31 May 2024

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO IPSASB'S EXPOSURE DRAFT (ED) 88 Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48).

Introduction

The Botswana Institute of Chartered Accountants ("BICA") is a statutory body established by Accountants Act, 2010, as amended for the regulation of the accountancy profession in Botswana. The Institute's mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards exposure draft ***88, Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48) issued in***

We have provided our comments on the specific matters for comment as per the Exposure Draft. Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully,

Buisanang Ushuka, ACPA

Acting Director – Technical and Public Sector Accounting Services

MATTERS FOR COMMENT:

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–BC145). 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.

Comment

Yes, we do agree with IPSASB's proposed amendments to IPSAS 47, as it is clear at this point that IPSAS 47 replaces IPSAS 23, Revenue from Non-Exchange Transactions. Even though we are with view that PSASB could have expedited action on the ED 84 proposal to ensure that, any decision arrived at was included in IPSAS 47 before issued. It cannot be overemphasized that frequent amendments and revisions be minimized to build confidence and trust in the standard setting process.

Notwithstanding, we cannot deny the important information the proposed amendments will bring to entities and their preparers of the financial statements. Having clearly reviewed the proposed additional guidance for the concession in concessionary leases and for other arrangements that convey rights over assets, we are of the opinion that the revision will undoubtedly enable entities to adopt an approach that is not only comprehensive but also consistent.

In addition, it is our candid opinion that the inclusion of paragraph 194A in the proposed amendment is clearly in order, as it will enable entities to know when to apply these amendments. The transition period and the early adoption statements go a long away to help entities and the financial statement preparers to assess their readiness to apply these changes.

For the example the statement that 'If an entity applies the amendments for a period beginning before [MM DD, YYYY] it shall disclose that fact and apply IPSAS 43, IPSAS 45, IPSAS 46, IPSAS 47, and IPSAS 48 at the same time" will enable entities that adopt the amendments to evaluate the compliance to these standards.

Our support to these amendments is also firmly rooted on Basis of Conclusion paragraphs BC142, BC143 and BC144. We have carefully evaluated these and concurred with IPSASB decision to include the necessary changes as amendments since IPSAS 47 supersedes IPSAS 23, the ED 84 proposals of amendments to IPSAS 23, which will no longer be applicable, come 1 January 2026.

It is therefore our considered view that, the proposed new public sector specific accounting requirements should include all the six types of arrangements identified in the RFI to provide one stop shop guidance for entities and their financial statement preparers.

Alternatively, IPSASB should consider expanding on the guidance relating to the other four types of arrangements identified in the RFI to provide the principles on how to account for those arrangements.

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.

Comment

Yes. We do agree with the proposed non-authoritative amendments to IPSAS 47.

Even though the guidance is non-authoritative, it serves as useful guidance to enable entities and their financial statement preparers to have clarity in applying those amendments.

So far, the Application Guidance Appendix has proved to be an integral part of IPSAS 47. We see the additions in AG1 of (va) Concessionary Leases for Lessees (paragraphs AG153A–AG153B); and (xv) Right-of-use Assets In-kind (paragraphs AG202A–AG202K); as appropriate and complete.

Our review of the "Application of Principles to Specific Transactions" find the content very helpful the same way the inclusion of the heading, "Concessionary Leases for Lessees shows the importance these amendments add to the IPSAS 47 Revenue standard.

In addition, AG153A highlights how leases received by a lessee at below-market terms should be accounted for. The explicit guidance on how the portion of the lease that is payable, along with any interest payments, is accounted for in accordance with IPSAS 43 are undoubtedly helpful.

More importantly, the guidance enables lessees to consider whether any difference between the present value of lease payments at market rates based on the current use of the underlying asset and the present value of contractual payments on initial recognition is revenue and accounted for in accordance with IPSAS 47.

Another point worth noting in the proposed guidance is the consideration given to how to account for concessions with or without compliance obligation. This point is captured in paragraph AG153B and will enable lessees to consider if the compliance obligation gives rise to the existence and recognition of a liability.

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.

Comment

Yes, we do agree with the IPSASB proposed non-authoritative amendments to IPSAS 48.The added paragraphs BC41–BC44 and IE12A–IE12F are very concise and appropriate. The amendment to Paragraph IE2 is also in order as it gives prominence to Right-of-Use Assets In-kind as such assets are treated as transfer expenses.

In addition, the inclusion of the various headings above paragraphs BC41, IE12A and IE12E gives the amendment validity.

We have also reviewed and evaluated the Basis of Conclusion paragraphs and find them intriguing. We support the IPSASB's decision to publish ED 88 with proposed non-authoritative guidance for other arrangements conveying rights over assets in IPSAS 48, Transfer Expenses. Indeed, the proposals correctly captures all the arrangements included in the RFI and updating the proposals in ED 84 is very much welcome.

Moreover, we find (I) Concessionary Leases and (ii) Leases for Zero or Nominal Consideration very prevalent in the public sector and support any attempt to disclose the true economic substance of such transactions.

We do also see that the accompanying Illustrative Examples undoubtedly provide good examples to enable entities and their financial statement preparers to follow even though they are not part of, IPSAS 48.

Examples 1–2A clearly illustrate the requirements in paragraphs 3–5 of IPSAS 48 on the determination of whether a transaction is within the scope of IPSAS 48. These examples clearly help entities to understand whether a transaction is within the scope of IPSAS 48 or not.

The paragraph dedicated to the scope emphasizes that an entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for transfer expenses as defined in this Standard, including transfer expenses incurred for capital transfers. The scope paragraph also details that a binding arrangement may be partially within the scope of this standard and partially within the scope of other standards. This shows how such transactions be accounted for and are considered a valuable source of guidance to the entities and their financial statement preparers and should be supported.