

PO Box 1411  
Beenleigh QLD 4207  
Australia  
17 May 2023

Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2  
Canada

Dear Mr. Carruthers

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

I am pleased to make this submission on Exposure Draft 84 *Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)*.

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

I have followed the IASB's project on IFRS 16 for over 15 years, and have been involved in the implementation of Australia's equivalent to IFRS 16 (AASB 16) in the public sector.

I include my detailed responses below. My responses are also in the context of not-for-profit private sector entities that apply IPSASB's or equivalents.

Yours sincerely,

David Hardidge  
<https://www.linkedin.com/in/davidhardidge/>

## 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.**

No, I do not agree with IPSASB's proposals. I agree with the majority view expressed in the submission by the Australasian Council of Auditors-General (ACAG) that the use of using market rates should be optional, similar to the choice between cost and fair value currently available in Australia.

I also agree with the concerns expressed in the ACAG submission in relation to:

- the lack of availability of market rates
- the lack of definition of market participant (are private-sector commercial rates required to be used)
- change in accounting is not useful to users.

I have attached (Appendix A) a spreadsheet of some example leases I have come across. I have not identified a source of readily available transaction data for leases where I could obtain market rates for these leases.

I also agree with the implementation issues identified in the ACAG submission. In addition to those implementation issues, another implementation issue is how to account for variable rentals. If a lease has variable rentals, is reference made to market rates for variable rentals (which as noted above, such information sources do not seem to exist), or to fixed rentals?

Land under roads has been a controversial issue in Australia for many years. There are also various statutory arrangements for land under roads. It could be considered that land under roads is a right-to-use asset and therefore subject to these proposals. However, in practice, it seems there will be no practical effect, as I do not think there will be many situations where a market rate for the lease or use of land under roads will be available.

In Australia where fair value is used, this is often used to fair value "finance leases" of land, where the fair value is determined with reference to freehold land, and not to a rental stream.

## 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.**

I agree 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".

### **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.**

No, I do not agree with IPSASB's proposals. Similar to my response to Specific Matter for Comment 1, I believe that the use of using market rates should be optional, similar to the choice between cost and fair value currently available in Australia.

I also believe that right-of-use assets should be accounted for as concessionary assets.

In Australia, the definition of contract applied for the not-for-profit sector in the Australian equivalent of IFRS 15 (AASB 15) includes binding arrangements. As the Australian equivalent of IFRS 16 (AASB 16) uses the same definition of contract as IFRS 15 / AASB 15, then IFRS 16 / AASB 16 can be interpreted as applying to binding arrangements.

I suggest that the IPSASB revisit the issue when the standards for ED70 and ED71, which referred to binding arrangements, are issued.

It was confusing for me to deal with two standards for the same type of arrangement (that is, a right-to-use asset), and similar nominal consideration.

### **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.**

I broadly agree with the proposals. However, I believe that for leases that meet the test of a 'finance lease' from the perspective of the lessor, the carrying value of the right-to-use would be better measured (under an option) by reference to the fair value of the underlying asset (adjusted for differences between freehold and leasehold).