

17 May 2021

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

Via website: www.ipsasb.org

Dear Ian

Request for Information - Concessionary Leases and Other Arrangements Similar to Leases

As the representatives of over 280,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to provide feedback on the above Request for Information (RFI). In addition to this submission in response to the RFI, we have also made a separate submission in response to Exposure Draft 75 *Leases* (ED 75).

In developing this submission, CPA Australia and CA ANZ have conducted outreach activities including a dedicated roundtable with public sector participants from Australia and New Zealand, at which both ED 75 and the RFI consultations were discussed.

Based on feedback received, we understand there are several examples of concessionary leases and other arrangements similar to leases across the public sector in both Australia and New Zealand. We highlight the following key points arising from the feedback we received from our outreach activities:

- We understand that such arrangements are accounted for based on the actual rental payments made. We have not encountered any examples where such arrangements are accounted for at fair value or other alternative accounting approaches.
- We have not identified any specific user needs for information relating to such arrangements beyond what is currently available through existing accounting requirements. There appears to be a general view that the current cost-based approach to accounting for concessionary leases and other similar arrangements are sufficiently meeting the information needs of users.
- There are a significant number of such arrangements across all levels of government with many complex variations around how these arrangements are put together. There is some concern that the cost of arriving at a financial value for the "concession" element of such arrangements may far outweigh any benefits arising from providing such information to users.
- It may be necessary to consider such arrangements from an economic activity perspective rather than a financial perspective. Establishing and disclosing the underlying economic rationale for why a "concession" is provided as part of a lease or other arrangement may provide more value to users of such information than to place a monetary value on such concessions.

- In respect of leases and other arrangements similar to leases, it is our understanding that in many instances no formal contracts or documentation are established.

Australia adopted IFRS 16 *Leases* (issued as AASB 16) and IFRS 15 *Revenue from Contracts with Customers* (issued as AASB 15) for the public sector for periods beginning on or after 1 January 2019. The Australian Accounting Standards Board (AASB) also developed and issued AASB 1058 *Income of Not-for-profit Entities* ([AASB 1058](#)) at the same time to address the accounting for certain non-exchange income transactions arising in the not-for-profit (public and private) sector.

When initially published in 2016, AASB 1058 required a right-of-use asset arising from a “lease with significantly below market conditions principally to enable the entity to further its objectives” (concessionary leases) to be measured at fair value. Any difference between the lease liability (based on actual lease payments) and the right-of-use asset would have effectively been required to be recognised as income in accordance with the requirements of AASB 1058.

However, following feedback from stakeholders, the AASB issued [Exposure Draft 286](#) in November 2018 proposing a temporary deferral of the fair value requirement discussed above, with an option to fair value the right-of-asset as originally proposed in AASB 1058/AASB 16. This proposal to temporarily defer the fair value requirement whilst retaining a fair value option was finalised by the AASB, with respective amendments made to AASB 16 and AASB 1058. To date, we are not aware of any public sector entities in Australia that have adopted the option to fair value the right-of-use assets arising under such concessionary lease arrangements.

CPA Australia and CA ANZ made submissions in response to ED 286 in which we provided our views, based on feedback at that time, that the costs of calculating the fair value of right-of-use assets arising from concessionary lease arrangements were likely to exceed any expected benefits. The feedback we have received through our outreach in response to the RFI suggests there is no change to this position.

The **Attachment** to this letter contains our responses to the specific questions raised in the RFI. If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com.

Gary Pflugrath CPA

Executive General Manager, Policy and
Advocacy
CPA Australia

Simon Grant FCA

Group Executive – Advocacy, Professional
Standing and International Development
Chartered Accountants Australia and New
Zealand



**Chartered Accountants
Australia and New Zealand**
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571



CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Attachment

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.

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.

Yes, as stated in our cover letter, feedback we have received indicates that there are several examples of concessionary leases and other arrangements similar to leases across the public sector in both Australia and New Zealand.

In many cases, there is an exchange of economic value between the provider of the asset or lessor and the recipient or lessee that may or may not be directly associated with the use of the asset subject to the lease or similar arrangement. For example, a surf life saving club may obtain a lease or the rights to access the beach from a local council to conduct its operations. In return, there may be an expectation that the club will employ volunteers and others to protect beachgoers, a service that benefits the local council.

