



Mr Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
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CANADA

15 May 2023

Dear Mr Carruthers

**IPSASB Exposure Draft ED 84 Concessionary Leases and Right-of-Use Assets In-Kind
(Amendments to IPSAS 43 and IPSAS 23)**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on IPSASB Exposure Draft ED 84 *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)*. The views expressed in this submission represent those of all Australian members of ACAG, unless otherwise specified.

There were differing views expressed within ACAG regarding the proposal requiring right-of-use assets for concessionary leases and right-of-use assets in-kind to be initially measured using market rates based on the current use of the asset (when these are readily available). Some jurisdictions agreed with the mandatory requirement, while a majority of jurisdictions believed it should be optional (similar to the choice between cost and fair value currently available in Australia).

ACAG believes that additional guidance is required for:

- whether not-for-profit entities would have to use private sector commercial rates as 'market rates'
- whether publications by private sector organisations on markets are sufficient for 'market rates', and what adjustments (if any) are needed to adjust for the specific lease terms and conditions (such as property location, floor level, and lease term)
- the amount of effort expected to determine whether 'market rates' are available, including whether or not an estimate (often involving additional costs for external advice and further additional costs to audit) is required where directly comparable rates cannot be found.

ACAG responses are based on the drafting of the ED that references to IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. As noted in the ED, the proposals will need to be changed appropriately with the announcement of the issue of IPSAS 47 *Revenue*.

ACAG also notes that the accounting provisions for sale and leasebacks will need to be updated in accordance with the IPSASB approach for alignment with IFRS, following the issue by the IASB of amendments to IFRS 16 *Lease Liability in a Sale and Leaseback* (September 2022).

ACAG appreciates the opportunity to comment and trusts you find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Margaret Crawford', is written over a horizontal line.

Margaret Crawford
Chair
ACAG Financial Reporting and Accounting Committee

IPSASB SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1

The IPSASB decided to propose new accounting guidance for concessionary leases for lessees (see paragraphs IPSAS 43.BC124-BC137) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28-BC30). Do you agree with the proposed amendments to IPSAS 43 and IPSAS 23? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

Mandatory use of market rates

There were differing views expressed within ACAG regarding the proposal requiring right-of-use assets for concessionary leases and right-of-use assets in kind to be initially measured using market rates based on the current use of the asset (when these are readily available).

Some ACAG jurisdictions agree with the proposal to initially measure right-of-use assets for concessionary leases and right-of-use assets in kind using market rates (where they are readily available) for the following reasons outlined in paragraph BC 127 of the ED:

- it is a measurement technique consistent with the fair value measurement basis
- it helps preparers in measuring right-of-use assets using a measurement technique that already exists in IPSAS 43 when dealing with leases that are not at market rates
- when comparing them with the present value of the contractual payments, preparers can measure the embedded concession.

These jurisdictions noted that this approach broadly aligns with the initial recognition requirements in Australia (except for the Australian equivalent of IFRS 16 which permits a choice between fair value and cost, discussed further in detail in this letter below) that require not-for-profit (NFP) entities to initially measure the cost of an asset at fair value where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. These jurisdictions believe that further guidance as outlined in this submission should be provided to avoid undue cost and effort in determining whether market rates are available.

Other jurisdictions believe a choice (of cost and market value similar to that currently used in Australia) should be available to avoid undue cost and effort. The reasons these jurisdictions objected to mandatory market value include:

- lack of availability of market rates
- lack of definition of market participant
- change in accounting not useful to users.

Lack of availability of market rates

It is not apparent from the Basis for Conclusions to ED 84, whether or not outreach was conducted and the extent of any such outreach, to assess whether market rates would be readily available for concessionary leases and right-of-use assets in-kind. Without such information, it is difficult to assess the reasonability of the proposals. Until further outreach has occurred a majority of jurisdictions believe an option of cost or fair value should be provided, with the decision whether to mandate either approach left to the individual jurisdictions' respective regulators. Please also refer to our response to Specific Matter for Comment 3, regarding costs to obtain the information about market rates for concessionary leases and right-of-use assets in kind and request for more guidance as to how the principles would apply in practice.

Some jurisdictions noted that a source of 'market data' is not available publicly at nil or nominal cost nor was available through a subscription service.

Lack of definition of market participant

It is not clear whether the market rate that is supposed to be applied is for what a hypothetical for-profit private sector participant would pay in seeking to achieve a commercial return, or what an equivalent not-for-profit sector entity with similar resource constraints to the reporting entity would pay.

