

29 August 2025

Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
VIC 8007 Australia

Dear Dr Kendall,

**ITC 55: Post-implementation Review of AASB 16 Leases**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the Invitation to Comment ITC 55 *Post-implementation Review of AASB 16 Leases* (ITC 55). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

At the outset, HoTARAC would like to thank the Board and its staff for your considerable effort in consulting the public sector to understand the key public sector challenges and perspectives on the implementation of AASB 16.

Overall, HoTARAC has had no major issues in the transition to AASB 16 and has found the guidance provided by the AASB to be sufficient in most areas. We are particularly grateful for the board's understanding of the unique implementation challenges faced by the Not-for-Profit (NFP) public sector and the introduction of the policy choice to measure concessionary leases at cost or fair value to help minimise the burden on the sector.

HoTARAC notes that currently all Australian jurisdictions hold and report concessionary assets at cost due to the complexities and challenges in fair valuing concessionary leases, and the associated substantial costs. HoTARAC strongly supports making the accounting policy choice permanent for the public sector consistent with the AASB's decision for the private NFP sector. This would crystallise and embed consistent reporting across the public and private NFP sectors.

In HoTARAC's view, the costs for entities to measure concessionary leases at fair value substantially outweigh any additional benefits for users of financial statements. Measuring concessionary leases at fair value is complex and costly for entities and will likely often require external valuation experts. Entities that measure concessionary leases at cost provide robust disclosures within the notes to the financial statements to provide sufficient information to users. The current approach has served well over the last six years since its introduction in 2019 and we believe it should continue permanently.

Attached is HoTARAC's response to the general and NFP and public sector specific topics for comment. If you have any queries regarding HoTARAC's comments, please contact Steve Mitsas from the Department of Treasury and Finance in Victoria via email to [steve.mitsas@dtf.vic.gov.au](mailto:steve.mitsas@dtf.vic.gov.au).

Yours sincerely,



Andy Hobbs

**Chair**  
**Heads of Treasuries Accounting and Reporting Advisory Committee**  
**Executive Director, Financial Stewardship and Public Reporting**  
**NSW Treasury**

**ENCLOSED:**

HoTARAC Comments to the AASB on ITC 55 Post-implementation Review of AASB 16 *Leases*

# ITC 55: Post Implementation Review of AASB 16 Leases

## Section 1: AASB general matters for comment

- 1 Are there any regulatory issues or other issues arising in the Australian environment that adversely affect the application of AASB 16 Leases?

Government Finance Statistics (GFS) treat leases differently to AASB 16. GFS is aligned to the concepts of financing and operating leases in AASB 117. This means there is a convergence difference that is not measured by governments.

- 2 Does the application of the requirements in AASB 16 result in major auditing or assurance challenges?

No comment.

- 3 Are the requirements in the best interests of the Australian economy?

No comment.

## Section 2: NFP and public sector topics for comment

### *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?

HoTARAC has noted significant ongoing costs for entities in accounting for leases under AASB 16 compared to the previous requirements under AASB 117.

The cost can be particularly significant for relatively smaller not-for-profit public sector entities that often lack the required technical expertise and/or the resources, and entities that maintain larger and more complex lease portfolios.

AASB 16 lease accounting is similar to maintaining a register for PP&E assets, but arguably more complicated, as accounting for lease renewals or modifications is more complex than asset replacements. In some instances, investment in software has been required.

Other additional costs/challenges include:

- Staffing costs;
- Auditing costs;
- Ongoing effort required for lease remeasurements due to CPI adjustments etc;
- Forecasting and budgeting;
- Cost to perform regular ROU asset impairment assessments;
- Intra-sector leases create consolidation challenges, where one entity records the same asset under PPE and another as ROU, which then requires adjustments on consolidation; and
- Subleasing arrangements create additional accounting effort, if a sublease is a finance lease.

**b are the benefits to users significantly lower than expected?**

Given the dynamics of the public sector, including centralised funding arrangements and primary user focus on service delivery rather than lease financing, it is difficult to comment on the extent of benefits arising from applying AASB 16 accounting in the public sector context.

