

Request for Information
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IPSAS®

Request for Information

Concessionary Leases and Other Arrangements Similar to Leases

IPSASB

**International Public
Sector Accounting
Standards Board®**

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Request for Information, *Concessionary Leases and Other Arrangements Similar to Leases*

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Introduction

IPSASB's Leases project

1. At its March 2020 meeting, the IPSASB decided that its Leases project will be managed in two phases, distinguishing between those lease-type arrangements¹ which are fully within the scope of IFRS 16 *Leases* issued by the IASB and other lease-type arrangements that exist in the public sector:
 - (a) Phase One – addresses accounting for leases which are fully within the scope of IFRS 16 for both lessors and lessees, by publishing the proposals in Exposure Draft (ED) 75, *Leases*.
 - (b) Phase Two – will address public sector issues specific to concessionary leases (i.e. components in leases with non-market terms) and other arrangements similar to leases (i.e. arrangements that provide other forms of rights over assets, but not the right of use as provided in a lease arrangement).
2. This Request for Information (RFI) will support Phase Two of the IPSASB's project on Leases. Therefore, this RFI is separate to the ED 75 Phase One consultation.
3. Issues identified during the RFI process will be considered in the context of the finalization of a Standard based on ED 75.

Objective of the RFI

4. The objective of the RFI is to gather constituent input on the characteristics of concessionary leases and other arrangements similar to leases that are common in the public sector and seek information on how these arrangements are being accounted for in their jurisdiction in accordance with relevant national standard. This information is being sought to assist the IPSASB in determining whether standards-level or other guidance is needed.

Content of this RFI

5. The types of arrangements, for which more information is needed to develop requirements and guidance for the public sector, include the following topics raised in comments on ED 64, *Leases* and discussed subsequently by the IPSASB:
 - (a) Concessionary leases;
 - (b) Leases for zero or nominal consideration;
 - (c) Access rights (or rights of access to property and/or land);
 - (d) Arrangements allowing right-of-use;
 - (e) Social housing rental arrangements; and
 - (f) Shared properties with or without a lease-arrangement in place.

¹ The term 'arrangement' is used in this RFI with a broader meaning to encompass other types of transactions that are not, or may not be, contract based.

6. The IPSASB is seeking information on the nature and characteristics of these lease-type arrangements and how each are currently being reflected in the financial statements in different jurisdictions. In addition, information is being sought on other lease-type arrangements constituents may identify as relevant where guidance might be needed.

How Responses to the RFI Will Help the IPSASB

7. Response to this RFI, which will be considered in Phase Two of the leases project, will help the IPSASB to determine whether further accounting guidance is required, and, if so its nature and content.

Lease Arrangements and Arrangements Similar to Leases

Concessionary Leases

8. Under ED 75 a lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
9. In the public sector, leases are often entered into by an entity at below-market terms (so called concessionary leases). Examples of concessionary leases include leases of office buildings to international aid organizations that are required to have a presence in a specific geographic location.
10. A lease at below market terms implies the existence of a concession or subsidy in-kind in the lease contract, which can be identified as the difference between the market value of the right to use an asset and the consideration stipulated in the lease contract (contract value).
11. In these types of arrangements, there are two components related to the value of the right to use an asset:
 - (a) The cash being transferred from the lessee to the lessor (consideration); and
 - (b) The implicit value of the concession from the lessor to the lessee as described in paragraph 10.

Question 1: In your jurisdiction, do you have concessionary leases (or similar arrangements) as described in this RFI? If yes, please:

- (a) Describe the nature of these leases (or similar arrangements) and their concessionary characteristics; and
- (b) Describe the accounting treatment applied by both parties to the arrangement to these types of leases (or similar arrangements), including whether the value of the concession is reflected in the financial statements.

Leases for Zero or Nominal Consideration

12. Like concessionary leases described previously in this RFI, often in the public sector lease-type arrangements are entered into for zero or nominal consideration (for example, for one currency unit).

13. These types of arrangements have one key difference compared to concessionary leases: there is no consideration being exchanged or the consideration exchanged is insignificant. The implicit value of the concession in the arrangement is, or almost is, the full market value of the right to use an asset.
14. Examples of these arrangements include government departments or municipalities providing office accommodation free of charge to a third-party.

Question 2: In your jurisdiction, do you have leases for zero or nominal consideration as described in this RFI? If yes, please:

- (a) Describe the nature and characteristics of this type of lease (or similar arrangement); and
- (b) Describe if and how the value of the concession is reflected in the financial statements of both parties to the arrangement.

