

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

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Basis for Conclusions to IPSAS 43, Leases**Basis for Conclusions**

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

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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 sector¹.

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 in 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 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)*.

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proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48.

BC110. These Basis for Conclusions present the main IPSASB's 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 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. Compliance through equivalent means includes laws and regulations, including legislation, 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, 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: compliance is achieved through executive authority, either cabinet or ministerial directives).

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BC117. By extension, when entities have arrangements as described in paragraph BC116, the IPSASB noted that they should not apply IPSAS 43 because those arrangements:

- (a) Are not, in substance, contracts, as leases are contractual arrangements by nature; and
- (b) Were designed to be applicable to arrangements that are in substance lease contracts, provided that the arrangement conveys the right to obtain substantially all of the economic benefits or service potential from the use of the identified asset and the right to direct the use of the identified asset⁴.

BC118. Therefore, the IPSASB decided to retain the definition of a lease to contractual arrangements in IPSAS 43 because:

- (a) IPSAS 43 is designed to be applicable only to leases that are, in substance, contracts; and
- (b) It is consistent with IPSAS 41, *Financial Instruments*, which is 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 to:

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

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

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

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 of 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 to provide 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.

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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 to provide 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, as it will no longer be visible in the financial statements the impact of receiving resources at below market terms and the accountability mechanisms are applied at entity level, not only at group level on consolidation.

BC136. A respondent suggested to provide guidance on right-of-use assets for nominal or zero consideration 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 23⁵ 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 to 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 whether the:

- (a) Goals/Intent of the parties in entering into a contract of lease has weight in the determination of concessionary leases; and
- (b) Underlying asset is used for its financial or operational capacity influences the determination of whether the market rates based on the current use or the highest-and-best use is appropriate.

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*.

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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
- (b) The requirements in *Concessionary Leases and Other Arrangements Conveying Rights over Assets* apply a measurement technique specifically developed to 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 asset at cost. This is consistent with the measurement of many other non-financial assets, such as assets within the scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Property*, IPSAS 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 concessionary leases in ED 84 and ED 88, the IPSASB considered the principles in the above IPSAS as well as in IPSAS 23, IPSAS 41, *Financial Instruments*, and in IPSAS 47 to account for the right-of-use asset and the concession component.

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

- (a) It is consistent with IPSASB’s literature on the accounting for non-exchange transactions, including concessionary loans;
- (b) It provides information on operating and financial capacity as referred in the Conceptual Framework for accountability and decision-making purposes; and
- (c) Recognizing the implicit concession in a lease at below-market terms would enhance Public Financial Management (PFM) to the extent that the improvements would outweigh the costs associated with such a change for accountability and decision-making purposes.

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 are reflected in the payments for the lease at market rates. Therefore, the IPSASB decided to propose measuring the right-of-use asset in a concessionary lease considering the present value of payments for the lease at market rates based on the current use of the underlying asset because:

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- (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 an increased difficulty of measuring the right-of-use asset as it would be based on other possible uses of the asset to achieve the highest and best use; and
- (c) Quite often there is not an active market for right-of-use assets to obtain the highest and best use.

BC149. In reaching this decision, the IPSASB noted that measuring a right-of-use asset considering 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 as a result of a concessionary lease using the contractual payments if the payments for the lease at market rates based on the current use of the underlying asset are not readily available, in order to address the increased difficulty of measuring right-of-use assets in the public sector because of its nature and/or current use (for example, specialized assets). 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 23⁶ because:

- (a) Both transactions are at below-market terms at inception;
- (b) Have a concession to the price of the resource being transferred;
- (c) Have the objective to provide/receive resources with a price at below-market terms;

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.

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- (d) Whether transferring a resource in cash or in-kind it should not modify the accounting for the concession component as revenue in both transactions, as concessionary leases are in substance financing transactions; and
- (e) It prevents preparers choosing between concessionary leases and concessionary loans to achieve desired accounting outcomes.

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

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 in 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), while in a service concession arrangement the resource-recipient (operator) has a right

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to access to operate the underlying asset to provide public service on behalf of the resource-provider (grantor).

BC156. Some respondents suggested to provide 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 capacity 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 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 considering market rates and instead should consider the contractual payments; and
- (e) The benefits of providing information of 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.

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.

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

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

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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.