Concessionary leases (and right-of-use assets in-kind) are often granted by public sector entities because the recipient does not have sufficient funds to pay a for-profit private sector commercial rate or where for-profit private sector entities do not operate. If the market rate is for what an equivalent recipient (for example a not-for-profit recipient with resource constraints) would pay, then the 'market rate' is likely to be the concessionary consideration per the lease agreement.

Change in accounting not useful to users.

The proposed accounting will mainly involve a gross-up of asset values, resulting in:

- (a) up-front income recognition and reduction in future results (and possibly the entity reporting a net loss) from the amortisation of the increased right-of-use asset (when there is no IPSAS 23 condition), or
- (b) gross-up of asset and liability values, and gross-up of income and expenses (when there is a IPSAS 23 condition).

The above issues were part of the reasoning why the Australian Accounting Standards Board (AASB) provided NFP private sector entities with a permanent choice (when applying IFRS 16) between cost or fair value. If cost is chosen, additional disclosures of concessionary leases (as defined in Australia) are required (refer Australian experience below).

While for (b), there may be 'matching' of income and expenses, this will result in an increase in reported revenue. For both (a) and (b) there may be real-life implications, as reporting obligations thresholds are often linked to reported revenue.

Australian experience in applying IFRS 16 to the public sector

Australia has applied the provisions of IFRS 16 to the public sector, NFP private sector entities, as well as for-profit private sector entities, since its effective date of financial years beginning on or after 1 January 2019. Consistent with IFRS 16, the Australian equivalent AASB 16 uses the same definition of contract as IFRS 15 / AASB 15. Under AASB 15, this includes binding agreements.

The AASB initially included a mandatory requirement for NFP entities to measure right-of-use assets for concessionary leases at fair value on initial recognition (this may include right-of-use assets in-kind). This requirement was not part of the initial proposals for adopting IFRS 15 and IFRS 16 in the NFP sector in Australia and did not go through the normal exposure draft due process.

Before AASB 16 became effective, the AASB changed the requirement to provide a 'temporary' option to allow NFP entities to use cost ([AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities](#)), based on feedback from stakeholders. This option was provided to avoid undue cost and effort being incurred by preparers in applying fair value in the absence of additional guidance. Stakeholders requested additional guidance due to the difficulties in applying AASB 13 *Fair Value Measurement* (the Australian equivalent of IFRS 13) in determining the fair value of right-of-use assets such as how significant restrictions on the right-of-use of the underlying assets and the specialised nature of the underlying assets should be incorporated. Such additional guidance has still not yet been issued.

The option was initially described as 'temporary' with no sunset date included in the amendments. Recently, the AASB announced (Basis for conclusions to [AASB 2022-3 Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15](#)) that the option would be permanent for private-sector NFP entities. This change was consistent with the views of respondents, all of whom (that addressed the issue) agreed with the change.

The AASB made the option for NFP private sector entities permanent, acknowledging that, conceptually, requiring right-of-use assets arising under concessionary leases to be initially measured at fair value is consistent with the accounting treatment applied to other assets acquired on below-market terms and conditions. The AASB also stated that in their view (which as noted above did not go through the normal due process) fair value better reflects the value of the right-of-use asset obtained by the lessee in its financial position and financial performance. However, inter-alia, the AASB considered that the costs required to obtain the fair value of such right-of-use assets for NFP private sector entities would outweigh the benefits and that the additional disclosures for concessionary leases were considered sufficient (Australian specific paragraphs added to IFRS 16 - paragraphs Aus59.1–Aus59.2). The reasoning also referred to the mismatch of recognising the right-of-use asset as income up-front, and subsequent amortisation expenses.

The AASB decided to defer any decision on the option for not-for-profit public sector entities until the AASB had discussed additional fair value guidance, and the IPSASB had completed its project on concessionary leases.

The circumstances in the public sector differ to the NFP private sector which recognises most of its non-financial assets using the cost model rather than the fair value approach. One of the reasons for the Australian approach on the use of fair value in the public sector is to converge or align with Government Finance Statistics (GFS). ACAG notes that, as many leases under IFRS 16 are operating leases which are not recognised under GFS, there is no need to apply fair value for GFS convergence purposes.

An important part of the option (cost or fair value) for initial recognition in Australia is the ability to apply the option by class of right-of-use asset (AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases*). A common application of the option by entities (generally to apply the cost approach, and the fair value approach by exception) is to fair value arrangements that are finance leases to the legal title holder – for example arrangements involving crown land. While this is a common application of the fair value option, it is also common to recognise such arrangements at cost.

