



Treasury

Contact: Steve Mitsas
Telephone: 03 7005 9372

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

Dear Dr Kendall

ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases* (ED 318). 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.

The revisions to Illustrative Example 3A, the contrasting scenario as well as the new Illustrative Example 7A relating to the treatment of upfront fees will likely reduce diversity in practice and are supported by HoTARAC, although certain members considered the original examples sufficient clear.

HoTARAC understands the reasoning (as set out in ED 318) behind the Board deferring a decision on whether to remove the optional temporary exemption from recording right-of-use assets under concessionary leases at fair value, to a later date. Having said that, HoTARAC is of the view that the optional treatment, made permanent for the not-for-profit private sector should equally be made permanent to the not-for-profit public sector reporters at this time, on the basis of the following:

1. Since the adoption of AASB 1058: *Income of Not-for-Profit entities* (AASB 1058) and AASB 16: *Leases* (AASB 16) from 1 July 2019, public sector reporters have availed themselves of the relief afforded under AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* and there is no apparent information gap that arose by reporting right-of-use assets under concessionary leases at cost. HoTARAC questions what the benefit of having fair value information about concessionary leases would be to users of public sector financial statements, considering the complexity and potential future cost involved in determining fair values for these right-of-use assets.
2. The IPSASB leases project, and its related concessionary leases consideration, is ongoing and although may provide a useful reference point in the future, public sector not-for-profit reporters also require certainty (like their private sector counterparts) in the short term for budgeting, accountability, and future policy purposes. Even if the IPSASB direction is significantly different to the existing one adopted by the AASB, HoTARAC believes that certainty of treatment is more imperative than comparability with IPSASB reporters.
3. HoTARAC had previously indicated to the AASB that the sheer number of arrangements, the relative informal documentation supporting these arrangements and the practicality of enforceability with the sector would make the removal of the optional relief from having to

record concessional leases right-of-use assets at fair value too costly and time consuming, when compared to the benefit thereof.

For the reasons noted above, HoTARAC urges the AASB to allow not-for-profit public sector entities the same accounting policy choice of either cost or fair value, as proposed for the not-for-profit private sector entities as proposed in ED 318.

The attachment to this letter sets out HoTARAC's response to the specific and general matters for comment.

If you have any queries regarding HoTARAC's comments, please contact Steve Mitsas from the Department of Treasury and Finance in Victoria by email to steve.mitsas@dtf.vic.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stewart Walters', with a long horizontal flourish extending to the right.

Stewart Walters
CHAIR
Heads of Treasuries Accounting and Reporting Advisory Committee
11 March 2022

ENCLOSED:

HoTARAC Comments to the AASB on ED 318 *Illustrative Examples for Income of Not- for- Profit Entities and Right-of-Use Assets arising under Concessionary Leases*

HoTARAC Comments to the AASB on ED 318 Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases

AASB Specific Matters for Comment

Question 1: *Do you agree that the proposed amendments to the AASB 15 and AASB 1058 illustrative examples provide appropriate illustration of the application of the recognition and measurement requirements of the Standards? If not, please explain why.*

HoTARAC members support the proposed amendments to the illustrative examples and believe these amendments will reduce divergence in practice. As a suggestion, journal entries could be added to example 3A.1 for consistency with 3A.2.

Question 2: *In respect of not-for-profit private sector lessees, do you agree with the proposal that the current accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 (for not-for-profit entities to elect to initially measure a class of concessionary right-of-use assets at cost or fair value) should be retained on an ongoing basis (i.e. with no plan to reconsider the accounting policy choice)? If not, please provide your reasons.*

Although this question is aimed at private sector not-for-profit reporters, HoTARAC supports the retention of the existing policy choice and urge the AASB to afford the public sector not-for-profit reporters the same relief, at the same time as for the private sector.

Question 3: *Do you agree that the disclosures required by AASB 16 (including the requirements in AASB 16 paragraphs Aus59.1–Aus59.2) provide sufficient information to users of financial statements in the absence of fair value information? Are there any other disclosures regarding concessionary leases that would be useful to users of financial statements without incurring undue cost or effort for preparers? Please provide reasons to support your answer.*

Refer to question 5 below.

Question 4: *If in response to Question 2 you consider that not-for-profit private sector lessees should be required to initially measure right-of-use assets arising under concessionary leases at fair value, do you consider that the initial fair value measurement requirement should be applied:*

- (a) prospectively, to concessionary leases entered into after the date of application of the removal of the accounting policy choice to measure such right-of-use assets at cost; or*
- (b) retrospectively (i.e. requiring existing right-of-use assets arising under concessionary leases to be adjusted to reflect the effect of the initial fair value requirement)?*

Please provide reasons to support your view.

HoTARAC is of the view that the optional treatment should be retained (for both the private and public sectors), but in the event that the policy choice is removed, it should be applied only on a prospective basis, considering the cost and effort involved in obtaining information on legacy arrangements. HoTARAC does not believe that there should be a distinction between the public and private sectors as far as concessionary leases are concerned.

Question 5: *In respect of not-for-profit public sector lessees, do you agree that, in the absence of fair value information about concessionary leases, the disclosures required by AASB 16 (including the requirements in AASB 16 paragraphs Aus59.1–Aus59.2) provide sufficient information to users of public sector entities' financial statements? Are there any other disclosures regarding concessionary leases that would be useful to users of public sector entities' financial statements without incurring undue cost or effort for preparers? Please provide your reasons to support your answer.*

Current disclosure requirements are sufficient for public sector reporters. Since the adoption of AASB 16 and AASB 1058, no additional information was requested by users of public sector financial reports. This further supports the notion that the benefit of providing fair value information on right-of-use assets under concessionary leases, would very likely not outweigh the cost and effort involved in gathering the information (especially under the current tight fiscal conditions nationally), analysing the arrangements and determining fair values for each arrangement.

General matters for comment

The AASB would also particularly value comments on the following general matters:

Question 1: *Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?*

Yes

Question 2: *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?*

The proposals per se do not have any known GFS issues associated with them. HoTARAC notes balances arising from leases for lessees are already listed as a convergence difference, regardless of the value placed on right-of-use assets under concessionary leases.

Question 3: *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?*

No known issues identified.

Question 4: *Whether, overall, the proposals would result in financial statements that would be useful to users?*

The illustrative examples will likely result in less divergence in practice.

Although it is not being proposed to remove the concessionary leases temporary exemption at this time for public sector not-for-profit reporters at this time, HoTARAC noted in the specific responses above that the fair value information would likely not serve any unmet need from users.

Question 5: *Whether the proposals are in the best interests of the Australian economy?*

No direct link noted between the proposals and the economy.

Question 6: *Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.*

HoTARAC had previously written to the AASB, setting out its concerns with the fair value requirements for concessionary right-of-use assets. Those concerns are not repeated here, but HoTARAC notes that the time, effort and resource required to fair value right-of-use assets under concessionary leases will far outweigh the benefit associated therewith – whether at the moment or in years to come.
