

25 November 2022

By email: accounting@xrb.govt.nz

Auckland Council's feedback provided on the NZASB Consultation Document and the Accompanying Exposure Draft (ED) for the proposed new lease accounting standard (PBE IPSAS 43 Leases) for Tier 1 & 2 Public Benefit Entities.

Thank you for providing Auckland Council Group (the group) with the opportunity to provide on the Consultation Document and the Accompanying Exposure Draft (ED) for the proposed new lease accounting standard (PBE IPSAS 43 Leases) for Tier 1 & 2 Public Benefit Entities.

We have read the consultation document and provided our responses to the specific matters for the respondents in the appendix to this letter along with our additional comments for the NZASB's (the Board) consideration. In summary, we are supportive of the Board's decision with the proposed scope of PBE IPSAS 43.

We anticipate the Board to finalise the project on concessionary leases and provide clear guidance for us to prepare ourselves in complying the accounting standards.

We hope our responses and comments are helpful in aiding your decision-making process. Should you have any queries relating to the responses, please do not hesitate to contact us.

Yours sincerely

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Appendix 1

Clarification of the scope of PBE IPSAS 43 with respect to concessionary leases (Section 4.4)

1. Do you agree with the proposed scope clarification with respect to concessionary leases? That is, do you agree with the clarification that:

- Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43;
Yes, we agree that the concessionary leases meeting the definition of a lease should be in the scope of the proposed PBE IPSAS 43.
- Arrangements that convey the right to use an asset for a specified period for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and
Yes, we agree that the right to use an asset for no consideration does not meet the definition of a lease under paragraph 10 of the proposed PBE IPSAS 43: *'A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.'*
- In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?*
- Yes, we agree that the entity should take into account the lease payments as per the lease agreement. For concessionary leases, there may be instances where some buildings are leased out and have non-monetary/ indirect benefits to the lessor such as building a relationship with a potential buyer, having other commercial benefits behind the contract or helping the lessor to achieve its objectives. In such instances, the lease payments on market terms will not capture all the economic benefits of the lease anyway and hence it would be more appropriate to take into account the lease payments as per the agreed lease arrangement.

Also, we believe it is not economically beneficial (based on a cost-benefit assessment) to put excessive focus to determine the market rate of the leases which are not commercially focused.

* Except when PBE IPSAS 43 or another Standard requires or permits a different accounting treatment (for example, if right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in PBE IPSAS 17, 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).

Appendix 1

Leases of low-value assets (Section 4.5)

2. Do you agree that the assessment of whether a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset, as proposed in the ED? If not, on what basis should this assessment be performed? In the example provided under paragraph IE3 on page 89 in the Exposure draft "*Example 11— Leases of Low-Value Assets and Portfolio Application*", we understand that desktop printers can be considered low-value assets but high-capacity multifunction photocopier devices do not qualify as leases of low-value assets. It appears unclear under the standard of the reason why high-capacity multifunction photocopier devices do not qualify as leases of low-value assets. Even from a real-world perspective considering an organisation that applies Tier 1 or 2 PBE standards, such assets would always be amongst its low-value assets.

The above scenario has shown that there will be inconsistencies in the accounting treatment without a threshold used for low-value assets. There are other examples such as conference room HD camera/webcam systems, conference room speaker systems, smartboards, and Electric Vehicle chargers for which it is debatable if they could be categorised as low-value assets. Their price is similar to the high-capacity multifunction photocopier devices. Hence, our preference is that the Board to follow IASB's path to include US\$5,000 as the threshold for low-value assets.

Not having a threshold for low-value assets would create inconsistent treatment given different preparers and auditors interpretations and risk appetites. The inclusion of monetary value would eliminate any debate, and reassessment of threshold for every reporting period. We believe it is not economically beneficial to put excessive focus and time on deciding the treatment of low-value assets. Further, having a threshold for the low-value assets assessment would enhance the comparability of different entities' financial statements within the same sector. Should the Board be averse to including a threshold, we suggest that entities are required to disclose their threshold. Although this would not assist with comparability of different entities' financial statements, it would reduce the debate between preparers and auditors, and over time, it is likely that industries would align on similar thresholds.

RDR concessions (Section 4.6)

3. Do you agree with the proposed RDR concessions for Tier 2 PBEs?
We agree with the proposal for RDR concessions for Tier 2 PBEs.

Appendix 1

Effective date and other comments (Section 4.7)

4. Do you agree with the proposed effective date of 1 January 2027?
We agree with the proposed effective date of 1 January 2027. The date should align with the date when the concessionary leases standard (i.e.: the project on *Other Lease-type Arrangements*) is finalised and concessionary leases are included within the scope of PBE IPSAS 43. Auckland Council has many concessionary leases and sufficient time would be required to fulfil the requirements.

5. Do you have any other comments on the ED?
We do not have any further comments on the ED.