Access Rights (or Rights of Access to Property and/or Land)

15. ED 75 clarifies that to control the use of an identified asset, a customer (lessee) is required to have the right to:
 - (a) Obtain substantially all of the economic benefits from use of the asset; and
 - (b) Direct the use of the asset throughout the period of use.
16. However, in the public sector there are situations where an entity transfers, through legislation or agreement, only access rights, rather than full rights to use an asset, in exchange for consideration. For example, the conservation department of a government owns a national park that can only be accessed by the public after first passing through a section of privately-owned farmland². After passing through the farmland, the public can access public walkways within the national park. The conservation department agrees to pay consideration to the landowner for a fixed period of time (say 20 years), in exchange for the private landowner providing free public access through the farmland for the same period of time.
17. The entity that receives that access right (the conservation department), while having the right to access and use an underlying asset (the land), does not have the right to obtain substantially all of the economic benefits from the use of that section of farmland and does not have the right to direct the use of this farmland over the period of use.
18. While the entity that provides the access right (the farmer) is required to provide free public access over the section of farmland (as a right of transit to the national park), the farmer retains control over how the farmland is used to derive other economic benefits embodied in the asset, i.e., continuing to use the section of land for farming purposes.

² In some jurisdictions the right to access land is called servitudes.

Question 3: Does your jurisdiction have arrangements that provide access rights for a period of time in exchange for consideration? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

Arrangements Allowing Right-of-Use

19. There are cases where public sector entities deliver services (for example, education services) using properties provided by third parties (for example, trusts and non-government entities). In some cases, these entities can substitute the properties, and in other cases they cannot. Often, there is no written arrangement, but the public sector entity can only use the properties for their specific service.

Question 4: In your jurisdiction, do you have arrangements with the same or similar characteristics to the one identified above? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

Social Housing Rental Arrangements³

20. Sometimes social housing can be provided under arrangements or legislation that stipulate the terms and conditions under which public sector entities can enter into rental contracts as head⁴ lessors or sublessors. For example, the arrangement or legislation may limit the powers of the public sector entity that arranges/initiates the housing tenancies to terminate the arrangement.
21. In other situations, the tenancies may have no end term by which a tenant has an obligation to vacate and return the underlying asset.
22. In this case, due to the limitations of the social housing provider's rights in the arrangements and having no predetermined period of time to return the asset, there is a question whether these types of arrangements meet the definition of a lease.

Question 5: In your jurisdiction, do you have arrangements involving social housing with lease-type clauses or other types of lease-like arrangements with no end terms? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of the social housing provider.

Shared Properties with or without a Lease-Arrangement in Place

23. It is common in the public sector for entities to co-locate activities in a single building for the provision of services. Such arrangements are not always documented in formal lease contracts and there is sometimes no consideration payable under the arrangement.

³ Similar arrangements could equally apply to the provision of student accommodation and staff quarters for e.g. defense / police officials.

⁴ 'Head lessor' is the initial or originating lessor.

Question 6: In your jurisdiction, do you have arrangements involving the sharing of properties without a formal lease contract? If yes, please describe the nature of these arrangements and how they are reflected in the financial statements of both parties to the arrangement.

Other Arrangements Similar to Leases

24. The IPSASB acknowledges that there might exist other types of arrangements, similar to leases and seeks additional information concerning the nature and characteristics of these arrangements.

Question 7: In your jurisdiction, do you have other types of arrangements similar to leases not mentioned in this RFI? If so, please describe the characteristics of these arrangements and how they are presently being reflected in the financial statements of both parties to the arrangement.

Request for Information

25. The IPSASB requests information on the questions set out above. Obtaining this information will inform the IPSASB on what guidance, if any, is required. Respondents are encouraged to comment on any additional public sector specific issues related to leases or similar arrangements that are relevant to consider, including topics that are not addressed in this RFI.
26. Information provided in response to this RFI is helpful if it:
- (a) Addresses the questions as stated;
 - (b) Describes the nature and characteristics of the lease or lease-type arrangement; and
 - (c) Clearly explains the current accounting practices applied and the basis for those accounting practices.
27. All feedback received will be posted on the IPSASB's website publicly. The IPSASB will discuss the responses to this RFI during a future meeting.

Deadline

28. This RFI is open for public comment until May 17, 2021.

How to Respond

29. Respondents are asked to submit their information electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit information in both a PDF and a Word file. Also, please note that first-time users must register to use this feature. All information will be considered a matter of public record and will be posted on the website.

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