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The International Public Sector Accounting Standards Board

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Submission via website

30 May 2024

Dear Ross

COMMENT ON THE EXPOSURE DRAFT ON ARRANGEMENTS CONVEYING RIGHTS OVER ASSETS (AMENDMENTS TO IPSAS 47 AND IPSAS 48) (ED 88)

We thank you for the opportunity to provide comment on ED 88.

The views in this comment letter are those of the Secretariat of the ASB and not the Board.

In general, we support the inclusion of the proposals in ED 84 on *Concessionary Leases and Right-of-use Assets in-kind (Amendments to IPSAS 43 and IPSAS 23)* carried over from IPSAS 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)* to IPSAS 47 on *Revenue*. We also support that non-authoritative guidance for arrangements conveying rights over assets are provided in IPSAS 47 and IPSAS 48 on *Transfer Expenses*.

Our recommendations for the proposed amendments to IPSAS 47 and IPSAS 48 are outlined in this comment letter as part of our responses to the specific matters for comment below.

Should you have any questions regarding the comment outlined in this letter, please feel free to contact me.

Yours sincerely

Elizna van der Westhuizen

Head of Technical

Board Members: Mr A van der Burgh (Chair), Ms A Carstens, Mr A Hardien, Ms W de Jager,
Mr D Dlamini, Mr S Gcwabe, Mr S Khan, Ms A Muller, Ms L Senne, Prof R Small
Chief Executive Officer: Mrs J Poggiolini

SPECIFIC MATTERS FOR COMMENT TO ED 88

Specific Matter for Comment 1:

The IPSASB decided to carry over the proposals in ED 84 in IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* related to the concession in concessionary leases to IPSAS 47 (see paragraphs IPSAS 47.BC141–BC150). Do you agree with the proposed amendments to IPSAS 47? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We support the inclusion of the previously exposed amendments to IPSAS 23 in IPSAS 47. We have not identified any additional reasons not already included in the Basis for Conclusions.

Our minor comments on specific text proposed in IPSAS 47 are:

- (a) Paragraph 203A. indicates that *“The transition requirements for right-of-use assets in IPSAS 43 are also applicable to the measurement of the right-of-use assets in-kind held by an entity as appropriate”*. It may be difficult for an entity to identify the appropriate transition requirements in IPSAS 43 for right-of-use assets. We propose that the transition requirements applicable to right-of-use assets in-kind are included in IPSAS 47, or that a cross-reference to the applicable paragraphs in IPSAS 43 is included in paragraph 203A.
- (b) Paragraph AG202B explains in the last sentence that *“For right-of-use assets in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the right-of-use asset in-kind”* (own emphasis).

We propose that the wording be re-considered as obtaining control of a right-of-use asset in-kind depends on the terms and conditions of the arrangement between parties. “Receipt” may be interpreted to refer to control of the physical asset. When an entity gains access or has the ability to restrict or deny access of others to the future economic benefits or service potential of a right-of-use asset in accordance with an agreement, the control criterion is met.

In addition, we recommend that the IPSASB considers whether paragraph AG202B is better suited for the “recognition” section as it explains the past event that gives rise to control of the right-of-use asset in-kind.

Specific Matter for Comment 2:

The IPSASB decided to propose non-authoritative guidance for arrangements conveying rights over assets in IPSAS 47 (see paragraphs IPSAS 47.BC146–BC150). Do you agree with the proposed non-authoritative amendments to IPSAS 47? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We support the non-authoritative guidance for arrangements conveying rights over assets in IPSAS 47. We have not identified any additional reasons for the inclusion of the guidance to that already included in the Basis for Conclusions.

Our minor comments on specific text in IPSAS 47 are:

- (a) *Example 0A – Access Rights*: We were unclear about the scope of the arrangement explained in the example. We recommend:
- Adding to paragraph IE1C. that the arrangement is a right to access the Entity's assets as the "assets" may be determined by the Entity.
 - Changing the wording in paragraph IE1D to better align with the conclusion that the arrangement is not a lease: "*The Entity confirms that the arrangement is a binding arrangement because it has an enforceable obligation to provide access to the land and cabins (as may be determined by the Entity), in exchange for an enforceable right to receive payment from the Customer.*" (own emphasis).
- (b) *Example 59 – Right-of-use Assets In-kind*: This example illustrates the journal entries to account for the right-of-use asset and revenue on initial recognition. For subsequent periods (year 1 to year 5) the example only illustrates the journal entries for the recognition of revenue and the related reduction of the liability. As there is an expectation that the journal entries for the right-of-use asset in-kind will also be illustrated in this example (see lead-in to the journals), we propose that a note is included that IPSAS 45 on *Property, Plant and Equipment* is applied to subsequently account for the right-of-use asset in-kind.

