, BC188, BC191, BC192, BC195, BC200, BC202, and BC204 are added. Headings above paragraphs 10, 65, 71, and 81 are amended. Paragraph IE2 has not been amended and has been included for ease of reading. 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, and AG60–AG62)

…

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

18A. At inception, an entity will determine whether the transaction is at market terms or at below-market terms.

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 has a concession component. In determining whether a lease has an identifiable concession 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.

18D. At inception, a:

   (a) Lessee assesses the substance of the concessionary lease by applying the principles in this Standard and paragraphs AG153A–AG153B of IPSAS 47, *Revenue*; and

   (b) Lessor assesses the substance of the concessionary lease by applying the principles in this Standard.

…

Lessee

…

Measurement

Initial Measurement

Initial Measurement of the Right-of-Use Asset

…

26A. **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.**

26B. 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 cost of the right-of-use asset shall also include the items identified in paragraphs 25(c) and 25(d).

26C. A lessee shall make a reasonable level of effort in determining the present value of payments for the lease at market rates based on the current use of the underlying asset. 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.

Initial Measurement of the Lease Liability

…

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

…

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 55–64A specify requirements on how to meet this objective.**

…

Concessionary Leases

64A. For concessionary leases received, a lessee shall disclose by class of underlying asset:

(a) The amount of the concession on initial recognition;

(b) 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;

(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–~~AG59~~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 for finance leases.

…

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 for operating leases.

…

Disclosure

…

Concessionary Finance Leases

96A. For concessionary finance leases granted, a lessor shall disclose by class of underlying asset:

(a) The 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 by class of underlying asset:

(a) The amount of lease revenue accrued during the period;

(b) The costs associated with the underlying asset incurred on the accrual basis during the period;

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

(d) 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 47, 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

…

103E. **Paragraphs 18A–18D, 26A–26C, 29A, 64A, 71A, 81A, 96A, 96B, 97A, 97B, 117A–117F, AG32A, and AG60–AG62 were added and paragraphs 6, 54, 109, 118, and 120 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* 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 measure that right-of-use asset at the present value of payments for the remaining lease term 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 previously 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, *Investment Property*. 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:

(a) Account for those leases in the same way as short-term leases as described in paragraph 7; and

(b) 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 IPSAS 47, *Revenue* to be accounted for as a sale~~.~~; and

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

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 43.

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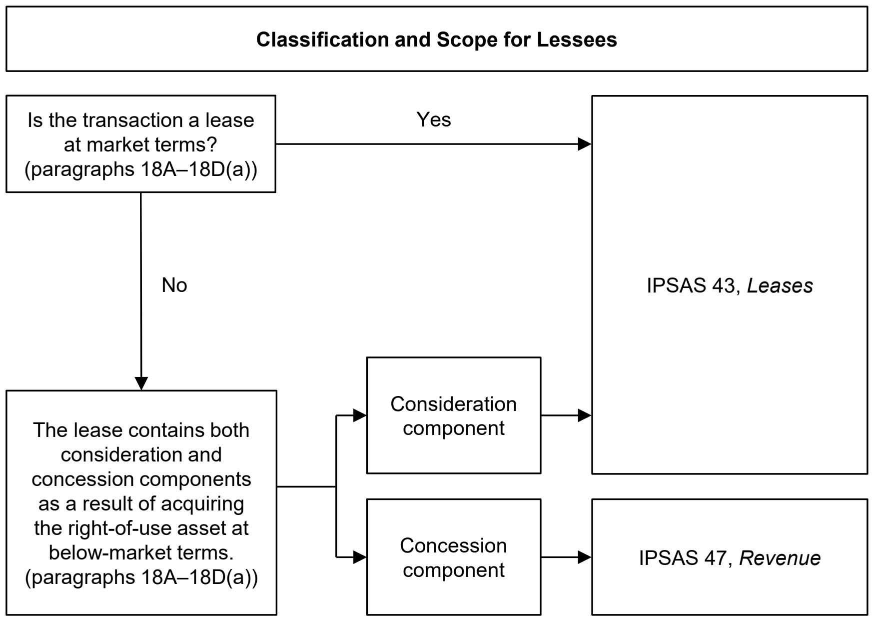
Classification of Leases at Market Terms and at Below-Market Terms and Scoping for Lessees (paragraphs 18A–18D)

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



…

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

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

AG61. If a lessee receiving the right-of-use asset has determined that the transaction has a concession component, the 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 paragraphs AG153A–AG153B of IPSAS 47 at the commencement date.

AG62. If a lessor granting a concessionary lease has determined that the transaction has a concession component, at the commencement date:

(a) In a concessionary finance lease, the lessor:

(i) Derecognizes the underlying asset in accordance with the applicable IPSAS;

(ii) Recognizes the net investment in the lease in accordance with this Standard; and

(iii) Does not recognize the foregone revenue obtained by the difference between the present value of payments for the lease at market rates based on the current use of the underlying asset and the newly recognized net investment in the lease.

(b) In a concessionary operating lease, the lessor:

(i) Recognizes lease revenue in accordance with this Standard;

(ii) Does not recognize the foregone revenue obtained by the difference between the contractual payments and the payments for the lease at market rates based on the current use of the underlying asset; and

(iii) Shall assess whether the underlying asset is impaired in accordance with the applicable IPSAS.

Illustrative Examples are provided in paragraph IE296A of the Illustrative Examples accompanying IPSAS 47 as well as in paragraphs IE5, IE10A, and IE11 of the Illustrative Examples 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 *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024

Introduction

BC105. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[1].

BC106. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC107. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or a right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC108. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[2], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[3], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable from 2026 onwards.

BC109. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for lessees in IPSAS 47 for the concession in concessionary leases update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC110. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets*

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[1] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[2] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[3] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

(Amendments to IPSAS 43, IPSAS 47, and IPSAS 48), regarding the amendments to IPSAS 43 including respondents' feedback to ED 84.

Definitions

BC111. The IPSASB reconsidered whether to modify the definition of a lease to include other types of arrangements that are not contracts.

BC112. 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.

BC113. 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.

BC114. The fundamental difference between the definition of a contract in IPSAS 43 and the definition of a binding arrangement is that in the latter 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. Enforceability through equivalent means is the presence of enforcement mechanisms outside of the legal system, that is similar to the force of law without being legal in nature, such as statutory mechanisms, legislative or executive authority, and cabinet or ministerial directives."

BC115. 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.

BC116. Sometimes in the public sector, there are binding arrangements that, although conveying the right to use an underlying asset, are not, in substance, contracts. For example:

(a) One or both parties to the arrangement are 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, enforcement achieved through executive authority, either cabinet or ministerial directives).

BC117. By extension, when entities have arrangements as described in paragraph BC116, 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) IPSAS 43 was designed for 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[4].

BC118. Therefore, the IPSASB decided to retain the definition of a lease as 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 also only applicable to contracts.

BC119. 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 revenue transaction as a whole.

BC120. The IPSASB decided to provide a description rather than a definition of a concessionary lease because:

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

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

BC121. 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.

