Republic of Kenya

PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

REF: PSASB/01/2026 **DATE: 27th June 2026**

TO: ALL PUBLIC SECTOR ENTITIES REPORTING UNDER IPSAS FRAMEWORK

ADOPTION OF THE CENTRAL BANK OF KENYA (CBK) RATE AS A SUBSTITUTE DISCOUNT RATE FOR LEASE LIABILITIES UNDER IPSAS 43

Background

In reviewing lease arrangements across the public sector, the Board has noted that lease documents in which a public sector entity is the lessee do not, in most cases, specify the lease's implicit interest rate, as required for the initial measurement of the lease liability under IPSAS 43. Where this rate is unavailable, IPSAS 43 requires the lessee to use its incremental borrowing rate. The Board has further noted that most public sector entities do not borrow externally and, as a result, do not have a readily available incremental borrowing rate either. This leaves a number of entities without either of the two rates contemplated by the Standard.

Determination of the discount rate

Where neither the interest rate implicit in the lease nor the lessee's incremental borrowing rate is readily available, the Board directs that entities use the prevailing Central Bank of Kenya (CBK) rate as at the commencement date of the lease as the discount rate for measuring the lease liability.

Accounting treatment

The discount rate determined in accordance with the hierarchy above is used to measure both the lease liability and, as a component of its cost, the corresponding right-of-use asset at the commencement date, in accordance with paragraphs 25 and 27 of IPSAS 43. The same rate continues to be applied throughout the lease term in computing interest on the lease liability, in accordance with paragraph 38 of IPSAS 43, unless revised following a lease modification or reassessment under paragraphs 41–46.

Transition reliefs

The Board encourages entities adopting IPSAS 43 for the first time to take advantage of the transition reliefs available under the Standard. In accordance with paragraph 109(b) of IPSAS 43, an entity may apply the Standard retrospectively with the cumulative effect of initial application recognized at the date of initial application, rather than restating each prior reporting period presented. Where an entity elects this approach, it shall not restate comparative information; instead, the cumulative effect shall be recognized as an adjustment to the opening balance of accumulated surpluses or deficits at the date of initial application, in accordance with paragraph 111 of IPSAS 43.

For leases whose remaining term, as at 1st July 2025, is less than 12 months, the Board encourages entities to elect not to recognize a lease liability and right-of-use asset for those leases, and instead account for them in the same way as short-term leases, expensing the lease payments on a straight-line or other systematic basis over the remaining term, in accordance with paragraph 114(c) of IPSAS 43.

Entities with a large volume of leases are encouraged to apply a single, average discount rate to a portfolio of leases with reasonably similar characteristics, such as a similar remaining lease term, class of underlying asset, and economic environment, rather than determining a discount rate for each lease individually, in accordance with paragraph 114(a) of IPSAS 43.

Entities that apply any of the practical expedients above shall disclose that fact, in accordance with paragraph 117 of IPSAS 43.

Support for Implementation

Entities are urged to review their existing lease contracts to confirm the discount rate applied and to update their records and accounting policies accordingly.

PSASB and the National Treasury are also available to support entities in this transition.

The Board thanks all reporting entities for their continued commitment to the quality and credibility of public-sector financial reporting and looks forward to your partnership in implementing this Directive.

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