

May 11, 2023

Mr. Ian Carruthers  
Chairman  
International Public Sector Accounting  
Standards Board (IPSASB)  
International Federation of Accountants

Submitted via IPSASB website

**Re.: IPSAS Exposure Draft 84,  
Concessionary Leases and Right-of-Use Assets In-kind  
(Amendments to IPSAS 43, Leases and  
IPSAS 23, Revenue from Non-Exchange Transactions)**

Dear Mr. Carruthers,

The IDW would like to thank you for the opportunity to provide the IPSASB with our comments on the proposed International Public Sector Accounting Standard – Concessionary Leases and Right-of-Use Assets In-kind (hereinafter referred to as “ED 84”).

We support the IPSASB’s work to develop high-quality accounting standards for governments and other public sector entities with the objective of improving transparency and comparability of public sector financial reporting. We support the two-phased approach taken for the accounting of leases and applaud the IPSASB for ED 84 addressing another public-sector specific accounting issue.

Concessionary leases, i.e. leases that are granted or received at below-market terms for public-sector specific reasons, are an important accounting issue. Such arrangements can have exchange and non-exchange components. We believe it is appropriate that the IPSASB requires the entity at initial recognition to analyze the substance of the lease granted or received into its component parts and account for those components accordingly.

We respond to each of the Specific Matters for Comment as follows.

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### **Specific Matter for Comment 1**

*The IPSASB decided to propose new accounting guidance for concessionary leases for lessees (see paragraphs IPSAS 43.BC124-BC137) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28-BC30). Do you agree with the proposed amendments to IPSAS 43 and IPSAS 23? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.*

We agree with the proposed treatment outlined in ED 84. However, we do have some editorial comments.

ED 84 uses the term “cost” for the measurement of both assets (e.g. IPSAS 43.26A) and liabilities (e.g. IPSAS 43.29A). We ask the IPSASB to consider whether it might not be more appropriate to use the specific measurement bases as set out in the forthcoming IPSAS 46, Measurement [near final pronouncement, see agenda paper at the IPSASB meeting in March 2023; former ED 77 dated April 2021], such as historical cost, cost of fulfillment, deemed cost, etc.

Alternatively, we suggest avoiding the term “cost” altogether. For example, IPSAS 43.26A could be reworded as follows: “Where a right-of-use asset is acquired through a concessionary lease, ~~its cost~~ it shall be measured at the present value of payments ...”. The same applies to IPSAS 43.29A: “Where a lease liability is recognized through a concessionary lease, ~~its cost~~ it shall be measured in accordance ...”.

### **Specific Matter for Comment 2**

*For lessors, the IPSASB decided to propose accounting for leases at below-market terms in the same way as for leases at market terms (see paragraphs IPSAS 43.BC138-BC149). Do you agree with the proposed amendments to IPSAS 43? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.*

We are in agreement.

### **Specific Matter for Comment 3**

*The IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC124-BC131) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28-BC30) at the present value*

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*of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date of the lease. Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.*

We agree with the proposal. However, we have noted some inconsistencies with other IPSASB pronouncements, as follows.

Concessionary leases and right-of-use assets in-kind are, according to IPSAS 46.12(a) [referring to IPSAS 46, Measurement, as near final pronouncement, source: agenda paper at the IPSASB meeting in March 2023; previous ED 77 from April 2021], transactions not undertaken in an orderly market. In such cases, deemed cost is used to measure the initial value of the asset. According to IPSAS 46.10 a current value measurement basis is used to determine the deemed cost of the asset. Current value measurement bases are described in IPSAS 46.23-31 and include both current operational value basis (entry price) and fair value (exit price).

It is not apparent what special features of concessionary leases/right-of-use assets in-kind justify restricting these options and using only the present value of payments for the lease at market rates. Further clarification from the IPSASB would be welcome.

The proposed IPSAS 43.BC126 acknowledges the option of using fair value for measurement. However, fair value – as an exit price – will hardly provide information about operating capacity (IPSAS 43.BC126(b) needs to be corrected to this effect), whereas current operational value basis does (see ED 76 for the Conceptual Framework update in paragraph 7.53).

#### **Specific Matter for Comment 4**

*When the payments for the lease at market rates based on the current use of the underlying asset are not readily available, the IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC132-BC133) at the present value of contractual payments for the lease. Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.*

Agreed, provided that this provision cannot be used as an excuse not to search at all. Therefore we welcome the clarification in IPSAS 43.BC133 that the

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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 underlying asset.

We hope that our comments will be useful in taking this project forward. If you have any questions relating to our comments in this letter, we should be pleased to provide you with further information.

Yours truly,

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Executive Director

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Technical Principal Public Sector