BC122. The IPSASB concluded that a transaction that conveys a right-of-use asset in-kind is in substance a revenue transaction and, therefore, the principles in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IPSAS 47, *Revenue* are applicable to this type of transaction.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC123. While respondents strongly agreed with ED 84 proposals, a few respondents suggested:

(a) Expanding the definition of a lease to include binding arrangements that are not contracts for consistency with IPSAS 47 and IPSAS 48, *Transfer Expenses*; and

(b) Introducing new definitions on varied topics or adding more guidance related to the proposed definitions.

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

BC124. The IPSASB considered the reasons raised by the respondents and decided to proceed with the ED 84 proposals on keeping the definition of a lease limited to contracts and not adding new definitions for consistency with current IPSAS.

Identification, Classification, and Scope of Concessionary Leases

BC125. 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.

BC126. 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.

BC127. 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 on a lessee's sales might influence the identification of a concessionary lease.

BC128. The IPSASB decided not to include this additional guidance in IPSAS 43 because it is not prevalent in the public sector.

BC129. The IPSASB also considered the role of lease modifications when identifying and classifying leases at market or at below-market terms.

BC130. 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.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC131. The majority of respondents to ED 84 supported the proposed guidance on identification, classification, and scope.

BC132. Some respondents who did not support ED 84 proposals suggested providing additional guidance on:

(a) Other types of arrangements that convey the right to use an underlying asset in order to have a holistic approach;

(b) Arrangements that convey the right to use that (i) are binding arrangements, but are not in-substance contracts, or (ii) are not binding arrangements;

(c) What constitutes a condition or compliance obligation in the context of a concessionary lease in IPSAS 23; and

(d) Arrangements involving unwilling parties.

BC133. The IPSASB considered the issues raised by respondents and decided to proceed with ED 84 proposals because the respondents' suggestions are outside of the scope of IPSASB's project that led to the development of ED 84.

BC134. A respondent suggested providing a scope exclusion:

(a) Based on significance to public sector accountability (such as those where one party to the lease is a commercial entity); and

(b) Between entities within the same public sector group.

BC135. The IPSASB considered the above suggestions and decided not to provide scope exclusions based on specific characteristics of the entities because it impairs accountability and decision-making: the impact of receiving resources at below-market terms would no longer be visible in the financial statements and the accountability mechanisms may also be applied at entity level, not only at group level on consolidation.

BC136. A respondent suggested providing guidance on right-of-use assets in kind in a single Standard.

BC137. The IPSASB considered the above suggestion and decided to proceed with ED 84 proposals in two Standards because the scope of IPSAS 43 and IPSAS 23[5] was not meant to be changed and ED 84 proposals need to be consistent with the current scoping of IPSAS. The IPSASB notes that some of the guidance provided to concessionary leases can also be applicable to right-of-use assets in-kind.

BC138. Several respondents made suggestions about the proposed application guidance sections on classification of concessionary leases, including the diagrams and the role of consideration in the arrangements. These respondents were of the view that the diagram for lessors was confusing as the lessor did not recognize the non-exchange component and made several drafting suggestions.

BC139. The IPSASB considered these views and decided to enhance the application guidance section on identifying concessionary leases and the terminology in the diagram for lessees. The IPSASB also decided to remove the diagram for lessors because there is no:

(a) Change in the accounting for concessionary leases for lessors compared to leases at market terms; and

(b) Accounting for the foregone revenue in a concessionary lease for lessors.

BC140. Some respondents suggested more guidance on:

(a) Whether the goals/intent of the parties in entering into a lease contract has weight in the determination of concessionary leases; and

(b) Whether the use of the underlying asset for either its financial or its operational capacity influences the determination of whether the market rates based on the current use or the highest-and-best use is appropriate.

BC141. The IPSASB considered these suggestions and decided not to provide more guidance on the above topics because:

(a) The current guidance in IPSAS 43 and in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* is sufficient to help preparers identify a concessionary lease based on the definition of a lease and its market terms; and

[5] The IPSASB carried over this decision to ED 88 with separate proposals for IPSAS 47, which was then carried over to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

(b) The requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* apply a measurement technique specifically developed for concessionary leases, where the requirement of "based on the current use" is provided as a cost-relief to preparers.

BC142. However, the IPSASB decided to add illustrative examples on other lease-type arrangements that are common in the public sector to help preparers identifying a lease.

Lessee

Recognition and Measurement

BC143. IPSAS 43 initially measures the right-of-use assets 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, IPSAS 31, *Intangible Assets*, and IPSAS 45 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.

BC144. To address this issue, when developing the guidance to account for the right-of-use asset and the concession component in concessionary leases in ED 84 and ED 88, the IPSASB considered the principles in the IPSAS mentioned in paragraph BC143, as well as in IPSAS 23, IPSAS 41, *Financial Instruments*, and IPSAS 47.

BC145. The IPSASB noted that the above IPSAS require that assets acquired through non-exchange transactions be measured at their fair value as at the date of acquisition. The IPSASB considered also requiring measuring the right-of-use asset 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.

BC146. 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 is 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.

BC147. The IPSASB also noted that IPSAS 46, *Measurement* introduced a new fair value definition drawn from IFRS 13 *Fair Value Measurement*. The IPSASB also noted that the new fair value definition is associated with the definition of highest and best use.

BC148. 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 increased difficulty in 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.

BC149. 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.

BC150. As an exception to the above principle, the IPSASB decided to require measuring the right-of-use asset under 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 in measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets). The IPSASB noted that the lease liability would still be reliably measured using the contractual payments for the lease.

BC151. 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.

BC152. The IPSASB also decided to account for the concession component in a concessionary lease following the principles applicable to concessionary loans in IPSAS 23[6] because:

(a) Both transactions:

(i) Are at below-market terms at inception;

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

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

(b) Transferring a resource in cash or in-kind should not modify the accounting for the concession component as revenue in both transactions, as concessionary leases are in substance financing transactions; and

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

[6] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 23.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

Overview

BC153. The majority of respondents to ED 84 supported the proposed guidance on recognition and measurement for concessionary leases for lessees.

BC154. Some respondents disagreed with ED 84 proposals because:

(a) There is a lack of consistency between lessee and lessor accounting;

(b) They are of the view that concessionary leases are:

(i) Not viewed as financing transactions, rather a means to achieve particular objectives or providing social services; and

(ii) Analogous to services in-kind and service concession arrangements.

BC155. The IPSASB considered these views and decided to proceed with ED 84 proposals because:

(a) The lack of consistency between lessee and lessor accounting impacts all leases, and not only concessionary leases. The IPSASB reaffirmed that it is not within the scope of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to change the accounting models in IPSAS 43.

(b) Both concessionary leases and concessionary loans can be a way to achieve particular objectives, and therefore it is not a specific feature of concessionary leases. The objectives under which concessionary leases are received or granted have no impact on the classification of the transaction as a lease. This means that, provided that the transaction meets the definition of a lease, the principles proposed in ED 84 are appropriate. Concessionary leases are still financing transactions where there is a significant obligation to pay for the acquisition of the right-of-use asset albeit at below-market terms.

