KOREA INSTITUTE OF PUBLIC FINANCE
Government Accounting and Finance Statistics Center

IPSASB Request for Information

Concessionary Leases and Other Arrangements Similar to Leases

Comments on the Concessionary Leases and Other Arrangements Similar to Leases

May 17, 2021

May 17, 2021

Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: The Comments on the Request for Information:
Concessionary Leases and Other Arrangements Similar to Leases

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) at Korea Institute of Public Finance would like to express sincere gratitude for the opportunity to respond to *the RFI(Request for Information) on Concessionary Leases and Other Arrangements Similar to Leases* issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff, the Government Accounting Advisory Committee of the GAFSC, as well as, the information providers including public enterprises, national university, public corporations, etc., and are available in the following pages. Please feel free to contact us if you have any questions, inquiries or comments regarding our comments. You may direct your inquiries to Grace Choi, a technical staff of the GAFSC (gracechoi@kipf.re.kr).

Sincerely,

김 완 희

Kim, Wan Hee
Chief Director of GAFSC at KIPF

[Question 1: Concessionary Leases]

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

(a) Describe the nature of these leases (or similar arrangements) and their concessionary characteristics; and

(b) Describe the accounting treatment applied by both parties to the arrangement to these types of leases (or similar arrangements), including whether the value of the concession is reflected in the financial statements.

[GAFSC Comments: Korea Specific]

Some rent transactions similar to the concessionary leases were found in the public sector of Korea. The following are the prominent cases of such:

I. A sale-leaseback transaction of KAMCO (Korea Asset Management Corporation)

II. A low-priced lease transaction between BB national university and CC international organization for the regional office site

I. A sale-leaseback transaction of KAMCO

(a) The nature of the arrangement and its concessionary characteristics

KAMCO is a public corporation in Korea and it currently runs the Corporate Asset Purchase Program in order to provide liquidity for the small and medium-sized enterprises suffering from the temporary management difficulties due to COVID-19. The program is operated a sale-leaseback by purchasing the properties and vessels of the eligible enterprises and lease them back to the enterprises for a certain period of time (5 years). The enterprise is given the right of first refusal and the right can be exercised after 5 years of disposal of the assets.

KAMCO determines the purchase price at the full price and not liquidation value based on the valuations of appraisal firms and accounting firms, and the rental fees are lower than the market price (approximately 4% lower) and determined by reflecting the funding rate and maintenance cost.

(b) The accounting treatment applied by both parties (whether the value of the concession is reflected in the financial statements is included)

KAMCO accounts for the sale-leaseback transaction by applying the same accounting treatment for the general purchase transaction of assets, hence the value of the concession is not reflected in the financial statements. In other words, upon purchase of the assets it is measured at the acquisition cost and the received rental fees are recognized as revenue (without considering the discount).

※ *The accounting treatment adopted by the enterprise as a counterpart of the transaction was not accessible. However, since the counterpart enterprise is an SME, it can be assumed that the 「Small and Medium Business Accounting Standards」 has been applied, which Standards do not separately set out the sales and leaseback transaction. Therefore, it is most likely that the enterprise may have accounted for the transaction as a general sale transaction and general financial lease transaction.*

II. A low-priced lease transaction between BB national university and CC international organization for the regional office site

(a) The nature of the arrangement and its concessionary characteristics

In 2016, CC international organization extended the Memorandum of Understanding (MoU) with BB national university and, as an effect of the MoU, some portion of the BB national university site is being rented at a price relatively lower than the market price. The total lease period is 3 years starting from 2019 and the rental payment is paid at lump-sum.

* CC international organization entered into an MoU with BB national university in 2012, and used the regional office in Korea with lease for zero according to the initial MoU. However, the extension of MoU in 2016 resulted change in the type of lease that CC international organization is now obliged to pay for the rent payment, which is lower than the market price.

(b) The accounting treatment applied by both parties (whether the value of the concession is reflected in the financial statements is included)

CC international organization considers its rental payment as insignificant to the financial statement and therefore does not apply monthly depreciation but recognize the rental payment as expense at once as a practical expedient. In this case, the difference from market price was not considered and only the amount paid in cash was expensed.

BB national university, on the one hand, recognized the cash receipt as revenue according to its own accounting regulation and hence the its concession components were not reflected in its financial statement.

