



Date: May 30, 2024

Mr. João Fonseca

Principal,

International Public Sector Accounting Standards Board

International Federation of Accountants

529 5th Avenue

New York, New York 10017

RE: Comments on ED 88, *Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)*

Dear Mr. Fonseca,

We welcome the opportunity to comment on ED 88, *Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)*.

Our responses to the specific questions raised in the Exposure Draft as well as other comments are set out in Appendix 1.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Mr. Abdullah Alhomaida via email at:

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Yours sincerely,

Abdullah Al Mehthil

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## Appendix 1 - Exposure Draft (ED) 88, *Arrangements Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)*

### 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.

### [Our Comments]

We agree, but we have the following concerns:

1) Confusing guidance for identifying right-of-use assets in-kind

#### References:

- Paragraph AG202A states, “Right-of-use assets in-kind are right-of-use assets received without consideration. An entity identifies a right-of-use asset in-kind in accordance with the requirements of paragraphs 10– 12 and AG10–AG34 of IPSAS 43, *Leases for identifying a lease, with the necessary adaptations in the absence of payments.*”
- Paragraph AG202B states, “Right-of-use assets in-kind are transfers of assets that one entity makes to another, either free from requirements or may be subject to certain obligations. The resource provider may be an entity or an individual. 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.”
- Paragraph AG202C states, “Right-of-use assets in-kind are recognized as assets in accordance with paragraphs 18–25 and the recognition of revenue depends on whether they arise from a transaction with a binding arrangement.”

IPSAS 43 applies only to an arrangement that are in substance contract--an arrangement between willing parties creating for both parties' rights and obligations that are enforceable through legal means only. IPSAS 47, on the other hand, applies to (i) binding arrangements that are enforceable through legal means, (ii) binding arrangements that are enforceable through equivalent means, and (iii) arrangements that are not binding arrangements. IPSAS 47 defines a binding arrangement as one that creates for both parties both rights and obligations that are enforceable through legal or equivalent means and as containing at least one compliance obligation for the resource recipient.

As such, contracts as defined in IPSAS 43 are a subset of the binding arrangements in IPSAS 47. By requiring in paragraph AG202A that an entity should identify a right-of-use asset in-kind in accordance with the requirements of paragraphs 10– 12 and AG10–AG34 of IPSAS 43 for identifying a lease, with the necessary adaptations in the absence of payments, the IPSASB is suggesting that a right of use asset in-kind may arise only from a binding arrangement that is enforceable through legal means (an arrangement that is in substance a contract). However, it can be inferred from the underlined text in paragraphs AG202B and AG202C, as well as from the proposed illustrative examples in both IPSAS 47 and IPSAS 48, that the existence of a binding arrangement (whether in substance a contract or not) is not necessary for a right-of-use asset in-kind to arise. Obviously, a lack of a compliance obligation would be an exception to IPSAS 43's definition of a contract and therefore another exception to IPSAS 43's definition of a lease (in addition to the lack of consideration).

We therefore suggest that the IPSASB should resolve any potential conflicts in the paragraphs referenced above. Specifically, it should clarify whether in the context of IPSAS 47, a right of use asset in-kind may arise from:

- An arrangement that is a contract as defined in IPSAS 43,
- An arrangement that is a binding arrangement as defined in IPSAS 47 (a binding arrangement that is enforceable through legal or equivalent means), or
- An arrangement that is or is not a binding arrangement as defined in IPSAS 47,

And should modify the proposed authoritative and non-authoritative guidance accordingly.

2) Confusing guidance for determining when to recognize a right-of-use asset in-kind

**References:**

Paragraph AG202B states, "Right-of-use assets in-kind are transfers of assets that one entity makes to another, either free from requirements or may be subject to certain obligations. The resource provider may be an entity or an individual. 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."

It is not clear whether the timing of an entity obtaining control of a right-of-use asset in-kind corresponds to the commencement date or inception date of a lease as defined in IPSAS 43. This should be clarified.