(c) Leases from the lessee perspective under the right-of-use model are not analogous to:

(i) Services because in a lease the resource-recipient (lessee) controls the use of the identified asset, while in a service the resource-provider (supplier) controls the use of the asset. Right-of-use assets are analogous to owned assets by owners where the resource-recipient (lessee) controls the use of the asset (the right-of-use asset in a lease).

(ii) Service concession arrangements because in a lease the resource-recipient (lessee) controls the use of the identified asset:

1. While in a service concession arrangement the resource-provider (grantor) controls the use of the identified asset; and

2. To provide services not on behalf of the resource-provider (lessor), whereas in a service concession arrangement the resource-recipient (operator) has a right to access to operate the underlying asset to provide public service on behalf of the resource-provider (grantor).

Option Between Cost and Fair Value

BC156. Some respondents suggested providing an option between cost and fair value to avoid undue cost or effort and others suggested no recognition and measurement of concessionary leases at market rates for cost-benefit reasons.

BC157. The IPSASB considered these suggestions and decided to proceed with ED 84 proposal because:

(a) It is consistent with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, which states that the transaction price of an asset acquired in a non-exchange transaction does not provide information on operational or financial capacity that meets the qualitative characteristics while taking into account the constraints on information on financial reports;

(b) It is consistent with IPSAS as no IPSAS provides an accounting policy option to initially measure at cost or at fair value assets acquired through a non-exchange transaction;

(c) It is conceptually inconsistent to require measurement at fair value of an underlying asset acquired through a non-exchange transaction, but provide an accounting policy option to measure at cost or at fair value the right to use the very same underlying asset;

(d) Should the cost to obtain the market value of lease payments exceed the benefit, the proposals do not require an entity to recognize the right-of-use asset in a concessionary lease measured at market rates and instead should consider the contractual payments; and

(e) The benefits of providing information about the subsidy embedded in a concessionary lease outweigh the cost as long as the preparer does not incur unreasonable efforts and costs to obtain it.

Disclosures Instead of Recognition and Measurement

BC158. Some respondents suggested that disclosures are enough, and that no recognition and measurement requirements are needed.

BC159. The IPSASB considered this suggestion and decided to proceed with ED 84 proposals because according to IPSASB's Conceptual Framework, disclosure is not a substitute for display.

Measurement at Inception or at Commencement Date

BC160. A respondent suggested measuring the right-of-use asset at the inception date, instead of at the commencement date to prevent reassessing all leases for a second time.

BC161. The IPSASB considered this suggestion and decided to proceed with ED 84 proposals because:

(a) A lessee does not obtain and control its right to use the underlying asset until the commencement date;

(b) Any changes to a lease that occur after the inception date and before the commencement date are taken into account when initially measuring the right-of-use asset and lease liability at the commencement date; and

(c) It is more consistent with the measurement date for other transactions, such as the acquisition of property, plant, and equipment.

BC162. In order to prevent preparers from reassessing for a second time whether the transaction is at market terms or at below-market terms at the commencement date, the IPSASB clarified in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* that the assessment is made at inception of the transaction and the measurement is made at the commencement date.

Application of IPSAS 46 Measurement Bases

BC163. Some respondents suggested that the right-of-use asset should be initially measured applying a measurement basis presented in IPSAS 46 (current operational value and fair value), depending on whether the right-of-use asset is held for operational capacity or financial capacity, respectively, or at deemed cost.

BC164. The IPSASB noted that the ED 84 proposal to measure the right-of-use asset is comprised of a measurement technique specifically developed for concessionary leases and is divided into four parts:

(a) Part 1: "present value of payments for the lease"—This requirement applies the concept of the time value of money embedded in the lease because leases normally require a series of payments in the future, even if they are at below-market terms. The measurement technique “present value” is consistent with:

(i) Its applicability in IPSAS 43 for leases at market terms; and

(ii) The accounting principles in IPSAS 46, which measure the current value of assets and liabilities whether the cash flows occur at a point in time or in the future.

(b) Part 2: "at market rates"—This requirement obtains the market lease payments as if the lease was made at market terms. The term "market rates" can be seen as a way of estimating how much the lessee would have to pay for the lease if it was made at market rates.

(c) Part 3: "based on the current use of the underlying asset"—This requirement is a restriction in the assessment of market rates that serves as a cost-relief to preparers, as preparers do not need to search for the highest and best use of the underlying asset.

(d) Part 4: "as at the commencement date"—This requirement is consistent with the requirements in IPSAS 43 for leases at market terms and other items of property, plant, and equipment under IPSAS 45 (see paragraphs BC162–BC163).

BC165. The IPSASB reiterated its reasoning during the development of IPSAS 46 that this Standard is not meant to determine measurement guidance in other IPSAS. The objective of IPSAS 46 is to focus on the definition of appropriate measurement bases and their derivation. IPSAS 46 does not establish requirements for which measurement bases should be used in IPSAS.

BC166. The IPSASB concluded that the proposed measurement principles in ED 84 for right-of-use assets in concessionary leases for lessees are conceptually consistent with the measurement principles in IPSAS. Therefore, the IPSASB decided to carry over these principles to *Concessionary Leases and Other Arrangements Conveying Rights over Assets*.

Terminology

BC167. Several respondents suggested:

(a) Adding more guidance on reasonable level of effort in determining the present value of lease payments at market rates based on the current use of the underlying asset as at the commencement date of the concessionary lease;

(b) Replacing the wording "not readily available" with "impracticable" in context of measuring the market lease payments; and

(c) Adding more guidance on "market rates".

BC168. The IPSASB decided to carry over the ED 84 proposals to *Concessionary Leases and Other Arrangements Conveying Rights over Assets* for consistency with IPSAS 43 because:

(a) The term "reasonable level of effort" is dependent on the context in which it is applied as:

(i) Paragraph AG15(a) of IPSAS 43 already uses the term "reasonable" in the context of identifying substantive substitution rights; and

(ii) The term "reasonable" is a commonly used term in IPSAS without having additional guidance to explain it.

(b) The wording "readily available" is already used in IPSAS 43 without the wording "reasonable level of effort";

(c) The wording "impracticable":

(i) Sets a higher bar of effort to apply the exception, thus leading to more costs in applying the ED 84 proposals than what was intended by the IPSASB;

(ii) Creates an internal inconsistency in IPSAS 43 (i.e., separating components of a contract (see paragraph 15 of IPSAS 43), initial measurement of the lease liability (see paragraph 27 of IPSAS 43); reassessment of the lease liability (see paragraph 42 of IPSAS 43), and sale and leaseback transactions (see paragraph 101 of IPSAS 43)) for similar situations;

(iii) Is used normally in the context of retrospective application of accounting policies or retrospective restatements to correct an error under IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(d) The Measurement–Application Phase project will clarify through proposed amendments to IPSAS 46 that market rates do not include concessions.