[Question 2: Leases for Zero or Nominal Consideration]

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

(a) Describe the nature and characteristics of this type of lease (or similar arrangements); and

(b) Describe if and how the value of the concession is reflected in the financial statements of both parties to the arrangement.

[GAFSC Comments: Korea Specific]

Some rent arrangements which has characteristics of leases for zero consideration were found in the public sector of Korea. The following are the prominent cases of the arrangements:

I. Lease for zero consideration transaction of KEPCO KDN (Korea Electric Power Knowledge Data Network Co., Ltd.) for the test facility of new and renewable energy

II. Lease for zero consideration transaction between BB national university and CC international organization for the regional office site

I. Lease for zero consideration transaction of KEPCO KDN for the test facility of new and renewable energy

(a) The nature and characteristics of the arrangement

With the purpose to facilitate social value through co-development with small and medium-sized enterprises, KEPCO KDN as a public enterprise in Korea entered into a contract in May 2019 that rents the test facilities* of new and renewable energy for the innovative small and medium-sized enterprises on a lease for zero consideration.

* The test facilities are composed of ESS (Energy Storage System) and PCS (Power Conditioning System) that have been purchased by KEPCO KDN for its own research purpose. Since the test facilities are necessary for the research and development of solution for the new and renewable energy, KEPCO KDN assumes that the facilities have high value of use.

(b) The accounting treatment applied by both parties (whether the value of the concession is reflected in the financial statements is included)

The lease for zero transaction is not separately accounted for by considering the fact KEPCO KDN currently recognizes the test facilities at its memorandum value for the facilities have been fully depreciated.

※ The accounting treatment adopted by the lessee was not accessible.

II. Lease for zero consideration transaction between BB national university and CC international organization for the regional office site

(a) The nature of the arrangement and its concessionary characteristics

In 2012, CC international organization entered into an MoU with BB national university and, as an effect of the MoU, some portion of the BB national university site is being rented for free for its regional office in Korea.

* CC international organization entered into an MoU with BB national university in 2012, and used the regional office in Korea with lease for zero according to the initial MoU. However, the extension of MoU in 2016 resulted change in the type of lease that CC international organization is now obliged to pay for the rent payment, which is lower than the market price.

(b) The accounting treatment applied by both parties (whether the value of the concession is reflected in the financial statements is included)

CC international organization estimated the right-of-use over the building at fair value and recognized it as asset and in-kind contribution respectively. Also, they expensed the right-of-use with reflecting its depreciation cost throughout the lease period. On the other hand, by considering the fact that this transaction does not involve any consideration and transfer of ownership, BB national university did not account for the transaction and therefore the concession components were not reflected in the financial statement.

[Question 3: Access Rights (or Rights of Access to Property and/or Land)]

Does your jurisdiction have arrangements that provide access rights for a period of time in exchange for consideration? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

[GAFSC Comments: Korea Specific]

No case under this type has been found in Korea within the extent of our research.

[Question 4: Arrangements Allowing Right-of-Use]

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

[GAFSC Comments: Korea Specific]

No case under this type has been found in Korea within the extent of our research.

[Question 5: Social Housing Rental Arrangements]

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

[GAFSC Comments: Korea Specific]

Among the social housing rental arrangements in Korea, the following would be most suitable cases for the suggested theme of the RFI:

I. Buy-to-rent housing transaction of LH (Korea Land & Housing Corporation)

II. Permanent rental housing transaction of LH (Korea Land & Housing Corporation)

I. Buy-to-rent housing transaction of LH

(a) The characteristics of the arrangement

Under the 「Special Act on Public Housing」 or the policies announced by the MOLIT (Ministry of Land, Infrastructure and Transport), a public corporation LH purchases those established houses including the unoccupied ones and transform them as public housing. Those public housing is leased at an affordable condition to the eligible individuals subjected to support.

* Plans for utilize unoccupied apartments in provinces (2007.9.20), plans to stabilize rental housing market (2011.8.18)

Among the buy-to-rent housing projects, there is a project that targets the citizens within the lowest income bracket and in this case the LH purchases the multi-household house where the target group currently lives and lease the house with offered rental payment of 30% of market price. Initial rental period is 2 years but with the premise of not breaching the requirements the lessee is given with the right to renew the contract for 9 times, which is equivalent to 18 years at most. Nonetheless, those tenants of group home do not have any limitations on the renewal of contract and in practice, it gives them to the right to rent the house permanently. Hereupon, this particular type of buy-to-rent housing project restricts the right of LH as a lessor.

