

23 May 2018

Mr Warren Allen
The Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Dear Sir

Requests to comment on IPSASB Exposure Draft ED 64 - Leases

Thank you for the opportunity to comment on the above exposure draft.

We are making this submission to you to assist the New Zealand Accounting Standards Board (NZASB) with the above Consultation Paper. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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Appendix 1 - Response to questions

Specific Matter for Comment 1

The IPSASB decided to adopt the IFRS 16 right-of-use model for lessee accounting (see paragraphs BC6- BC8 for IPSASB's reasons). Do you agree with the IPSASB's decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

Yes, we agree with the IPSASB's decision.

Moving to accounting for leases based on IFRS 16 will assist with reducing divergence in accounting treatment for lessees between public benefit entities (PBEs) and for-profits here in New Zealand.

Specific Matter for Comment 2

The IPSASB decided to depart from the IFRS 16 risks and rewards model for lessor accounting in this Exposure Draft (see paragraphs BC9-BC13 for IPSASB's reasons). Do you agree with the IPSASB's decision? If not, please explain the reasons. If you do agree, please provide any additional reasons not already discussed in the basis for conclusions.

Yes, we agree with the IPSASB's decision, to depart from the IFRS 16 risks and rewards model for lessor accounting and instead require lessors to account for leases in a manner consistent with the accounting requirements of lessees.

However, we do note that there will likely be consolidation adjustments required in mixed groups, especially where a PBE entity has a for-profit controlled entity that is a lessor, due to the different models adopted by the IPSASB and the IASB in this area. We are uncertain as to the extent this scenario will occur, but additional guidance may be required to be included.

Generally, our overall preference is that PBE standards be as consistent with NZ IFRSs as much as possible. In this instance, however, we appreciate the need for and support the divergence from the NZ IFRS model. We do recommend that this issue be raised with the IASB when the post implementation review of IFRS 16 and that lessor accounting be revised at this stage.

Specific Matter for Comment 3

The IPSASB decided to propose a single right-of-use model for lessor accounting consistent with lessee accounting (see paragraphs BC34-BC40 for IPSASB's reasons). Do you agree with the requirements for lessor accounting proposed in this Exposure Draft? If not, what changes would you make to those requirements?

Yes, we agree with the IPSASB's decision.

Specific Matter for Comment 4

For lessors, the IPSASB proposes to measure concessionary leases at fair value and recognize the subsidy granted to lessees as a day-one expense and revenue over the lease term consistent with concessionary loans (see paragraphs BC77-BC96 for IPSASB's reasons). For lessees, the IPSASB

proposes to measure concessionary leases at fair value and recognize revenue in accordance with IPSAS 23 (see paragraphs BC112-BC114 for IPSASB's reasons). Do you agree with the requirements to account for concessionary leases for lessors and lessees proposed in this Exposure Draft? If not, what changes would you make to those requirements.

Yes, we agree in principal with the proposed accounting requirements for concessionary leases.

However, in the New Zealand context we are concerned with the financial impact that this requirement will have on smaller lessor and lessee Tier 2 public benefit entities (especially not-for-profit entities and those entities that have stepped-up into Tier 2 for group reporting purposes). We question whether the cost will exceed benefits if the proposed accounting requirements for concessionary leases remain in their current form for these smaller entities.

Obtaining the fair value of the right to use assets on so-called "peppercorn leases" of premises in particular will likely be a costly exercise as, in our experience, personnel at smaller Tier 2 public benefit entities will probably not have the necessary expertise to determine fair value, and instead will need to instruct external valuers in these matters, (both lessors or lessees).

For smaller Tier 2 not-for-profit public benefit entities (in particular) the information produced may not be of significant benefit to users of financial statements when compared to the valuation costs incurred and the correspondent forfeiture of money available to be spent on beneficiaries.

We therefore highly recommend that some sort of concession be included for smaller public benefit entities in New Zealand. For example, potentially average rental prices for the premises type the area could possibly be used as a proxy for market value instead (with explanative disclosures), or alternatively only disclosures of the concessionary leases could be required.

We also highly recommend that additional extensive illustrative examples be included (from both the lessee and lessor perspective) on concessionary loans, to assist prepares with implementing the requirements of the proposed standard. (In particular we would suggest examples of "pure" concessionary leases be included for illustrative purposes.)

We also highly recommended that specific worked examples on transition be included, to assist prepares with transitioning to the requirements of the proposed standard.

Appendix 2 - Information on BDO

1. BDO New Zealand is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 89 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 73,800 people in 1,500 offices across over 162 countries and territories.