Options were also included in relation to fair valuing right-of-use assets. These are discussed below under Specific Matter for Comment 3.

Implementation issues

ACAG has identified the following issues in relation to the implementation of the proposals, irrespective of whether they become mandatory or optional:

- variety of leases
- threshold filter
- concessionary lease versus right-of-use assets in-kind – Consideration
- concessionary lease versus right-of-use assets in-kind – Two standards
- revaluation of concessionary lease right-of-use assets and right-of-use assets in-kind
- remeasurement of the lease liability
- disclosure
- editorial.

Variety of leases

In the Australian public sector, we have large numbers of concessionary and peppercorn leases and right-of-use assets in-kind. These include:

- intra-government (that is, within whole of government) – from state government agency to another state government agency)
- state government to local government
- state government to the private sector
- state-government (administered) to local government
- state government to for-profit government business enterprises (government owned corporations)
- local government to the private sector
- private sector to local government.

As an example, the Queensland State government can create land reserves for a wide variety of community purposes. These land reserves are arrangements where the government retains legal title (and the right to cancel the arrangement) and transfers control to another body – often to local government, and sometimes other entities (for example, universities). A list of example uses is included in Appendix A.

These examples demonstrate the very wide range of activities where entities would have to try and find 'market rates' for their current use.

Threshold filter

The Australian application of IFRS 16 to concessionary leases (and right-of-use assets in-kind) includes a threshold filter, to only classify leases as concessionary when the consideration is 'significantly less' than fair value. It also includes an additional qualifier that the discount is principally to enable the entity to further its objectives.

ACAG suggests that the IPSASB consider including a similar filter to reduce costs by not having to account for differences between consideration and market rates when the difference is due to commercial lease incentives or is not material.

Concessionary lease versus right-of-use assets in-kind – Consideration

ACAG notes that the IPSASB proposes to distinguish concessionary leases (contractual agreements with consideration, accounted for under IPSAS 43) and right-of-use assets in-kind (zero consideration, accounted for under IPSAS 23).

An important part of the distinction is that for there to be a contract, consideration is required. ACAG agrees with this interpretation, which is consistent with contract law in Australia that is based on English contract law.

Many concessionary leases are for nominal consideration, for example, often in the past literally for a peppercorn (now often \$1). ACAG believes that there is potential for confusion in classifying agreements between concessionary leases and right-of-use assets in kind. Many people without a legal background may not understand the critical difference between zero and \$1. ACAG suggests clarifying that consideration can be any consideration, even nominal consideration, and that this is different to zero consideration. ACAG notes that while there is reference to 'zero consideration' in ED 84, those references are in IPSAS 23, and not also in IPSAS 43.

Concessionary lease versus right-of-use assets in-kind – Two standards

ACAG found the accounting for right-of-use assets in-kind confusing. This was partly because the IPSASB proposes right-of-use assets for nominal or zero consideration to be accounted for in two standards, when there is little economic difference to distinguish between the arrangements.

Another reason is that the concept of right-of-use assets in-kind is not explained very well in the proposals. The term 'right-of-use asset in-kind' is not defined or used in IPSAS 43 – understandably as the standard does not cover the arrangements. ED 84 mentions a right-of-use asset in-kind being a transaction that conveys the right to use an underlying asset without consideration, however, this is in the Basis for Conclusions to IPSAS 43 (para BC116), and not in the standard.

In addition, IPSAS 23 does not define 'right-of-use asset in-kind' and appears to assume that readers understand the concept.

The operation of IPSAS 23 for right-of-use assets in-kind in relation to the income recognition (up-front or deferred) is different to other transactions. For example, for concessionary leases in IPSAS 43, the asset is recognised, and IPSAS 23 deals with the 'plug figure' or non-exchange component. For right-of-use assets in-kind, it is IPSAS 23 that creates the non-exchange component which then links to IPSAS 43 to account for the asset.

Issues arising from this confusion include:

- Whether arrangements, involving unwilling parties, are within the scope of IPSAS 23? An example is the transfer for the responsibility of land, from state to local governments and the consequent costs of care and maintenance.
- The apparent anomaly of not including in-kind arrangements in IPSAS 43 because they are not contracts, yet treating in-kind arrangements as an asset under IPSAS 23 and then accounting for that asset under IPSAS 43.
- Whether there is any advantage of having two separate requirements, and whether IPSAS 43 should be expanded to include binding arrangements?