(b) Ways to reflect in the financial statement of the provider of public housing

LH recognizes the deposit received upon completion of the contract with the tenant as financial liability. The rental payment is due at the end of every month and the rental payment of the month is determined on the 15th of the same month. Hence, LH recognizes the rental payment as financial liability(receivables) and rent revenue on the 15th and at the end of the month the amount of received rental payment is accounted for received receivables. In case of terminated contract due to non-extension, LH account for the returned deposit to the tenant as redeemed financial liability.

Transaction	Accounting Treatment of LH			
Contract Concluded	Dr) Saving Accounts	xxx	Cr) Long-term Guarantee Deposit Rent	xxx
Monthly Rent Payment Determined	Dr) Accounts Receivable	xxx	Cr) Rent Revenue	xxx
Monthly Rent Payment Collected	Dr) Saving Accounts	xxx	Cr) Accounts Receivables	xxx
Contract Terminated	Dr) Long-term Guarantee Deposit Rent	xxx	Cr) Saving Accounts	xxx

In sum, LH only recognizes the rental payment received in cash as revenue and does not separately account for the concession components derived from the difference between rental payment and market price (discounted rental payment) or from the extension of lease periods. In short, LH does not distinctively reflect the factors that limit the right of lessor of public housing in its financial statements.

II. Permanent rental housing transaction of LH

(a) The characteristics of the arrangement

According to the 「Enforcement Degree of Special Act on Public Housing」, LH offers permanent rental housing with the houses it has built on its own to stabilize the housing of the citizens within the lowest income bracket. The qualification required to be a lessee of the permanent rental housing is limited to the recipients of living allowance or medical care eligible for certain level of income and property, patriots and veterans, as well as, sexual slavery victims for the Japanese imperial army. The rental payment is determined at 30% of the market price.

The Article 54 of the same enforcement decree prescribes the obliged lease period of the permanent rental housing as 50 years and LH cannot dispose the public housing prior to the obliged lease period. Thus, the case of permanent rental housing presents a case of limited rights of the lessor.

(b) Ways to reflect in the financial statement of the provider of public housing

LH does not separately account for the concession components for the disposal of the permanent rental housing is not possible, and accounting treatment for general lease transaction is being adopted. Meaning, same as the accounting treatment of the buy-to-rent housing stated above, only the cash received is recognized as revenue, deposit as financial liability, and recognize the determined rental payment on the 15th of each month as financial asset(receivables) and derecognize it upon the receipt of the rental payment.

[Question 6: Shared Properties with or without a Lease-Arrangement in Place]

In your jurisdiction, do you have arrangements involving the sharing of properties without a formal lease contract? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

[GAFSC Comments: Korea Specific]

In the public sector of Korea, some cases were found that there are arrangements that oblige the public entity to share its property without having the official lease contract. One prominent case would be the case of Sejong National Research Complex to where the MOEF (Ministry of Economy and Finance) made the 11 government-funded research institutes move into in 2014. In order to help save the rental payment of the government-funded research institutes, as well as, enhance the value of the national property, the MOEF acquired the Sejong National Research Complex by entrusting HH public corporate with the development of national property(land). The construction cost has been covered by the HH public corporate and as a compensation they got the right over the rental payments of the private companies reside within the complex for 25 years. The MOEF has the ownership over the complex according to the 「State Property Act」 and for the research institutes to move into the complex, they enter into a right-of-use arrangements with MOEF. These arrangements are perfunctory in a sense that there is no rental payment imposed on the government-funded research institutes for residing and using the complex. In terms of its accounting treatment, the MOEF recognized the Sejong National Research Complex as its asset (general property, plant and equipment) at the completion of the construction by following the 「Enforcement Rule of Central Government Accounting Standards」, which is the accounting standards for the central government of Korea. Soon after the government-funded research institutes began to move into the complex and no accounting treatment has been made when the use-of-right arrangements were concluded.

[Question 7: Other Arrangements Similar to Leases]

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

[GAFSC Comments: Korea Specific]

No case for other arrangements similar to leases has been found in Korea within the extent of our research.