#### References:

- Paragraph BC143 states, “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.”
- Paragraph BC145 states, “The IPSASB decided to publish ED 88 with proposed authoritative and non-authoritative guidance for the concession in concessionary leases for lessees in IPSAS 47 to update the proposals in ED 84.”
- Paragraph BC146 states, “The IPSASB also decided to propose non-authoritative guidance in IPSAS 47 and IPSAS 48, Transfer Expenses for the remaining arrangements in the RFI that convey rights over assets, thus complementing, and updating the proposals in ED 84.”
- Paragraph BC147 states, “In developing the proposed guidance in ED 88, the IPSASB decided to provide only illustrative examples on the remaining arrangements in the RFI because these arrangements may take many forms.”
- Paragraph BC151 states, “The IPSASB also considered adding illustrative examples accompanying IPSAS 31, Intangible Assets, as some of these arrangements may meet the definition of an intangible asset. The IPSASB decided not to add illustrative examples accompanying IPSAS 31 because the main objective of issuing ED 88 is to update IPSAS 47 and IPSAS 48, as these IPSAS had not yet been issued by the IPSASB at the time of approval of ED 84.”

The proposed additional authoritative guidance does not address identifying, and dealing with the revenue from, arrangements conveying free rights over resources other than right-of-use assets in-kind. Specifically, the guidance does not address the situations where the arrangement gives rise to a service in-kind or an intangible asset in-kind rather than a right-of-use asset in-kind. We would like to recall the objective of Phase 2 of the Leases Project which is to address arrangements that provide other forms of rights over assets, but not the right of use as provided in a lease arrangement. It is in the public interest to address the identification of, and accounting for revenue from, other arrangements conveying free rights over resources other than concessionary leases and right-of use assets in-kind, and not to narrow the scope of the added authoritative guidance down to lease-related arrangements (concessionary leases and right-of-use assets 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.**

**[Our Comments]**

We agree with the proposed non-authoritative amendments.



### 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.**

### [Our Comments]

We agree, but we have the following concerns:

#### References:

Case B – Social Housing without Consideration

IE12E. The national government publishes new legislation which requires municipal governments to take action to reduce the number of homeless in their community. To implement the legislation requirements, Municipality Z (the Entity) engages with a public sector organization (Organization) to operate social housing services for the homeless in the local community. Under the 10-year arrangement, the Organization is able to use the Entity's 100 vacant social housing units (to temporarily house the homeless until they find a more permanent place to live) for zero consideration.

IE12F. The provision of the right to use social housing units to the Organization for zero consideration is within the scope of IPSAS 48 because the Entity provides services to the Organization without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs.

In the Case B above. It is not clear why this situation should be within the scope of IPSAS 48. The fact pattern indicates that the resource provider (Municipality Z) is required by law to take action to reduce the number of homeless people in its locality- a service delivery objective for which the resource provider (Municipality Z) is accountable- and therefore engages another entity to operate an asset under the resource provider's control to provide the related services. As such, the facts suggest a situation where the resource provider (Municipality Z) is a grantor that and the resource recipient (Organization) is an operator- i.e. a service provider engaged to provide individual services (social benefits in-kind) on behalf of the grantor using physical assets that will continue to be controlled by the grantor (see IPSAS 16, paragraph 13(f), IPSAS 19, Appendix A-Application



Guidance, IPSAS 32, paragraphs 6-7, IPSAS 45, paragraph 5). IPSAS 45, IPSAS 32 and, potentially, IPSAS 19 seem to be the applicable standard(s) here.

We suggest that the IPSASB should carefully consider whether the proposed illustrative examples cause an overlap between the scopes of related IPSASs.



### [Other Comments]

- Regarding the proposed amendments to IPSAS 47
  1. Paragraph AG202K states, "If an entity measures right-of-use assets in-kind at revalued amounts applying IPSAS 45, an entity shall disclose the information required by paragraph 74 of IPSAS 45 for those right-of- use assets in-kind." The IPSASB should clarify if the requirements in paragraphs 79-84 of IPSAS 45 are also applicable.
  2. We suggest the following editorial changes:

Proposed text	Suggested changes
AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity <u>received</u> consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;	AG154. As required by paragraph 106, transferred assets are measured at their transaction consideration as at the date of recognition. When an entity <u>receives</u> consideration in a form other than cash, the non-cash consideration is initially measured at its current value in accordance with relevant IPSAS;
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 <u>types of non-cash consideration</u> .	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 <u>elements that meet the definition of a transfer in IPSAS 47</u> .
IE1H. Municipality A (the Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it <u>to their</u> own activities. The Customer pays transaction consideration upfront each month, based on the number of days it plans to use the office space.	IE1H. Municipality A (the Entity) enters into an arrangement with Government Agency B (Customer) to share the use of a floor in an office building for three years. The Entity will continue to use the floor for the majority of the time and coordinates with the Customer the dates that each can use it <u>for its</u> own activities. The Customer pays transaction consideration upfront each month, based on the number of days it plans to use the office space.