Revaluation of concessionary lease right-of-use assets and right-of-use assets in-kind

ACAG believes that the IPSASB should include clarifications, or provisions if needed, to allow entities to revalue concessionary leases and right-of-use assets in-kind as a separate asset class.

This was implemented in Australia, as discussed below. Further, there are specific provisions that if a NFP public sector entity revalues a related class of property, plant and equipment, it may elect to subsequently measure the related class of right-of-use assets at the amount determined at initial recognition (less amortisation and impairment) or at fair value.

Remeasurement of the lease liability

ACAG does not understand why the IPSASB modified IPSAS 43 paragraph 42 to override the provisions of IPSAS 43 / IFRS 16 to require the use of the historical discount rate instead of an updated discount rate for a lease modification. While an interest rate implicit in the lease may not be readily available, the lessee's incremental borrowing rate at the reassessment date should be available, as it would be needed for a new lease. The reasoning was not explained in the Basis for Conclusions paragraph BC122 and BC123.

Disclosure

ACAG does not agree with the proposal in paragraph 64A(b) to require the disclosure of contractual lease payments for concessionary leases where market rates are not readily available, as there does not appear to be any use for the additional information. ACAG notes that IPSAS 43 paragraph 56(g) already requires disclosure of the total cash flows for leases.

The Australian disclosures for concessionary leases at cost do not include disclosure of concessionary lease payments.

If the IPSASB mandates the measurement at market rates (where readily available), some ACAG jurisdictions believe that, if the concession revenue has not been recognised due to market rates not being readily available, this fact should be disclosed.

Editorial

ACAG found paragraph 18D confusing. The paragraph applies to concessionary leases, however, the paragraph then appears to require an assessment of whether the concessionary lease is actually a lease, and whether it contains a concession – both issues that should already have been determined in classifying the arrangement as a concessionary lease.

Specific Matter for Comment 2

For lessors, the IPSASB decided to propose accounting for leases at below-market terms in the same way for leases at market terms (see paragraphs IPSAS 43.BC138-BC149). Do you agree with the proposed amendments to IPSAS 43? If not, please explain your reasons. If you agree, please provide additional reasons not already discussed in the Basis for Conclusions.

ACAG agrees with the proposals, for the reasons given in the Basis for Conclusions, including that “no economic benefits or service potential associated with the transaction will flow to the entity higher than the cash received by the lessor in the form of lease payments made by the lessee”.

Editorial

While the test of operating versus finance lease in IPSAS 43 paragraph 66 remains unchanged, ACAG suggests that additional guidance is given that the indicator in paragraph 67(d) (the present value of lease payments) is not relevant for concessionary leases.

Specific Matter for Comment 3

The IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC124-BC131) and right-of-use assets in-kind (see paragraphs IPSAS 23.BC28-BC30) at the present value of payments for the lease at market rates based on the current use of the underlying asset as at the commencement date of the lease. Do you agree with IPSASB’s decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

As mentioned in Specific Matter for Comment 1, some jurisdictions agree with the proposal to initially measure right-of-use assets for concessionary leases and right-of-use assets in-kind using market rates (where readily available) while others believe a choice of cost and market value (similar to that currently used in Australia) should be made available.

ACAG also included in Specific Matter for Comment 1 numerous issues in relation to the implementation of the proposals, irrespective of whether they become mandatory or optional.

ACAG notes that using market rates to initially measure the right-of-use assets for concessionary leases and right-of-use assets in-kind may result in additional costs and effort to determine whether market rates are available.

ACAG noted in Specific Matter for Comment 1 the wide variety of uses of assets in the public sector under concessionary leases and right-of-use assets in-kind. While ACAG believes that many of these are likely to fall into the category of ‘market rates not readily available’, ACAG believes that without clarification of what is expected, unnecessary costs will be incurred in trying to identify available market rates.

ACAG therefore suggests that the IPSASB provide more guidance in relation to the amount of effort expected to determine whether market rates are available, including whether or not an estimate (often involving additional costs for external advice and further additional costs to audit) is required where directly comparable rates cannot be found. Additional guidance as to the amount of effort required may help reduce disagreements, particularly between preparers and auditors, about what is considered ‘a reasonable level of effort’ (paragraph BC133). If such guidance is not provided, then it is likely that preparers will lean towards posing an argument that the market rates are not readily available and therefore, will end up using the cost model for such leases regardless.