Reassessment of the Lease Liability

BC169. The IPSASB decided to provide a relief to preparers for the reassessment of the lease liability in concessionary leases by requiring entities to apply the original discount rate when reassessing the lease liability.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC170. A respondent suggested that the IPSASB consider the updated discount rate for a lease modification because the lessee may always apply the lessee's incremental borrowing rate in case of not knowing the revised interest rate implicit in the lease.

BC171. The IPSASB agreed with the respondent and decided not to modify the IPSAS 43 requirements related to reassessment of the lease liability in case of concessionary leases.

Recognition Exemptions

BC172. 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.

BC173. The IPSASB decided not to require the general model 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) Short-term leases have a lease term of 12 months or less.

Disclosures

BC174. 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.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC175. Some respondents made several detailed suggestions related to disclosures, such as:

(a) To require disclosures of right-of-use assets by class of underlying asset;

(b) Duplicate in IPSAS 23 the disclosures that exist in IPSAS 43; and

(c) Require disclosures on lessee's dependency on the underlying asset.

BC176. The IPSASB agreed to require disclosures of right-of-use assets by class of underlying asset because it is consistent with IPSAS 43 for leases at market terms. However, the IPSASB decided not to duplicate disclosures for cost-benefit reasons and not to require disclosure on a lessee's dependency on the underlying asset because this topic impacts all leases and not only concessionary leases.

Lessor

Recognition and Measurement

BC177. 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.

BC178. 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 31, and IPSAS 45 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.

BC179. 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.

BC180. 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.

BC181. This means that lessors can have two types of concessionary leases:

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

(b) Concessionary operating leases—which can be analogous to providing services at below-market terms, as the lessor continues to recognize the underlying asset and the accounting is similar by applying the principles in IPSAS 45 to the accounting of the underlying asset and IPSAS 47 to the accounting of the revenue.

BC182. 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, IPSAS 31, and IPSAS 45 for disposals.

BC183. 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 lessor 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 23[7].

BC184. 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 of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate.

BC185. 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.

BC186. 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

[7] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 23.

IPSAS 9[8], the IPSASB did not identify an economic reason to provide an exception to this principle in the context of concessionary operating leases.

BC187. 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.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC188. The majority of respondents to ED 84 supported the ED 84 proposals on recognition and measurement for concessionary leases for lessors.

BC189. Some respondents disagreed with ED 84 proposals because:

(a) ED 84 appears to treat the leasing standard as somehow appropriate for use by lessors in a finance lease providing concessionary leases when there is no stream of cash flows;

(b) Consideration of impairment in a concessionary operating lease should not be contemplated;

(c) In a concessionary finance lease, the underlying asset should not be derecognized if it continues to embody service potential; and

(d) Inconsistency between concessionary operating leases and concessionary finance leases where there is a loss on commencement date of the concessionary finance lease and no loss arises on commencement date of the concessionary operating lease, while both can have service delivery or outcome objectives.

BC190. The IPSASB considered these views and decided to proceed with ED 84 proposals because:

(a) The main issue in a concessionary finance lease is the underlying asset being transferred at below market terms. In this type of lease, the cost of the concession is the difference between the carrying amount of the underlying asset being transferred and the net investment in the lease. The accounting for the lease component is within the scope of IPSAS 43, and the accounting for the derecognition of the underlying asset is in accordance with IPSAS 16, IPSAS 31, and IPSAS 45, as appropriate.

(b) The IPSASB did not change the requirements for impairment in IPSAS 26, as the principles in that Standard are still applicable assessing impairment of the underlying asset in concessionary operating leases.

(c) The derecognition criteria and the accounting are in scope of IPSAS 16, IPSAS 31, and IPSAS 45, as appropriate, not in scope of IPSAS 43. IPSAS 43 provides several indicators of a finance lease that need to be taken into consideration in a holistic way. *Concessionary Leases and Other Arrangements Conveying Rights over Assets* does not amend the derecognition criteria and the accounting in other IPSAS nor the indicators of a finance leases in IPSAS 43, as these are related to all finance leases, not only concessionary finance leases.

8 The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 9 on this topic.

Disclosures

BC191. 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.

Responses to ED 84, *Concessionary Leases and Right-of-Use Assets In-kind*

BC192. The majority of respondents to ED 84 supported the ED 84 proposals on disclosures for concessionary leases for lessors.

BC193. Some respondents were of the view that there was a lack of information in the disclosures on foregone revenue and costs associated with the underlying asset in concessionary operating leases.

BC194. The IPSASB considered these views and decided not to require the disclosure of foregone revenue because the disclosures required are related to the accounting model[9]. Additionally, the IPSASB decided to require the disclosure of the costs associated with the underlying asset in concessionary operating leases for transparency reasons.

Sale and Leaseback Transactions

BC195. 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.

BC196. 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.

BC197. However, leasebacks at below-market terms might exist 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.

BC198. 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 the leaseback alone being at below-market terms.

BC199. 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.

[9] The IPSASB carried over this decision to ED 88 with proposals for IPSAS 47, which are broadly consistent with the principles in IPSAS 9 on this topic.

Transition

BC200. 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.

BC201. 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 long contract terms.

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC202. Several respondents suggested easing the transition requirements for lessees by requiring measurement of the right-of-use asset at the present value of the remaining 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.

BC203. The IPSASB agreed with this suggestion for cost-benefit reasons.

Effective Date

BC204. The IPSASB considered the effective date of the amendments to IPSAS 43 in the context of effective dates of IPSAS 43 to IPSAS 49.

BC205. The IPSASB decided that the effective date of the amendments to IPSAS 43 should be January 1, 2027, with earlier application permitted, 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 an additional 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.

BC206. The IPSASB also considered postponing the effective date of IPSAS 43 for two years to align with the effective date of the amendments to IPSAS 43 and decided not to do so because:

(a) It is more important to require the application of the new principles in IPSAS 43 sooner rather than later; and

(b) Entities always have the possibility of early adopting the new requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* to a subset of lease transactions in the context of early adopting IPSAS 43 to align the effective dates.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 43.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 43.

Difference between services, service concession arrangements, and leases

IG2. The diagram below summarizes some differences between a service, a service concession arrangement and a lease and the respective guidance in IPSAS.

Classification **Type of control**	**Service**	**Service concession arrangement**	**Lease**
Control of an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: • Finance Lease: No • Operating Lease: Yes Lessee: No
Control of the right to use an identified asset	Supplier: Yes Customer: No	Grantor: Yes Operator: No	Lessor: No Lessee: Yes
Control of the right to access to operate an identified asset	Supplier: Yes Customer: No	Grantor: No Operator: Yes	Lessor: No Lessee: Yes
IPSAS	47, *Revenue*	32, *Service Concession Arrangements: Grantor*	43, *Leases*

ILLUSTRATIVE EXAMPLES

CONTENTS

Illustrative Examples

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

…

Identifying a Lease

IE2. The following examples illustrate how an entity determines whether a contract is, or contains, a lease.

…

Example 10A—Access Rights

A Government Agency (Entity) enters into a contract with a public sector entity (Customer) to convey the right of access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its operations. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.