The information provided by AASB 16 may not be as useful to the users of public sector entities' financial statements as to those of private sector entities. The recognition of the right-of-use assets and the corresponding liability provides more transparent information about the "debt-like" arrangement and has increased comparability between entities. However, credit rating agencies have previously considered the impact using the lease information disclosed under AASB 117.

**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?**

While acknowledging the greater transparency of lease-related assets and liabilities through the on balance sheet presentation, HoTARAC has not received any significant user feedback indicating 'AASB 16 results in financial statements that are more useful than financial statements prepared under the previous standard AASB 117 *Leases*'.

*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?**

HoTARAC have identified the following key areas of concern:

*2.1 Enforceable period*

The concept of lease term has been complex to apply at times given the nature of government operations and the less 'legalistic' approach that might be taken in ensuring arrangements are set out in 'enforcement' terms.

Relatively informal or undocumented lease arrangements are common between entities within the public sector. For example, an entity may utilise land and/or buildings of another entity on a largely undocumented basis (often for below market or no consideration).

Lease agreements which are effectively open ended (no or nominal contractual termination penalties for both lessee and lessor) are also common in the public sector. In some cases, even though contractual termination penalties are only nominal, significant economic penalties may still apply if the lease is terminated.

Determining the lease term for such arrangements can be particularly challenging, in light of the requirements in AASB 16.B34 around 'enforceable period' and the meaning 'insignificant economic penalty' in the context of the broader economics of the arrangement.

*2.2 Termination or renewal*

Termination or renewal of leases in the government sector often has more dependence on political or social factors than financial consideration. This requires more judgment when lessee entities assess the certainty of exercising renewal or termination options. The AASB 16.20 requirement for reassessments of lease extension or termination options only for events or changes in circumstances ‘within the control of the lessee’ is also unclear. This may cause the differences between lessee and lessor entities when they assess the lease term.

### *2.3 Extension options*

Many government entities hold long-term leases, with some including non-cancellable lease terms of up to 40 years. Often, determining the likelihood of an extension option being exercised by the entity at the inception of a long-term lease can be challenging and requires significant judgement.

Also, entities may have multiple lease extension options, but the certainty of those extensions may be unclear where there are frequent changes in the Government’s operational requirements (e.g. administrative restructures).

There is the added complexity when determining the lease term where an entity may be the lessee from an external party and then sub-lease to another entity, so the other entity's intentions also need to be considered when determining if the option to extend is reasonably certain to be exercised.

### **3 whether differences in application exist in practice in the NFP and public sector?**

Refer to our comment above.

### **4 whether the current requirements and guidance in AASB 16 for determining the lease term are sufficient for NFP and public sector entities?**

Refer to comment above. Despite the high levels of judgement often involved in determining lease term in the public sector context, HoTARAC considers that the requirements of AASB 16 have generally served well.

Some additional guidance on the term ‘penalty’ (AASB 16.B34) in the not-for-profit public sector context, particularly non-financial penalties, and what determines if extension options are reasonably certain, may be beneficial for users. It would also be useful to have public sector specific illustrative examples that replicate various real-life scenarios which involve some complexity. For example, Agency A is the lessee and enters a 20 year lease with an option to extend for a further 5 years with an external party. Agency A then subleases to Agency B. In this situation, not only is the term of the lease longer which makes applying judgement as to whether the option will be exercised difficult, but consideration needs to also be given to the other entity and their demand for the leased asset at that point in time.

### *Topic 3: Lease modification*

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?**

Overall, HoTARAC members have not experienced significant issues in the application of the lease modification requirements under AASB 16. However additional application guidance and illustrative examples could be beneficial.

6 whether differences in application exist in practice in the NFP and public sector?

Not to our knowledge.

7 whether the current requirements and guidance in AASB 16 for lease modification are sufficient for NFP and public sector entities?

HoTARAC considers that the current requirements and guidance on lease modifications are sufficient. However additional application guidance and illustrative examples could be beneficial.

*Topic 4: Measurement of lease liabilities – determining the incremental borrowing rate*

Regarding the measurement of lease liabilities and determining an incremental borrowing rate, do you have any comments about:

8 the application of the requirements in practice by NFP private sector entities, including how these entities are currently determining the incremental borrowing rate in practice?

