Friday, 31 May 2024

Mr Ian Carruthers
Chairman
International Public Sectors Accounting Standards Board
529 Fifth Avenue New York
NY 10017 USA

Submission via website: https://www.ipsasb.org/publications/exposure-draft-ed-88-arrangements-conveying-rights-over-assets

Dear Ian

Exposure Draft 88, Arrangements Conveying Rights over Assets

As the representatives of over 300,000 professional accountants around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on Exposure Draft 88, *Arrangements Conveying Rights over Assets (amendments to IPSAS 47 and IPSAS 48)* ("**ED 88**"). We make this submission on behalf of our members and in the public interest.

We reiterate that we do not support the proposal to measure concessionary leases and right-of-use assets in-kind at the present value of payments for the lease at market rates based on the current use of the underlying asset. This is for the reasons outlined in our preceding:

- Joint submission to Exposure Draft 84, *Concessionary Leases and Right-of-Use Assets In-kind* ("**ED 84**"), and
- Joint submission to *Request for Information – Concessionary Leases and Other Arrangements Similar to Leases* ("**the RFI**").

In these joint submissions, we raised concerns that the costs of determining the fair value of right-of-use assets arising from concessionary lease arrangements were likely to exceed any expected benefits. As the proposals in ED 88 have not changed from ED 84, our concerns remain unaddressed.

To date, there is no evidence to suggest that reporting using the cost-based approach is not sufficiently meeting the information needs of users. Therefore, we continue to recommend the provision of an accounting policy choice that enables entities to elect to initially measure a class of concessionary right-of-use assets at cost or fair value, with supporting disclosures about the nature and terms of the arrangement.

The key challenge we anticipate regarding rights over assets in the public sector is satisfying the concept of control. In many cases, there are no formal contractual agreements, only an exchange of economic resources between parties. This makes it unclear which party controls the asset and whether the arrangement constitutes a lease. Our members indicate that this issue could have significant unintended consequences. For example, recognising such rights as assets at fair value would lead to a series of higher subsequent depreciation/amortisation which in turn impacts an entity's surplus/deficit. Therefore, this accounting treatment may not help users understand an entity's

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financial performance or how it uses its resources to advance its purpose/objectives. The lack of clarity could diminish the value of the financial reports being provided, meaning that user needs are no longer being met.

The **Attachment** to this letter contains our responses to the specific matters for comment in ED 88. If you have any questions about our submission, please contact either Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Sincerely,

Ram Subramanian CPA
Interim Head of Policy and Advocacy
CPA Australia

Simon Grant FCA
Group Executive – Advocacy and International Development
Chartered Accountants Australia and New Zealand

Attachment

Response to Specific 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.

We do not agree with the IPSASB's decision to carry over the proposals in ED 84, therefore it follows that we do not agree with the proposed amendments to IPSAS 47, *Revenue* (IPSAS 47).

We do not support the proposed approach in ED 88 to measure the concession as the difference between the present value of payments for the lease at market rates based on the current use of the underlying assets and the present value of contractual payments. Therefore it follows that we do not support recognising the concession as revenue (or a liability if a compliance obligation exists).

The reason being is that the concerns we raised on our joint submission on ED 84 remain unresolved. Specifically, we raised the following concerns in response to ED 84:

- The proposals lack clarity on the financial reporting problem it aims to solve. If it is about improving transparency and accountability, in numerous jurisdictions, these arrangements are already disclosed within service performance reporting and/or related party transactions.
- We do not agree with the proposal for lessors to account for finance leases at below-market terms in the same way as for finance leases at market terms.
- The proposed requirements are overly complex and costs for implementing the proposed accounting approach are likely to exceed any benefits.
- Given the specific nature of the assets and arrangements in the public sector, determining a market rate where an active market is not present is challenging.
- It appears to be inconsistent with paragraphs AG143–AG149 of IPSAS 47 which do not require the recognition of services in-kind and explain why it may not be appropriate to fair value services in-kind.

We reiterate our support for an accounting policy choice of the cost-based approach, supplemented by disclosures about the nature and terms of the arrangement.

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.

As we disagree with the proposed accounting approach, we have only included some high-level observations in response to this SMC. The feedback we received from our members indicates that the proposed illustrative examples in IPSAS 47 lack clarity and may not be helpful as they are in the context of the resource provider (potential lessor). It would be more useful for the analysis to be from the perspective of the resource recipient (potential lessee). Particularly given that there is no change

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in accounting by lessors for concessionary leases. In addition, some of the case facts in the illustrative examples do not appear to reflect what happens in practice. For example, Example 59 – Right-of-Use Assets In-Kind (paragraph IE308), it is not realistic for an entity to have two similar sporting fields built at a similar time, and the terms of the arrangement would not usually be publicly available on the entity's website.

We note that some of the critical key principles for initial measurement of concessionary leases are included in the non-authoritative Application Guidance (AG) of IPSAS 47 (paragraphs AG153A and AG153B). The inclusion of key principles in AG departs from the approach taken in ED 84 where the requirements for the initial measurement of concessionary leases were proposed to be included in the body of the standard. We are also concerned that treating the principles as non-authoritative guidance could reduce the comparability of financial statements, as adopting such guidance would not be mandatory. Therefore, we recommend paragraphs AG153A and AG153B be moved to the body of the standard for consistency in application.

Additionally, we found some aspects of ED 88 to be potentially confusing. For example, in paragraph AG202F '*An entity shall present* ….', whilst in paragraph AG202G*, 'An entity may present …'* We recommend the wording in ED 88 be reviewed and revised accordingly to achieve better clarity and consistency.

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.

As we disagree with the proposed accounting approach, we have only included some high-level observations in response to this SMC. The feedback we received from our members indicates that the proposed illustrative examples proposed in IPSAS 48, *Transfer Expenses* (IPSAS 48) lack clarity and may not be helpful as they focus on whether the arrangements are within the scope of IPSAS 48 or another standard. They do not illustrate the intended accounting treatment or explain how the principles and requirements of IPSAS 48 would be applied. It would be more useful for the analysis to include the intended accounting treatment and disclosures to assist consistency in application.

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