Specific Matter for Comment 3:

The IPSASB decided to propose non-authoritative guidance for arrangements conveying rights over assets without consideration in IPSAS 48 (see paragraphs IPSAS 48.BC41–BC44). Do you agree with the proposed non-authoritative amendments to IPSAS 48? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

We support that non-authoritative guidance for arrangements conveying rights over assets is included in IPSAS 48. We do, however, not agree that the examples illustrate the application of the requirements of IPSAS 48. We further note that there may be an inconsistency between the treatment of services in-kind in IPSAS 48 and collective and individual services in IPSAS 19 on *Provisions, Contingent Liabilities and Contingent Assets*.

We have not identified any additional reasons for the inclusion of the guidance to that already included in the Basis for Conclusions.

Our comment on specific text in IPSAS 48 is explained below.

Measurement

Paragraphs IE12D and IE12F of Example 2A conclude that *“the entity should measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance and other costs”*. IPSAS 48 paragraph 30 explains the transfer consideration is determined as the total carrying amount of the resources which an entity has transferred or is obligated to transfer. The examples do not illustrate that - because the transfer expense is considered as “with a binding arrangement” in both examples - the entity would need to estimate the total costs (depreciation, maintenance, employee costs, etc.) over the period (five and ten years respectively) and recognise an appropriate proportion as an expense each year as the service (right-of-use asset) is provided. Furthermore, the information in paragraph IE12B about the cost to obtain a similar right of use asset in the private sector is confusing. This is irrelevant in the example.

Recognition and display

The guidance in Example 2A on how the transfer expense needs to be measured may be interpreted to mean that a new expense (i.e. a transfer expense) needs to be recognised. We found this confusing, because in these examples where a right-of-use asset is provided in-kind, the “transfer expense” consists of other expenses, such as depreciation, maintenance and other costs. These expenses are already accounted for in an entity’s statement of financial performance.

This poses the question of what an entity is required to recognise and display, if anything, as a “transfer expense” when providing a service in-kind. We identified that IPSAS 48 could be interpreted to require one of two approaches:

1. Reclassify the “exchange” expenses incurred to provide the service in-kind (employee cost, maintenance, depreciation, etc.) from their nature or function to be displayed as a “transfer expense”. IPSAS 48 paragraph 49 requires *“As required by paragraph 109 of IPSAS 1, an entity shall present, either in the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on the nature of expenses or their function within the entity... In the context of transfer expenses, the*

analysis of expenses by nature results in the presentation of transfer expenses as a separate line item, while the analysis of expenses by function results in the allocation of transfer expenses to the various programs or purposes for which the transfers were made". Paragraph 49 is understandable when assets (cash, goods or other assets) are transferred that are derecognised, resulting in an expense. It is, however, difficult to understand paragraph 49 when services are provided in-kind. We also did not find any specific guidance in IPSAS 48 that assists a preparer in coming to this approach. We further note that an approach to reclassify expenses when providing services in-kind is inconsistent with the guidance in IPSAS 19 on collective and individual services, while being similar in nature. Paragraphs AG18 to AG20 of IPSAS 19 explain that the expenses will not be reclassified for individual and collective services and will remain by nature (employee cost, depreciation, etc.) or function.

2. Recognise a new "transfer expense" that is measured in accordance with paragraph 30 and displayed in accordance with paragraph 49 of IPSAS 48. While this may be the simplest interpretation of the requirements of IPSAS 48, an issue arises of what the credit entry is that an entity recognises when the transfer expense is recognised. The IPSASB previously debated and concluded that it is inappropriate to recognise revenue foregone in IPSAS.

We recommend that the requirements in paragraphs 30 and 49 of IPSAS 48 are better explained in the context of services in-kind and that consistency with the guidance in IPSAS 19 on collective and individual services is considered. We further recommend that the application of the requirements is illustrated in Example 2A, in particular with reference to the presentation requirements in IPSAS 1 on *The Presentation of Financial Statements* that requires the classification of expenses by nature or function.