9 whether differences in application exist in practice in the NFP private sector?

10 whether the current requirements and guidance in AASB 16 for the measurement of lease liabilities are sufficient for NFP private sector entities?

No comment on Topic 4 questions as these questions are targeted at the NFP private sector.

*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?

HoTARAC notes that all Australian jurisdictions currently elect to hold concessionary assets at cost due to the complexities and challenges in fair valuing concessionary leases and the substantial associated costs. The disclosure approach has served well in meeting any user's information needs over the last six years since its introduction in 2019. In HoTARAC's view, fair valuing below market leases is highly problematic and is not justifiable on cost/benefit grounds.

Consistent with the ongoing policy choice allowed for the private sector NFP entities, HoTARAC strongly believes the current policy choice should continue an ongoing policy choice for the public sector. We see no conceptual justification for a different treatment between NFP private sector and NFP public sector in this area.

12 whether the temporary accounting policy choice for NFP public sector entities should be made permanent?

HoTARAC strongly supports making the accounting policy choice for NFP public sector to measure concessionary assets at cost or fair value a permanent choice, consistent with the AASB's decision for the private NFP sector.

In HoTARAC's view, the costs for entities to measure concessionary leases at fair value substantially outweighs any additional benefits for users of financial statements. Measuring concessionary leases at fair value is highly complex and costly for entities and will likely often require external valuation experts. Additionally, entities that measure concessionary leases at cost provide robust disclosures within the notes to the financial statements to provide sufficient information to users and these disclosures have served well since their introduction in 2019. Accordingly, HoTARAC believes it is appropriate that this accounting policy choice is made permanent to provide certainty to the sector.

**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?**

HoTARAC believes that the disclosures provided in accordance with Aus59.1 and Aus59.2 are sufficient in providing useful information to financial statement users. We are not aware of any user feedback indicating otherwise in the last six years that these requirements have been in operation.

*Topic 6: Sale and leaseback arrangements*

Regarding sale and leaseback arrangements, do you have any comments about:

**14 the application of the requirements in practice by public sector entities?**

HoTARAC has not experienced any major challenges in accounting for sale-leaseback arrangements.

However, we note that BC262 of IFRS 16 may seem to indicate that most sale and lease back transactions should be considered as a sale: "...a lease is different from the purchase or sale of the underlying asset, in that a lease does not transfer control of the underlying asset to the lessee; instead, it transfers the right to control the use of the underlying asset for the period of the lease. Consequently, if there are no features in a sale and leaseback transaction that prevent sale accounting, the buyer-lessor is considered to obtain control of the underlying asset, and immediately transfer the right to control the use of that asset to the seller-lessee for the lease term..."

Given IFRS 16 requires sale and leaseback arrangements to be treated as financing arrangements in certain circumstances, it would be helpful to add some explanation or example about when a transaction is not a sale in a sale and lease back transaction (i.e. features that prevent sale accounting).

**15 whether differences in application exist in practice in the public sector?**

Not to our knowledge.

**16 whether the current requirements and guidance in AASB 16 for sale and leaseback arrangements are sufficient for public sector entities?**

HoTARAC considers that the current requirements and guidance on accounting for sale-leaseback arrangements are sufficient.

*Topic 7: Other matters*

17 Are there any other NFP and public sector matters that should be brought to the attention of the AASB as it undertakes a PIR of AASB 16?

HoTARAC notes the assessment of impairment of RoU assets in a public sector context can sometimes be challenging. For example, although change in interest rates is possibly an impairment trigger, in isolation a change in interest rate may not comprise impairment in a public sector environment as the recoverable amount is unchanged in substance.

Also, the requirements in AASB 16.42 may lead to timing differences in recognition of impairment of a RoU asset and a reduction of the corresponding RoU liability. When there is a downturn in market rents, an impairment of the right-of-use asset may need to be made in the period the downturn occurs. However, the corresponding lease liability cannot be adjusted until the actual market rent review takes place. This is due to AASB 16.42(b), which states that the lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). As a result, an entity may incur an impairment expense in an earlier year and income from reduction of lease liability in a later year.