The contract does not contain a lease of land or of small station cabins.

Although the land used by Customer is specified in the contract, there is no identified asset. The contract is to use land and small station cabins, and this can change without much impact on both Entity's and Customer's operations.

The Customer does not have the right to obtain substantially all of the economic benefits of service potential from the use of the land and of the small station cabins because the Entity can still obtain much more economic benefit and service potential from other operations.

The Customer does not have the right to direct the use because the Entity can change the land and the small station cabins that the Customer is allowed to use.

Example 10B—Shared Properties

Municipality A (Entity) enters into a contract with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it for its own activities. The Customer pays transaction consideration upfront to the Entity each month, based on the number of days it plans to use the office space.

The contract does not contain a lease of the floor.

Although the Customer has the right to direct the use of the floor in the days that it is using it, the Customer does not have the right to obtain substantially all of the economic benefits or service potential from the use of the floor because the Entity continues to use the floor for the majority of the time during the contract term and, therefore, obtaining substantially all of the economic benefits or service potential from the use of the floor.

…

Assessing Whether the Lease is at Market Terms or at Below-Market Terms (see paragraphs 18A–18D, AG32A, 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 10C—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 the Lessee agrees to pay the Lessor CU100,000 per month. The Lessor usually leases those units for CU185,000 per month, which is the current market rate, to private sector entities for the same purpose. The Lessor decided to lease those units at below-market terms because the Lessee is running a specific sports program for youth.

The lease is at below-market terms at inception and at commencement dates.

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

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

Example 10D—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 in leasing those ten units for a prolonged period of time and has lesser credit risk. The Lessee ended up entering into the lease because the Lessor reduced the price of the lease payments by CU5,000 per month, to match market rates at inception.

The CU5,000 per month reduction is a lease incentive at inception and at commencement dates.

Example 10E—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. The Lessor 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 the Lessee, it would meet its policy objectives. The lease payments at market rates for a similar multi-purpose sports complex are CU150,000. However, the Lessee does not have the financial capacity to pay the lease payments, and pay, at the same time, the costs of managing such a large facility. The Lessor and Lessee ended up signing up the lease contract for CU45,000 per month because the Lessee was the right partner to achieve the Lessor's goals.

The CU105,000 per month reduction is a lease concession at inception and at commencement dates.

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 13A–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 to provide medical services to the population over a period of five years. The Lessor 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 lease stipulates that the lease should be paid over the five-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 lessee's incremental borrowing rate is 5 percent per annum which is readily determinable by the lessee.

- *The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for five years. To the extent the compliance obligation is not met, the lease is cancelled, and the right to use the underlying asset returns to the lessor. The compliance obligation is 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 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 concession component of CU6,900,000 is accounted for in accordance with IPSAS 47, 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 lessee recognizes the following (the lessee subsequently measures the lease liability at amortized cost):

Dr		Right-of-use asset	CU23,000,000	-
	Cr	Lease liability (refer to Table 1 below)	-	CU16,100,00
	Cr	Liability (refer to Table 1 below)	-	CU6,900,000

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 47 is considered in recognizing either a liability or revenue for the concession component of the lease. Paragraph IE308 of that Standard provides journal entries for the recognition and measurement of the concession component of the lease.

2. Year 1: The lessee recognizes the following:

Dr		Interest expense (refer to Table 2 below)	CU805,000	-
	Cr	Lease liability	-	CU805,000

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

Dr		Lease liability (refer to Table 2 below)	CU3,718,694	-
	Cr	Bank	-	CU3,718,694

Recognition of lease payment

3. Year 2: The lessee recognizes the following:

Dr		Interest expense	CU659,315	-
	Cr	Lease liability	-	CU659,315

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

Dr		Lease liability	CU3,718,694	
	Cr	Bank		CU3,718,694

Recognition of lease payment

4. Year 3: The lessee recognizes the following:

Dr		Interest expense	CU506,346	-
	Cr	Lease liability	-	CU506,346

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

Dr		Lease liability	CU3,718,694	
	Cr	Bank	-	CU3,718,694

Recognition of lease payment

5. Year 4: The lessee recognizes the following:

Dr	Interest expense	CU345,729	-
Cr	Lease liability	-	CU345,729

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

Dr	Lease liability	CU3,718,694	
Cr	Bank	-	CU3,718,694

Recognition of lease payment

6. Year 5: The lessee recognizes the following:

Dr	Interest expense	CU177,081	-
Cr	Lease liability	-	CU177,081

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

Dr	Lease liability	CU3,718,694	
Cr	Bank	-	CU3,718,694

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	Concession component of the lease to be recognized as 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	4,162,421	3,718,694	2,913,694	1,248,726
Total	**26,562,100**	**23,000,000**	**18,593,470**	**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
Concession component of the lease to be recognized as 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 Operating 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 five years with the condition to use it for providing medical services to the population in general. The Lessor 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 five-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 the lessee.
- *Depreciation of the underlying asset is not considered in the example because it is within the scope of other IPSAS.*
- *The annual expenses (depreciation and maintenance) of the building are CU4,200,000.*

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 concessionary operating lease has two distinct 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 (CU3,500,000 per year);

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU1,500,000 (CU5,000,000 – CU3,500,000)); and

The contractual payments are accounted for in accordance with IPSAS 43.

The annual journal entries[1] to account for the concessionary lease are as follows:

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

(1) As revenue in an operating lease is recognized on either a straight-line basis or another systematic basis, there is no need to discount the lease payments.

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

Municipality Y (Lessor) enters into a finance lease with public sector not-for-profit entity X (Lessee) to use a building over a period of five years with the condition to use it for providing medical services to the population in general. The Lessor 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 five-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 the lessor.
- *The carrying amount of the underlying asset is CU20,000,000.*
- *The residual value is CU0 (zero) for simplification purposes.*
- *The lease includes compliance obligations. 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 finance 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 concessionary finance lease has two distinct 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 the net investment in the lease (CU16,100,000); and

(b) A foregone revenue component—Representing the foregone revenue by the lessor, which is not recognized as revenue (CU6,900,000 (CU23,000,000 – CU16,100,000)).

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

1. On initial recognition, the lessor recognizes the following (the lessor subsequently measures the lease receivable (net investment in the lease) at amortized cost):

Dr		Lease receivable (refer to Table 1 below)	CU16,100,000	-
Dr		Surplus or deficit	CU3,900,000	
	Cr	Derecognition of the underlying asset	-	CU20,000,00[2]

2 Net of accumulated depreciation.

Recognition of the contractual payments for the lease and derecognition of the underlying asset.