Another example relates to a government providing a long-term lease over land to a for-profit private sector entity to construct and operate an entertainment complex or similar facilities. Such an arrangement could include a discounted rent up front for the land (which could either be a concession or a lease incentive from the lessee's perspective) followed by market rent applicable after a few years. Such arrangements with private sector operators, which may include a concessionary element to the lease, may be entered into to allow for economic growth in the area where the entertainment complex is located and lead to:

- Employment opportunities
- The growth of business around the entertainment complex
- Increased foot traffic to the area including tourism

There are many such complex variables associated with concessionary leases and similar arrangements, including head-lease and sub-lease arrangements, that can both include a concession or similar arrangement.

It is our understanding that it is difficult to place a monetary value on such arrangements and therefore such arrangements are often accounted for on the basis of actual rental payments made over the lease term. We have not encountered any examples where such arrangements are accounted for at fair value or other alternative accounting approaches.

It is important to ascertain the underlying economic and/or social characteristics underlying such concessionary lease or similar arrangements that may or may not be underpinned by a contract. When IFRS 16 was developed, the IASB devoted much attention to the definition of a lease to

ensure those applying the standard can clearly identify a lease arrangement from a non-lease arrangement, such as a service contract.

In addition to this consideration, the IPSASB will also need to take into account cost/benefit considerations, user needs and other criteria in developing a suitable definition of a lease in the public sector. Also, it will need to consider what measurement criteria should apply to different types of leases including concessionary leases or similar arrangements that are determined to fall within the definition of a lease.

As part of this project, it may also be necessary to consider the accounting for concessionary leases from a lessor's perspective, particularly where the lease relates to a finance lease. Where the arrangement relates to a finance lease, the lessor would normally derecognise the relevant asset and recognise a lease receivable (based on the actual amounts receivable). This would potentially result in a difference arising between the higher amount relating to the derecognised asset and the lower amount relating to the lease receivable.

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.

Yes, our outreach activities indicate that arrangements involving access rights are common in the Australian and New Zealand public sectors. Examples include:

- Rights provided to local government authorities and utility providers over private land and property to enable access to public service infrastructure passing through the property. For example, water authorities can have a right to access infrastructure situated on private properties if they have to carry out maintenance or repair works.
- Right of access given to public sector emergency services. For example, firefighting services can have access to private property to attend to incidents or emergencies.

In many instances, access rights do not involve any monetary payment and are therefore not reflected in financial statements. In some limited instances where a nominal fee is paid for access rights, this is normally reflected as an expense at cost.

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

Yes, our outreach activities indicate that arrangements allowing right-of-use are common in the Australian and New Zealand public sectors. Examples include:

- Right of use arrangements for private sector entities to operate facilities utilising public sector owned property and equipment including schools, libraries and community halls.

- Right of use arrangements to enable local government authorities to provide federally owned public sector lands such as parks and nature reserves for use by the public for recreational purposes.

Feedback we have received indicates that in many cases, right of use arrangements are not considered lease arrangements and, in many instances, there are no formal contractual agreements in place for such arrangements.

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.

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.

Yes, we understand there are many examples of social housing arrangements that exist in both Australia and New Zealand. However, it is our understanding that often the public sector entities concerned act in the capacity of lessor rather than lessee in respect of such arrangements. For example, some local government authorities in the state of Victoria establish retirement homes that are leased out at concessionary rates to eligible retirees. Another example would be the [National Rental Affordability Scheme](#) (NRAS) operated by the Department of Social Services of the Australian Government. Details of the scheme are available at the link provided. In New Zealand, Housing NZ is the government entity that caters to the housing needs of people in the community.

We have not been able to establish the accounting practices surrounding these examples.

We have not been able to identify any specific arrangements involving the sharing of properties without a formal lease contract.

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.

Our outreach suggests there are a some rural and agricultural lands in New Zealand which are 'marginal lands', i.e., lands that may not be fully available for farming due to restrictions and protection (such as native bush) but where there are small pockets of those lands that farmers can use for cultivation. These arrangements are often at concessionary rates and can also include access rights to water ways.