Proposed text	Suggested changes
IE296A. ... The lease stipulates that it should be <u>paid</u> over the 5-year period as follows: ...	IE296A. ... The lease stipulates that it should be <u>paid for</u> over the 5-year period as follows: ...
IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for 5 years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate <u>the types of sports services and their pricing</u> that Entity Z provides.	IE308. Public sector entity Z (Entity Z) enters into an arrangement with a Government Agency (Agency) for 5 years to have the right to use for free a sports field to be used specifically by youth. The Agency does not regulate <u>the types or pricing of sports services</u> that Entity Z provides.

- Regarding the proposed amendments to IPSAS 48, we suggest the following editorial changes:

Proposed text	Suggested changes
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 <u>arrangement</u> that convey rights over assets.	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 <u>arrangements</u> that convey rights over assets.
BC44. To address this, the IPSASB decided to publish ED 88 with proposed non-authoritative guidance for other arrangements conveying rights over assets in IPSAS 48, Transfer Expenses. The proposals encompass <u>all</u> arrangements included in the RFI and <u>taking</u>	BC44. To address this, the IPSASB decided to publish ED 88 with proposed non-authoritative guidance for other arrangements conveying rights over assets in IPSAS 48, Transfer Expenses. The proposals encompass <u>some of</u> <u>the</u> arrangements included in the RFI and <u>take</u>



Proposed text	Suggested changes
into consideration the IPSASB's literature published after ED 84, thus complementing, and updating the proposals in ED 84.	into consideration the IPSASB's literature published after ED 84, thus complementing, and updating the proposals in ED 84
Example 2A "Right-of-Use Assets In-kind"	The title of Example 2A "Right-of-Use Assets In-kind" is not relevant from a resource provider's perspective. A right-of-use asset in-kind arises to a resource recipient, not to resource provider. The title should therefore be changed to "Transfer of rights over assets".
IE12A. A Government Agency (Agency) enters into an arrangement with a public sector entity Z (Entity Z) for 5 years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate <u>the types of sports services and their pricing</u> that Entity Z provides.	IE12A. A Government Agency (Agency) enters into an arrangement with a public sector entity Z (Entity Z) for 5 years conveying the right to use for free a sports field to be used specifically by youth. The Agency does not regulate <u>the types or prices of sports services</u> that Entity Z provides.
IE12B. A similar sports field built at the same time and with the same characteristics at a different location is being leased by the same government agency to a private sector entity for CU300,000 annually for 5 years. This information is publicly available on the Agency's website.	This paragraph should be deleted. This information is not relevant to a transfer provider's accounting.
IE12E. The national government publishes new legislation which requires municipal governments to take action to reduce the number of <u>homeless</u> in their <u>community</u> . To implement the <u>legislation</u> requirements, Municipality Z (the Entity) <u>engages with</u> a public sector organization (Organization) to operate social housing services for the homeless in the local community. Under the 10-year arrangement, the Organization is able to use	IE12E. The national government publishes new legislation which requires municipal governments to take action to reduce the number of <u>homeless people</u> in their <u>communities</u> . To implement the <u>new legislative</u> requirements, Municipality Z (the Entity) <u>engages</u> a public sector organization (Organization) to operate social housing services for the homeless in the local community. Under the 10-year arrangement,



Proposed text	Suggested changes
<p>the Entity's 100 vacant social housing units (to temporarily house the homeless until they find a <u>more permanent</u> place to live) for zero consideration.</p>	<p>the Organization is able to use the Entity's 100 vacant social housing units (to temporarily house the homeless until they find a <u>permanent</u> place to live) for zero consideration.</p>
<p>IE12F. The provision of the right to use social housing units to the Organization for zero consideration is within the scope of IPSAS 48 because the Entity provides <u>services to the Organization</u> without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs.</p>	<p>IE12F. The provision of the right to use social housing units to the Organization for zero consideration is within the scope of IPSAS 48 because the Entity provides <u>facilities for the Organization's use</u> without directly receiving any good, service, or other asset in return (see paragraph 6). The Entity would measure the transfer expense using the cost of resources to be transferred (see paragraph 30), which may include depreciation, maintenance, and other costs.</p>