2. Year 1: The lessor recognizes the following:

Dr		Lease receivable	CU805,000	-
	Cr	Interest revenue (refer to Table 2 below)	-	CU805,000

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

Dr		Bank	CU3,718,694	-
	Cr	Lease receivable (refer to Table 2 below)	-	CU3,718,694

Recognition of lease payment

3. Year 2: The lessor recognizes the following:

Dr		Lease receivable	CU659,315	-
	Cr	Interest revenue	-	CU659,315

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

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

4. Year 3: The lessor recognizes the following:

Dr		Lease receivable	CU506,346	-
	Cr	Interest revenue	-	CU506,346

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

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

5. Year 4: The lessor recognizes the following:

Dr		Lease receivable	CU345,729	
	Cr	Interest revenue		CU345,729

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

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

Recognition of lease payment

6. Year 5: The lessor recognizes the following:

Dr		Lease receivable	CU177,081	
	Cr	Interest revenue		CU177,081

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

Dr		Bank	CU3,718,694	
	Cr	Lease receivable		CU3,718,694

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**
	(1)	**(2)**	**(3)**	**(4)**
Year 1	5,312,420	5,059,448	3,718,694	3,541,614
Year 2	5,312,420	4,818,522	3,718,694	3,372,965
Year 3	5,312,420	4,589,068	3,718,694	3,212,348
Year 4	5,312,420	4,370,541	3,718,694	3,059,379
Year 5	5,312,420	4,162,420	3,718,694	2,913,694
Total	**26,562,100**	**23,000,000**	**18,593,470**	**16,100,000**

Table 2: Calculation of Lease Receivable 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 revenue	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**	

Carrying amount of the derecognized underlying asset	20,000,000
Less: Present value of cash inflows (lease receivable on initial recognition)	16,100,000
Loss component with concessionary finance lease.	3,900,000

Sale and Leaseback Transactions (see paragraphs 97–102)

IE11. Examples 24 and 25 illustrate~~s~~ 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 faced some financial difficulties due to expected increasing maintenance costs to fulfill new safety measures required for their architecturally unique building. Therefore, Seller-lessee sells the building to local government X (Buyer-lessor) at its current 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.

Seller-lessee sells the building, which has a total useful life of 25.5 years, to Buyer-lessor at its current market price (fair value) for cash of CU1,800,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with 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 IPSAS 47, *Revenue*. This example ignores any initial direct costs. The annual payment at market rates is CU120,000.

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 compliance obligations 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 the 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-CU1,459,199) 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 Surplus or deficit (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 47, *Revenue*

Paragraphs 194A, 203A, AG153A–AG153B, AG202A–AG202J, BC141–BC159, IE1A–IE1J, IE296A, and IE308 are added. Paragraphs AG1 and AG154 are amended. The headings above paragraphs AG153A, AG202A, AG202C, AG202D, AG202F, AG202G, BC141, BC147, BC152, BC158, IE1A, IE1B, IE1E, IE1H, IE296A, and IE308 are added. New text is underlined and deleted text is struck through.

Effective Date and Transition

Effective Date

…

194A. **Paragraphs 203A, AG153A–AG153B, AG202A–AG202J were added and paragraphs AG1 and AG154 were amended by *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, *Measurement*, IPSAS 47, and IPSAS 48, *Transfer Expenses* at the same time.**

…

Transition

…

203A. The transition requirements for right-of-use assets in paragraphs 106–117, 123, and 124–126 of IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity, as appropriate.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 47.

AG1. This Application Guidance is organized into the following categories:

…

(e) Application of Principles to Specific Transactions (paragraphs AG139–AG202);

…

(va) Concessionary Leases for Lessees (paragraphs AG153A–AG153B);

…

(xiv) Bill-and-Hold Arrangements (paragraphs AG199–AG202); ~~and~~

(xv) Right-of-use Assets In-kind (paragraphs AG202A–AG202J); and

…

Application of Principles to Specific Transactions

…

Concessionary Leases

AG153A. Concessionary leases are leases received by a lessee at below-market terms. The portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43, *Leases*. A lessee considers whether 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 on initial recognition is revenue that should be accounted for in accordance with this Standard.

AG153B. Where a lessee determines that the 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 on initial recognition is revenue, a lessee recognizes the difference as revenue, 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.

Measurement of Transferred Assets

AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity received consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;

…

(d) Right-of-use assets held by a lessee acquired through concessionary leases 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 accordance with IPSAS 43.

…

Right-of-Use Assets In-kind

Identification

AG202A. Right-of-use assets in-kind are right-of-use assets received without consideration. 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 payments.

AG202B. Right-of-use assets in-kind are transfers of assets that one entity makes to another entity subject to certain obligations. The resource provider may be an entity or an individual.

Recognition

AG202C. Right-of-use assets in-kind are recognized as assets in accordance with IPSAS 16 or IPSAS 45 if they 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.

Measurement

AG202D. On initial recognition, right-of-use assets in-kind are measured at the present value of payments at market rates based on the current use of the underlying asset in accordance with paragraphs 26A and 26B of IPSAS 43. If payments for the right-of-use assets in-kind at market rates based on the current use of the underlying asset are not readily available, the right-of-use assets in-kind shall be measured in accordance with paragraphs 24–26 of IPSAS 43.

AG202E. After initial recognition, an entity shall subsequently measure right-of-use assets in-kind in accordance with paragraphs 30–36 of IPSAS 43 for right-of-use assets.

Presentation

Display

AG202F. An entity shall display in the statement of financial position, or disclose in the notes to the general purpose financial statements right-of-use assets in-kind separately from other assets. If an entity does not display 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 either:

(i) The corresponding underlying assets presented if they were owned; or

(ii) Other right-of-use assets; and

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

Disclosure

AG202G. An entity shall disclose in the notes to the general purpose financial statements the 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.

AG202H. For right-of-use assets in-kind, an entity shall disclose in the notes to the general purpose financial statements the:

(a) Depreciation charge for right-of-use assets in-kind by class of underlying asset; and

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

AG202I. 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 paragraph AG202H for those right-of-use assets in-kind.

AG202J. If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of-use assets in-kind.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 47.

…

Revision of IPSAS 47 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024

Introduction

BC141. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[1].

BC142. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC143. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or a right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC144. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[2], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[3], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable from 2026 onwards.

BC145. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for lessees in IPSAS 47 for the concession in concessionary leases to update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC146. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets*

[1] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[2] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[3] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

(Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) regarding the amendments to IPSAS 47, including respondents' feedback to ED 88.

Accounting for the Concession in Concessionary Leases and Right-of-Use Assets In-kind

BC147. The IPSASB noted that IPSAS 47 already has guidance on the accounting for the concession in concessionary loans. The IPSASB decided to develop similar guidance in IPSAS 47 to help preparers account for the concession in concessionary leases and right-of-use assets in-kind applying IPSAS 47 principles in a consistent way.

BC148. The IPSASB noted that some respondents to the RFI 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 it lacks consideration, and with the approval of IPSAS 43, the IPSASB 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 47, and to amend IPSAS 47 to provide guidance on accounting for this type of arrangement.

BC149. 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 have types of non-cash consideration.

BC150. The IPSASB noted that the recognition of services in-kind is elected rather than a requirement. The IPSASB considered whether to allow an election for recognizing right-of-use assets in-kind. The IPSASB decided to require recognition of right-of-use assets in-kind to be aligned with the accounting of both right-of-use assets under concessionary leases and donated assets.

