



5 December 2019

Ms Kris Peach  
 Chair  
 Australian Accounting Standards Board  
 PO Box 204  
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 AUSTRALIA

By email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Ms Peach

**Fatal Flaw Review Version – AASB 2019-X – Amendments to Australian Accounting Standards –  
 Class of Right-of-Use Assets arising under Concessionary Leases**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Fatal Flaw Review Version – AASB 2019-X – *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases* (the proposals). The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the proposed amendments, however makes the following comments, including one suggestion for consideration.

ACAG acknowledges that AASB 16.35 provides a measurement choice for the subsequent measurement of right-of-use assets (ROUAs): *“If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in AASB 116, a lessee **may** elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.”*

ACAG notes however, that AASB 1049.13-14 provides for the separate treatment of assets within the scope of property, plant and equipment (PPE) and treatment under other standards that provide measurement choices, such as AASB 16. Neither AASB 1049 nor AASB 16, actually require the recognition of ROUAs as PPE. Consequently, where the leases form a separate class of assets e.g. ROUAs, then there is no requirement to fair value.

However, as noted by the Board, current accounting standards (e.g. AASB 116 and AASB 138) describe a class of assets as ‘a grouping of assets of a similar nature and use in an entity’s operations’. The Board also noted that some stakeholders commented that in applying this description, grouping ROUAs of a similar nature and use in an entity’s operations, would mean that a ROUA arising under a concessionary lease would be classified in the same class as ROUAs arising under other leases, if they exhibit the similar nature and use.

ACAG acknowledges that in applying this view, ROUAs under concessionary leases would need to be fair valued at subsequent measurement if the revaluation model is applied to the related class of asset. Hence where the existing class of asset uses a revaluation model, then the concessionary assets under that class would also need to be subsequently revalued after initial measurement.

Therefore ACAG supports the separation of ROU concessionary assets as a separate class of assets from non-concessionary assets as per the proposed amendments and the option for not-for-profit public sector entities to measure a class of right-of-use assets at cost or at fair value if the entity applies the revaluation model in AASB 116 to the related class of PPE.

ACAG notes Treasury Departments in some jurisdictions may require government entities in their jurisdictions to adopt fair value for ROUA similar to other owned assets. ACAG acknowledges this is not a matter for the AASB and that those Treasury Departments could resolve this issue by changing their instructions to their respective government entities.

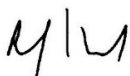
When reviewing the Fatal Flaw, ACAG noted the possible misinterpretation regarding other not-for-profit entities for whom relief is already available under AASB16. ACAG recommends the following amendment to BC12 to reduce possible confusion:

*BC12 The temporary relief described in paragraph BC11, in relation to subsequent measurements of right-of-use assets arising under concessionary leases, is provided only to Whole of Government and General Government Sector ~~and does not extend to other entities, such as local governments. This is~~ because AASB 1049 specifies requirements only for Whole of Government and General Government Sector and not any other entities. Other entities are not required by current accounting standards to adopt a fair-value approach in measuring non-financial assets.*

ACAG would also like to clarify whether the disclosure requirements in paragraphs AASB 16 Aus59.1 and Aus59.2 for concessionary leases at initial recognition at cost should be amended to reflect that these disclosures are also required for concessionary leases that are subsequently measured at cost.

ACAG appreciates the opportunity to comment and trusts the above comments are useful.

Yours sincerely



Rod Whitehead  
**Chairman**  
**ACAG Financial Reporting and Accounting Committee**