



Level 38, International Towers Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7621
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 9007

via email: standard@asb.gov.au

5 September 2025

Dear Dr Kendall,

KPMG response: ITC 55 Post-implementation Review of AASB 16 Leases

KPMG Australia (KPMG) is pleased to have the opportunity to respond to the AASB's ITC 55 *Post-implementation Review of AASB 16 Leases* (ITC). We note that a separate response representing KPMG's views globally will be submitted to the IASB in response to Request for Information *Post-implementation Review of IFRS 16 Leases*. Our responses to ITC 55 are therefore confined to the feedback sought in Section 2: Not-for-profit (NFP) and public sector topics for comment (Section 2).

In general, we have found that AASB 16 *Leases* has been applied as intended in the NFP and public sector. Nevertheless, we routinely encounter two key challenges in its application.

Firstly, challenges arise when determining the lease term, particularly in assessing what constitutes an "insignificant penalty" in lease agreements that include "holdover" clauses. AASB 16 focuses on financial penalties, which may not always be directly relevant to NFP entities.

Secondly, there are challenges for NFP entities in applying lease modification accounting, as lease contracts in the sector do not always reflect commercial substance.

We have set out our detailed comments to select questions in Section 2 in the Appendix to this letter. Where we have no response to specific questions they have not been included in the Appendix.



We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (02) 9455 9120.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kim Heng', written in a cursive style.

Kim Heng
Partner, Audit & Assurance
KPMG Australia

Appendix

Section 2 Topic 1: Application of AASB 16 by NFP and public sector entities

1. In respect of NFP and public sector entities:
 - (a) are the ongoing costs of applying AASB 16 and auditing and regulating its application significantly greater than expected?
 - (b) are the benefits to users significantly lower than expected?
 - (c) overall, do you have any comments about whether AASB 16 results in financial statements that are more useful than financial statements prepared under the previous Standard AASB 117 Leases?

Please explain the reasons for your views on the above matters. Examples to illustrate your responses are also most helpful.

It is our understanding, particularly within the NFP public sector, that the intended benefits of improving comparability between financial statements of entities that lease assets and those that borrow to buy assets may not be applicable. This is because NFPs, especially NFP public sector entities typically do not borrow to purchase assets.

Further, we have observed that for NFP public sector entities, there is a disconnect between government reporting and statutory reporting, requiring entities to make AASB 16 adjustments purely for statutory reporting purposes. This process could arguably be interpreted as the application of AASB 16 not necessarily providing useful and relevant information to meet the needs of the users of financial statements.

Additionally, we understand that there are relatively high ongoing costs associated with maintaining the data required for AASB 16 lease calculations for NFP public sector entities.

Section 2 Topic 2: Determining the lease term

Regarding determining the lease term, do you have any comments about:

2. the application of the requirements in practice by NFP and public sector entities?
3. whether differences in application exist in practice in the NFP and public sector?
4. whether the current requirements and guidance in AASB 16 for determining the lease term are sufficient for NFP and public sector entities?

If so, please provide your views on those requirements, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

In our experience, challenges arise for NFP entities, particularly in the public sector, when applying AASB 16.B34 to determine the lease term from a lessee perspective. Some lease arrangements include holdover clauses, which allow for the continued use of leased assets beyond the contractual lease period. When assessing the enforceable period of a lease, AASB 16.B34 requires evaluating whether the lessor can terminate the lease with no more than an insignificant penalty. However, in the context of NFP entities, the concept of “insignificant penalty” extends beyond monetary considerations to include non-monetary factors. These considerations often involve significant judgement, increasing the complexity of determining the enforceable lease term under such arrangements.

Section 2 Topic 3: Lease modifications

Regarding the accounting for lease modifications, do you have any comments about:

5. the application of the requirements in practice by NFP and public sector entities?
6. whether differences in application exist in practice in the NFP and public sector?
7. whether the current requirements and guidance in AASB 16 for lease modification are sufficient for NFP and public sector entities?

If so, please provide your views on those requirements, relevant circumstances and their significance, and areas where you believe changes or additional guidance are needed. Examples to illustrate your responses are also most helpful.

In our experience, NFP public sector entities face some complexities in applying lease modification accounting. For example, challenges often arise when assessing AASB 16.44 and 45 to determine whether a lease modification constitutes a separate lease.

Lease contracts in the NFP sector frequently do not reflect commercial substance. For instance, when there is an increase in scope, such as adding the right to use one or more underlying assets, assessing whether the consideration increases by an amount commensurate with the stand-alone price for the increase in scope may not always be straightforward.

Section 2 Topic 5: NFP public sector concessionary leases

Regarding NFP public sector concessionary leases, do you have any comments about:

11. whether there are any reasons to remove the current accounting policy choice to measure initially concessionary ROU assets at either cost or fair value?
12. whether the temporary accounting policy choice for NFP public sector entities should be made permanent?
13. whether the disclosures prepared in accordance with paragraphs Aus59.1 and Aus59.2 of AASB 16 are sufficient in providing useful information to financial statement users regarding concessionary leases when the ROU assets are measured at cost?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

We are aware from our work with clients that the accounting policy choice under AASB 16.Aus.25.1, which allows a class of concessionary right-of-use assets to be initially measured at cost or fair value, significantly reduces the complexity for NFP entities in assessing the fair value of these assets. However, we are aware that concerns persist that this accounting policy choice may not be permanent. While the AASB clarified in the Basis for Conclusions of AASB 2022-3 that the accounting policy choice is ongoing for private sector NFPs, this clarity has not been extended to public sector entities. The absence of such clarification remains despite the finalisation of amendments to AASB 13 *Fair Value Measurement for public sector NFPs*. Additionally, the placement of the relevant Basis for Conclusions in AASB 15 *Revenue from Contracts with Customers*, rather than AASB 16, has contributed to further uncertainty on this matter.