BC151. The IPSASB also decided to add non-authoritative guidance on access rights, arrangements allowing the right to use an asset, and shared properties for preparers to have comprehensive guidance on the types of arrangements that convey rights over assets in the public sector.

Responses to ED 88, Arrangements Conveying Rights over Assets

BC152. The majority of respondents supported the ED 88 proposals on the accounting for the concession in concessionary leases and right-of-use assets in-kind, while a minority of respondents disagreed with the ED 88 proposals.

BC153. The respondents that disagreed with the ED 88 proposals for amendments to IPSAS 47 raised mostly the same reasons as for the disagreement with the amendments to IPSAS 43 in ED 84 (see Basis for Conclusions to IPSAS 43).

BC154. Several respondents requested additional guidance or clarifications on the:

(a) Subsequent measurement of the right-of-use asset in-kind in the situation where new information appears that makes it possible to recognize it;

(b) Scoping of arrangements that convey right-of-use assets in-kind; and

(c) Fact that, in concessionary leases, lessors are not required to recognize the concession but in other arrangements that convey rights over assets with concessions the transferors are required to recognize the concession.

BC155. The IPSASB decided to provide clarification in this Basis for Conclusions and not to provide more guidance in IPSAS 47 and in IPSAS 48 on the above topics for the following reasons:

(a) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors* already provides guidance on changes in accounting estimates when new information occurs;

(b) The new guidance on right-of-use assets in-kind is only related to contracts or arrangements that are in substance contracts;

(c) Both lessors in concessionary leases and transferors in other arrangements that convey rights over assets under IPSAS 48:

   (i) The transfer of right-of-use assets in-kind is a transaction similar to a lease, except that there is no contractual lease payment in the transfer of right-of-use assets in-kind;

   (ii) Do not have separate accounting for the concession at the inception of the arrangement because in a:

      1. Concessionary finance lease, the lessor loses control of the transferred resources which entails an expense upon its derecognition;

      2. Concessionary operating lease, the lessor retains control of the underlying asset and it is consumed by the lessor as the lessee uses the asset; and

   (iii) Are required to disclose the costs of the asset transferred.

BC156. Some respondents suggested adding more information in the illustrative examples on how the assets will be used. The IPSASB decided not to add more information in the illustrative examples on how the assets will be used because it will not provide additional information for the accounting in the illustrative examples.

BC157. The IPSASB also considered suggestions to add an illustrative example on concessionary finance leases for lessors and guidance on donated assets and decided not to proceed with these suggestions because the accounting for these arrangements is the same as for finance leases and it was outside of the scope of ED 88 to provide illustrative examples on donated assets.

Effective Date

BC158. The IPSASB considered the effective date of the amendments to IPSAS 47 in the context of effective dates of IPSAS 43 to IPSAS 49.

BC159. The IPSASB decided that the effective date of the amendments to IPSAS 43 should be January 1, 2027, with earlier application permitted, because it:

(a) Is broadly consistent with the three-year application period of IPSAS 43 to which the amendments to IPSAS 47 are related;

(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 an additional 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.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 47.

…

Scope

IE1A. Examples 0A–0C illustrate the requirements in paragraph 3(d) of IPSAS 47 to assess whether the arrangement is in the scope of IPSAS 47, rather than in the scope of IPSAS 43, *Leases*.

Example 0A – Access Rights

IE1B. *A Government Agency (Entity) enters into an arrangement with a public sector entity (Customer) to convey the right of access to land in a forest and to small station cabins for use by the Customer's employees in the course of its operations for a period of five years. The Customer uses the land to feed sheep and cows that are to be sold in the course of its operations. From season to season, the Entity has the discretion to change the portion of land and the small station cabins used by the Customer depending on other Entity's activities that take place on the land. The Customer pays the transaction consideration upfront to the Entity for the use of the land and small station cabins.*

IE1C. The Entity has determined that this arrangement is not a lease because there are no identified assets as the assets may be determined by the Entity.

IE1D. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide access to the land and small station cabins (as may be determined by the Entity), in exchange for an enforceable right to receive payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0B – Arrangements Allowing the Right to Use an Asset

IE1E. *Municipality A (Entity) enters into an arrangement to provide Government Agency X (Customer) the right to use the Entity's properties, which are specifically designed to deliver education services as part of a national program for certifying the qualifications of the labor force, in exchange for transaction consideration that is paid monthly. The arrangement is for a period of seven years. Throughout the seven-year period, the Entity can and will change the buildings where the certification occurs according to its needs, as long as it gives the Customer a 30-day notice for the Customer's planning purposes.*

IE1F. The Entity has determined that this arrangement is not a lease because the Entity has substantive substitution rights.

IE1G. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide the right to use its properties for the Customer to deliver education services in exchange for an enforceable right to receive payments from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

Example 0C – Shared Properties

IE1H. *Municipality A (Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it for its own activities. The Customer pays transaction consideration upfront to the Entity each month, based on the number of days it plans to use the office space.*

IE1I. The Entity has determined that this arrangement is not a lease because the Entity has not transferred to the Customer the right to obtain substantially all of the economic benefits or service potential from the use of the floor.

IE1J. In accordance with paragraph 3(d) of IPSAS 47, the Entity determined that this arrangement is a revenue transaction in the scope of IPSAS 47. The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to share the use of the office space with the Customer, in exchange for an enforceable right to payment from the Customer. Thus, the Entity would account for the arrangement by applying paragraphs 56–147 of IPSAS 47.

…

Application of Principles to Specific Transactions

…

Concessionary Leases

Example 54A – Concessionary Lease (Lessee)–Concession Results from 30% Lower Contractual Payments than Payments for the Lease at Market Rates.

IE296A. Public sector entity X (Lessee) enters into a lease with Municipality Y (Lessor) to use a building to provide medical services to the population over a period of five years. The Lessor 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 lease stipulates that it should be paid for over the five-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 lessee's incremental borrowing rate is 5 percent per annum, which is readily determinable by the lessee.

The lease includes a compliance obligation, specifically to use the building to provide medical services to the population for five years. The compliance obligation is 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 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 revenue of CU6,900,000 is accounted for in accordance with IPSAS 47, 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 lessee will recognize the following:

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

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

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

(1/5 of the compliance obligation 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 lessee will recognize the following (the lessee subsequently measures the concessionary lease at amortized cost):

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

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

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

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

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

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

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

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

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

Dr		Binding arrangement liability	CU1,380,000	
	Cr	Revenue		CU1,380,000

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

If the concessionary lease was granted with a compliance obligation that is met in the first year, the lessee would recognize the following on initial recognition:

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

…

Right-of-Use Assets In-kind

Example 59 – Right-of-Use Assets In-kind

IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for five years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types or pricing of sports services that Entity Z provides.

A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for five years and is considered market rates. This information is publicly available on the Agency's website.

Entity Z's incremental borrowing rate is 5 percent per annum.

Case A – A Binding Arrangement with Compliance Obligation Met over Five Years

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free, and that it has an enforceable obligation (because the Agency can terminate the arrangement if that field is not being used by youth at any time in the five years). Entity Z determines that the arrangement meets the definition of a binding arrangement, and it includes a compliance obligation to ensure that only youth use the sports field. The compliance obligation is satisfied over time, on a straight-line basis.