We were able to identify publications produced by private sector entities which provide summarised office lease market rates for some, but not all, Australian capital cities that provide a partial source of information in determining market rates for certain leased buildings. However, there are likely to be a number of adjustments required to reflect the actual asset being valued, which will be difficult to determine given the high-level information provided in these publications, which will also have audit implications.

An example of a report is the publication from Cushman & Wakefield, which had gross effective rents (after adjusting for incentives) for Sydney Office CBD (as at Quarter 1, 2023) (in AUD, per square metre per annum) of:

Premium	1070
A-grade	875
B-grade	705.

It is not clear whether such reports, if available, would meet the test of 'readily available market rate' and whether NFP entities would have to use private sector commercial rates. It is also not clear how an entity would adjust for the quality of the building (which will usually be on a range rather than the small number of categories identified above). The example report does not show the range of rental prices for each category, as even rentals of premium properties may vary because of location (for example, being close to the train station, near central CBD shopping compared to the edge of the CBD). Other adjustments might also include floor level and lease term.

ACAG believes it would be useful for the IPSASB to provide additional guidance on current use and how market rates are determined as the current guidance and examples are simplistic and do not mention how market rates should be determined. It would be particularly useful if the IPSASB clarified how specific the market rates should be for the current use or whether a proxy could be used as this may impact whether market rates are considered to be 'readily available'. For example, Example 13b refers to the use of a building to provide medical services. If the building is not specialised and can equally be rented out for an alternate purpose such as office accommodation etc, does the market rate need to be based on the market rate for medical centres, or is it based on the market rate that the lessor could currently lease this out to another entity (for example, for office space etc) if this information is more readily available?

ACAG also suggests including guidance for transactions involving unwilling parties for no consideration (assuming that such agreements are included as right-to-use assets in kind – refer above to our comments on Specific Matter for Comment 1). For example, an agreement where a state government retains title to land but transfers the control and responsibility of the land to local government for no consideration, and without a request by the local government recipient. Such arrangements are often considered by the local government to have a negative value, as the local government is required to care for and maintain the assets.

It is also not clear how market rates are adjusted for rental incentives (such as rent-free periods, repayment of fit-out costs). For example, whether they are adjusted by replication in the rental profile or are somehow 'smoothed' out over the lease term.

Revaluation of right-of-use assets (concessionary leases and in-kind)

ACAG suggests that provisions be included to specify how the revaluation amount of right-of-use assets, where they are revalued under IPSAS 17, is determined. ACAG suggests that where such assets are revalued, the methodology used for initial recognition (currently with reference to market rates for current use) is adopted. The proposals appear to be silent on how the revaluation amount is determined, with the possibility that some sort of fair value would have to be applied. ACAG notes that the IPSASB is yet to release the updated IPSAS 45 (to replace IPSAS 17) for property, plant and equipment.

In Australia, there is an option to measure right of use assets arising under concessionary leases (including right-of-use assets in-kind) at cost or fair value for both initial and subsequent measurement.

Illustrative examples

ACAG has the following comments on the illustrative examples:

- Example 10A – there is no reference to how market rates were determined. While there is a reference to the amount that the lessor currently receives, this may not be the current market rate.
- Example 10B – the example should have a further explanation of why the rent reduction is a lease incentive (and not a concession), for example the price reduction was to match market rates. Similar to Example 10A, the example should also include a reference to how market rates were determined.
- Example 13B – is use of the building the same before entity X enters into the lease? This is important in applying 'current use'. Example 13B is partly addressed in the changes to IPSAS 43 (the exchange 'lease' component) and partly in the changes to IPSAS 23 (the non-exchange component). ACAG is not sure this is the best approach, and at a minimum there should be a cross-reference to where the other 'liability' is dealt with so that a user has the full example and outcomes under both standards.

Australian revaluation experience

As noted above, Australia provides an option as to whether concessionary leases (and right-of-use assets in-kind) are recognised at cost or fair value. Only one commonwealth, state or territory jurisdiction has mandated the use of fair value for right-of-use assets for significant asset classes (including property, plant and equipment). ACAG has not researched what individual local governments (over 500 in Australia), some of which are not within the mandate of ACAG jurisdictions, have chosen.

The choice of cost or fair value continues the practice for valuing what were assets held under finance leases under AASB 117, applied under AASB 116 before the introduction of AASB 16. The practice is that some entities (in particular, some local governments) will recognise the receipt of the right-to-use land at its fair value. That initial recognition is often followed by the land being revalued to fair value under AASB 16. Other entities (also including some local governments) would recognise the land at initial cost, and not revalue leasehold land.