BC163. Some respondents suggested that the right-of-use asset should be initially measured applying a measurement basis typified 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 intends to apply the concept of time value of money embedded in the lease as normally leases entail 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 economic 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 intends to obtain the market lease payments as if the lease was made at market terms. The term "market rates" can be seen as a proxy or a way to estimate how much the lessee would have to pay the lease if it was made at market rates.
- (c) Part 3: "based on the current use of the underlying asset"—This requirement intends to be 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 intends to be consistent with the requirements in IPSAS 43 for leases at market terms and other items of property, plant, and equipment under IPSAS 45 (see 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. IPSAS 46 objective explains that it focuses 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*.

BC167. Several respondents suggested to:

- (a) Add 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) Replace the wording "not readily available" with "impracticable" in context of measuring the market lease payments; and

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(c) Add 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) IPSAS 43.AG15(a) 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 (IPSAS 43.15), initial measurement of the lease liability (IPSAS 43.27); reassessment of the lease liability (IPSAS 43.42), and sale and leaseback transactions (IPSAS 43.101)) 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.

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BC173. The IPSASB decided not to require the general model to account for concessionary leases to lessees' recognition exemptions because:

- (a) Leases for which the underlying asset is of low value are not material enough to warrant specific concessionary lease accounting; and
- (b) Of cost-benefit reasons for short-term leases, as they have a lease term of 12 months or less.

Disclosures

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) 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 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:

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- (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 of a non-cash asset (the underlying asset) at below-market terms attached with financing for a portion of the value of the asset transferred (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.

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 entity higher than the cash received by the lessor in the form of lease payments made by the lessee; and
- (b) It is consistent with revenue recognition principles in IPSAS 23⁷.

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

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.

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under IPSAS 9⁸, 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, *Impairment of Cash Generating Assets* as the principles in that Standard are still applicable to assessment of impairment of the underlying asset in concessionary operating leases.
- (c) The derecognition criteria is in scope of IPSAS 16, IPSAS 45, and IPSAS 31, 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 in other IPSAS nor the indicators of a finance leases in IPSAS 43, as this is 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, not beyond⁹. 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, there might exist leasebacks at below-market terms in the public sector with an identifiable concession embedded because there is no actual prepayment of the leaseback, as the agreed purchase price of the underlying asset is the same as its fair value.

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 only the leaseback being at below-market terms.

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.

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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.

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 very long contract term.

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

BC202. Several respondents suggested to ease the transition requirements for lessees by requiring measuring the right-of-use asset considering the present value of payments for the lease at market rates based on the current use of the underlying asset of the remaining lease payments 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 one more year for planning and implementation of the amendments to IPSAS 43 and IPSAS 47 after implementing IPSAS 43 to IPSAS 49 in the previous years.

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.

AGENDA ITEM 4.3.1**Basis for Conclusions to IPSAS 47, Revenue****Basis for Conclusions**

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

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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 sector¹.

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 in 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

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)*.

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guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48.

BC146. These Basis for Conclusions present the main IPSASB's 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 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 a 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 possible to recognize it;
- (b) Scoping of arrangements that convey right-of-use assets in-kind; and

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

BC155. The IPSASB decided to clarify in these Basis for Conclusions and not to provide more guidance in IPSAS 47 and in IPSAS 48 on the above topics for the respectively 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 are 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) Transfer of right-of-use assets in-kind as 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 to add 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 adding more information will not change the analysis and 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 in the first case 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, respectively.

Effective Date

BC158. The IPSASB considered the effective 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:

- (a) It is broadly consistent with the three-year application period of IPSAS 43 to which the amendments to IPSAS 47 are related to;
- (b) Does not overwhelm preparers with more changes to be effective at the same time as IPSAS 43 to IPSAS 49; and

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

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AGENDA ITEM 4.3.1**Basis for Conclusions to IPSAS 48, *Transfer Expenses*****Basis for Conclusions**

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

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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 sector¹.
- 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

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)*.

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guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the proposals in ED 84 related to IPSAS 23, as well as non-authoritative proposals to update IPSAS 48.

- BC46. These Basis for Conclusions present the main IPSASB's 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 to consider the linkages between ED 84 proposals and IPSAS 48 related to concessionary leases and right-of-use assets in-kind, as this Standard was published after the publication of ED 84.
- BC48. The considered the linkages between ED 84 proposals and IPSAS 48 related 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 are explicitly scoped out of IPSAS 48, which includes concessionary leases; 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 to remove 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 to add illustrative examples on concessionary leases for lessors, but the IPSASB decided not to proceed with this suggestion because for lessors the accounting for concessionary leases is the same as for leases at market terms.