Entity Z confirmed that the substance of the right-of-use is not a contribution from owners.

Analysis

Entity Z acquired a right-of-use asset in-kind for zero consideration. The present value of payments at market rates is CU1,298,843 (refer to Table 1), which corresponds to the value of the right-of-use asset in-kind and total revenue. IPSAS 45 is applied to subsequently account for the right-of-use asset in-kind.

The journal entries to account for the right-of-use asset in-kind and revenue are as follows:

1. On initial recognition, the Entity Z will recognize the following:

	Right-of-use asset	CU1,298,843	
Cr	Binding arrangement liability		CU1,298,843

2. Year 1: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met by Entity Z CU1,298,843)

3. Year 2: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

4. Year 3: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

5. Year 4: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

6. Year 5: Entity Z will recognize the following:

	Binding arrangement liability	CU259,769	
Cr	Revenue		CU259,769

(1/5 of the compliance obligation met CU1,298,843)

Case B – A Binding Arrangement with a Compliance Obligation Met in the First Year

Entity Z determines that under the arrangement, it has an enforceable right to use the sports field for free an enforceable obligation that is met in the first year.

Dr	Right-of-use asset	CU1,298,843	
Cr	Revenue		CU1,298,843

Table 1: Annual Payments (Using Incremental Borrowing Rate of Entity Z at 5%)

	Undiscounted Annual Payments for the Lease at Market Rates	Present Value of Payments at Market Rates (Value of Right-of-use asset and total revenue)
	(1)	(2)
Year 1	300,000	285,714
Year 2	300,000	272,109
Year 3	300,000	259,151
Year 4	300,000	246,811
Year 5	300,000	235,058
Total	**1,500,000**	**1,298,843**

Amendments to IPSAS 48, *Transfer Expenses*

Paragraphs BC41–BC51 and IE12A–IE12C are added. Paragraph IE2 is amended. The headings above paragraphs BC41, BC47, BC49, BC50, and IE12A added. New text is underlined.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 48.

…

Revision of IPSAS 48 as a result of *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) issued in October 2024.

Introduction

BC41. In January 2021, the IPSASB issued the Request for Information (RFI), *Concessionary Leases and Other Arrangements Similar to Leases*. The RFI included a set of arrangements similar to leases that are common in the public sector[1].

BC42. Based on the information received from respondents to the RFI, in January 2023, the IPSASB issued Exposure Draft (ED) 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23). ED 84 proposed new public sector specific accounting requirements for two of the six types of arrangements identified in the RFI. Regarding the RFI remaining arrangements, the IPSASB had taken the view that the applicable IPSAS at the time of publication of ED 84 already provided the principles on how to account for those arrangements.

BC43. During the review of responses to ED 84, the IPSASB noted that some respondents raised some issues that were related to arrangements that do not meet the definition of a lease or right-of-use asset in-kind. The IPSASB also noted that this may be related to the fact that ED 84 did not propose accounting for the remaining types of arrangements included in the RFI that do not meet the definition of a lease or right-of-use asset in-kind. Therefore, respondents did not have a comprehensive view on the accounting for these types of arrangements that convey rights over assets.

BC44. In May 2023, the IPSASB published IPSAS 45, *Property, Plant, and Equipment*[2], IPSAS 46, *Measurement*, IPSAS 47, *Revenue*[3], and IPSAS 48, *Transfer Expenses*. As IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23 will no longer be applicable in 2026 onwards.

BC45. In March 2024, the IPSASB published ED 88, *Arrangements Conveying Rights over Assets* (Amendments to IPSAS 47 and IPSAS 48) with proposed authoritative and non-authoritative guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the

[1] The Request for Information included six types of arrangements, as follows: (i) Concessionary Leases, (ii) Leases for Zero or Nominal Consideration, (iii) Access Rights (or Rights of Access to Property and/or Land), (iv) Arrangements Allowing Right-of-Use, (v) Social Housing Rental Arrangements, and (vi) Shared Properties with or without a Lease-Arrangement in Place.

[2] IPSAS 45 will be effective on January 1, 2025, and supersedes IPSAS 17, *Property, Plant, and Equipment*.

[3] IPSAS 47 will be effective on January 1, 2026, and supersedes IPSAS 9, *Revenue from Exchange Transactions*, IPSAS 11, *Construction Contracts*, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48 with guidance on other arrangements conveying rights over assets.

BC46. This Basis for Conclusions present the IPSASB's main considerations and decisions when developing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48), regarding the amendments to IPSAS 48 including respondents' feedback to ED 88.

Scoping

Responses to ED 84, Concessionary Leases and Right-of-Use Assets In-kind

BC47. Some respondents suggested the IPSASB consider the linkages between ED 84 proposals and IPSAS 48 relating to concessionary leases and right-of-use assets in-kind, as this Standard was published after the publication of ED 84.

BC48. The IPSASB considered the linkages between ED 84 proposals and IPSAS 48 relating to concessionary leases and right-of-use assets in-kind and concluded that no changes were required to scoping in IPSAS 48 because:

(a) Leases, which includes concessionary leases, are explicitly scoped out of IPSAS 48; and

(b) Arrangements that convey the right to use an underlying asset for zero consideration are within the scope of IPSAS 48.

Illustrative Examples

BC49. The IPSASB proposed illustrative examples on right-of-use assets in-kind and social housing without consideration to address the need for guidance on these arrangements raised by respondents to the RFI.

Responses to ED 88, Arrangements Conveying Rights over Assets

BC50. Respondents to ED 88 suggested removing the illustrative example on social housing without consideration because the accounting outcomes are the same as for the illustrative example on right-of-use assets in-kind. The IPSASB agreed with this suggestion and decided to remove the illustrative example on social housing without consideration when finalizing *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48).

BC51. Respondents to ED 88 also suggested adding illustrative examples on concessionary leases for lessors, but the IPSASB decided not to proceed with this suggestion because the accounting for concessionary leases by lessors is the same as for leases at market terms.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 48.

…

Scope

IE2. Examples 1–2A illustrate the requirements in paragraphs 3–5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48.

…

Example 2A – Right-of-Use Assets In-kind: Usage of A Sports Field for Zero Consideration

IE12A. A Government Agency (Agency) enters into an arrangement with a public sector entity Z (Entity Z) for five years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate the types and pricing of sports services that Entity Z provides.

IE12B. The binding arrangement includes a compliance obligation, specifically that the sports field should be used by youth. To the extent that the compliance obligation is not met by Entity Z, the binding arrangement is cancelled, and the right to use the sports field returns to the Agency. Entity Z's compliance obligation is met on a straight-line basis.

IE12C. The conveying of the right to use for free a sports field is within the scope of IPSAS 48 because the Agency provides the right to use to Entity Z without directly receiving any good, service, or other asset in return (see paragraph 6). The transfer consideration is already reflected in the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs. No separate accounting is required.

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