Fair value is determined by reference to the freehold value of the land, and not to some sort of hypothetical perpetual market rental. While fair value is based on freehold values, there will still need to be judgement applied to adjust or discount the freehold value for any external restrictions placed on the leasehold land.

Specific Matter for Comment 4

When the payments for the lease at market rates based on the current use of the underlying asset are not readily available, the IPSASB decided to propose initially measuring right-of-use assets in concessionary leases (see paragraphs IPSAS 43.BC132-BC133) at the present value of contractual payments for the lease. Do you agree with IPSASB's decision? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions.

ACAG broadly agrees with the proposal.

ACAG suggests that IPSASB could consider the optional use of fair value of the underlying asset by lessees, for long-term leases, particularly those that meet the test of a 'finance lease' from the perspective of the lessor.

One jurisdiction has highlighted what they believe to be an anomaly with this option is for example, accounting for transactions within the same government. Where the lessor provides the asset under a finance lease (therefore derecognises the asset) and the lessee follows the cost option (and therefore recognises the asset at a nominal consideration), significant assets are not recorded in either the lessor or the lessee's financial statements (as it measures the ROU assets at nominal consideration).

Although the assets appear at the whole of government (consolidated) financial statements there is significant information loss at the Department/agency level. This jurisdiction believes that the IPSASB should consider requiring either the lessor or lessee to make robust disclosures in their financial statements on an ongoing basis to address the above anomaly. That jurisdiction believes that although the disclosures in para 96A are reasonable for the year in which lease is granted, there should be some disclosures on an ongoing basis to cater to the information loss. Such disclosures could possibly include the fair value of the assets given under finance leases which do not appear in their financial statements and referring to the consolidated financial report. Either the lessee or the lessor has to undertake this exercise for enabling accounting at the whole of government level, so this information should be readily available.

Other

Definition of a lease

ACAG notes that in the ED 84 Feedback Statement that there were references to arrangements not being a lease if there was no specified term. We note that the definition of a lease refers to 'for a period of time' (not 'for a specified period of time') and that contracts with extension options are leases under IFRS 16 (and AASB 16). We also note the clarification issued by the IFRS Interpretations Committee *Lease Term and Useful Life of Leasehold Improvements (IFRS 16 Leases and IAS 16 Property, Plant and Equipment)*. Consequently, we are seeking to understand if the IPSASB has applied the 'no specified term' concept in its application of IFRS 16 in IPSAS 43, as it would seem to be an application difference from IFRS 16.

Transition

In relation to the transitional provisions, paragraph 117A(b) requires the right-of-use asset to be initially measured as if the Standard had been applied since the commencement date, which removes one of the choices available under paragraph 112(b). ACAG does not believe this is necessary. Alternatively, the initial recognition of the right-of-use asset could be measured based on the present value of the current market rate of outstanding payments – which would then be amortised over the remaining term of the lease.

One jurisdiction identified that for its rural fire service, if market rates were required, that identifying market rates on transition would be difficult enough, particularly given the lack of market rates for leases on rural properties for small plots for fire stations. Complicating matters is that sometimes the land held by the lessor is freehold, in other circumstances it is reserve land (legally owned by the State government but controlled by the local government). Trying to identify market rates on commencement of the arrangement would be even more difficult.

Appendix A – Examples

The following is a list from one jurisdiction of the reasons for a state government allocating land to reserves for community purposes. These land reserves are arrangements where the government retains legal title (and the right to cancel the arrangement) and transfer control to another body, such as local governments.

These examples demonstrate the very wide range of activities where entities would have to try and find 'market rates' for their current use. In practice, public sector entities will also be involved in other uses not listed.

- Aboriginal purposes
- beach protection
- buffer zones
- cemeteries
- coastal management
- crematoriums
- cultural purposes
- drainage
- environmental purposes
- gardens
- heritage
- historical
- jetties
- landing places
- mortuaries
- natural resource management
- navigational purposes
- open space
- parks
- provision of services beneficial to Aboriginal people particularly concerned with land
- provision of services beneficial to Torres Strait Islanders particularly concerned with land
- public boat ramps
- public halls
- public toilet facilities
- recreation
- roads
- scenic purposes
- scientific purposes
- showgrounds
- sport
- strategic land management
- Torres Strait Islander purposes
- travelling stock requirements
- watering-places.