

Proposed International Public Sector Accounting Standard
**“Exposure Draft (ED) 88, Arrangements
Conveying Rights over Assets (Amendments to
IPSAS 47 and IPSAS 48).**
REQUEST FOR COMMENTS

Task force IRSPM PSAAG, CIGAR Network, EGPA PSG XII

Draft May 31, 2024

The IPSASB has requested comments and answers to specific questions regarding its ED 88 *Conveying Rights over Assets (Amendments to IPSAS 47 and IPSAS 48)*.

ED 88 proposes guidance on concessions in concessionary leases and other arrangements that convey rights over assets.

ED 88 proposes amendments to IPSAS 47, *Revenue* consistent with the strongly supported principles exposed in ED 84, *Concessionary Leases and Right-of-Use Assets In-kind* (Amendments to IPSAS 43 and IPSAS 23), published in January 2023. Additionally, ED 88 proposes illustrative examples to accompany IPSAS 47 and IPSAS 48, *Transfer Expenses* on other types of arrangements conveying rights over assets that are common in the public sector.

The comments and responses prepared by the Task Force IRSPM PSAAG, CIGAR Network, and EGPA PSG XII are presented below.

The IRSPM PSAAG, CIGAR Network, and EGPA PSG XII are three research networks that focus on public sector accounting. The Task Force is made up of 16 researchers from these networks. The views expressed in this document represent those of the Task Force members and not of the whole research community represented by the networks or of the institutions/universities with which they are affiliated.

Core assumptions

We think that, in general, public sector entities require public sector-specific principles and standards that adequately accommodate public sector specificities. As such, when public sector transactions resemble those in the private sector, principles and standards may be kept as aligned as possible. However, we favor standards not adapted artificially from private sector accounting for public-sector-specific transactions. We think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations herein.

Concessionary leases are very common in the public sector, where public entities have right-of-use arrangements with specific considerations and agreed terms that are not referenced to a market. This means that the contracted value of the right-of-use does not fit market terms, and often, the payments are much lower than the market price.

Similarly, right-of-use assets in-kind are also very specific for the public sector. Because of this, specific treatment is required for these transactions, and we welcome the opportunity to comment on the proposals of 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–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.

ED 88 maintains the criteria proposed in ED 84. The aim is to carry over the proposals to IPSAS 47 instead of amending IPSAS 23, which will be replaced by IPSAS 47 by 2026. In this sense, we consider the proposed change logical and understandable. So, we agree with the proposal.

Nevertheless, as we already commented in our response to ED 84, we have some concerns about the criteria to be included in IPSAS 43 and 47. These types of contracts cannot be analyzed by applying economic rationalities because they are not arranged with economic aims.

As we argued before, the theoretical lens applied in business accounting cannot be directly applied in this case for public sector entities as these are transactions with specific characteristics for public sector entities. We have some concerns about the application of the principles of IPSAS 43 to identify and recognize concessionary leases and right-of-use assets in-kind. In our opinion, there are particularities that justify a departure from IPSAS 43 for this type of agreement.

It would be important to differentiate the extent to which the assets will have future economic benefits. For example, if a right-of-use asset in-kind can be objectively defined, and provided that it generates economic benefits, only then can it be registered as an asset – and just to the extent that it will generate economic benefits. Only in that case can one consider the present value of the expected future cash flows. As such, this would not be a fictitious journal entry, and it represents a real situation.

We also have some concerns about treating the difference between the present value of payments for the lease at the market rates and the present value of contractual payments as revenue on initial recognition. The same is true for revenue recognized on right-of-use assets in-kind. In this case, the matching principle should be considered, implying that revenue cannot be considered only in the year of the contract.

Furthermore, we would appreciate clarification about the treatment of concessionary leases when a compliance obligation exists. In fact, in most occasions, these arrangements include the obligation to use the property for specific services; that is, obligations are usually linked to the purpose the right-of-use assets are used for, which can be predetermined, as is normal for very specific activities and assets. In this sense, the standard should define what types of obligations can lead to recognizing a liability. Due to difficulties in valuing the asset and the liability, it can be more realistic only to require disclosure of the information in the notes to the financial statements.

We appreciate the principles requiring the disclosure of concessionary leases and right of use assets in-kind in the notes in the financial statements. In fact, we consider that this should be a solution for assets that do not have economic benefits but just service potential. Moreover, when there are difficulties in measuring the present value of payments at market rates based on the current use of the underlying asset.

Furthermore, since these right-of-use assets usually have predetermined use restrictions, these restrictions should also be disclosed in the notes to the financial statements.

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.

The non-authoritative guidance provides examples of the recognition and measurement of right-of-use assets in kind that can help public organizations apply the standards. In this sense, we acknowledge the non-authoritative guidance amendments to IPSAS 47.

In particular, we consider useful the examples that help to assess whether an arrangement can be considered a Lease, which can support the application of IPSAS 43.

We consider that more examples could support the application of concessionary leases and right-of-use assets in kind. The existing examples are simplified and theoretical and do not capture the real difficulties in practice.

For instance, the example 54A-Concessionary Leases (Lessee)—Concession results from 30% lower contractual payments than payments from the leases in the Market Rates, but there is a compliance obligation that requires these to be considered liabilities. It can be useful to consider the other option, that is, if the concessionary lease were granted with no obligations, the entity would recognize the revenue on initial recognition.

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 appreciate the examples included in the ED 48, which can help decide when the application of IPSAS 48 is adequate instead of IPSAS 42. Nevertheless, we would appreciate completing it with more examples that clarify the difference. In fact, one of the problems argued in the Basis for Conclusions is that in the responses to ED 84, the IPSASB noted that some respondents raised some issues related to arrangements that need to meet the definition of a lease or right-of-use asset in kind.

We consider that it is still challenging to identify when exactly the arrangement should consider a lease and when to transfer expenses.

In fact, in example 2A Case A-Usage of A Sports Field for Zero Consideration, the conclusion that “the Agency provides the right to use to Entity Z without directly receiving any good, service or other asset in return” can be misleading. Furthermore, it could be helpful to include the treatment of the arrangement in the Government Agency. The same could be said for public sector organizations, such as 2A-Case B Social Housing, without consideration.

Date: *May 31, 2024*

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