

## Board Meeting Agenda

In-person Meeting (Wellington) — Thursday, 11 May 2023

Est Time	Item	Topic	Objective		Page
<b>PUBLIC SESSION</b>					
9.40 am 20 min	<b>3A</b> 3A.1	<b>New IPSASB Standards: Measurement</b> Presentation: Measurement	(TB) Consider	Presentation	–
10.00 am 15 min	Morning tea				
10.15 am 120 min	<b>3B</b> 3B.1 3B.2	<b>New IPSASB Standards: Revenue and Transfer Expenses</b> Presentation: Revenue Presentation: Transfer Expenses	(IPSASB Staff) Consider Consider	Presentation Presentation	– –
12.15 pm 30 min	<b>4</b> 4.1	<b>New IPSASB Standards: Board discussion</b> Board discussion	(AH) Discuss	Verbal	–
12.45 pm 45 min	Lunch				
1.30 pm 20 min	<b>5</b> 5.1	<b>Tier 3 and 4 guidance material development</b> <a href="#">Board memo</a>	(JC and CB) Consider	Paper	2
1.50 pm 90 min	<b>6</b> 6.1	<b>PBE leases</b> <a href="#">Board memo</a>	(GS and CH) Consider	Paper	9
3.20 pm 15 min	Afternoon tea break				
<b>NON-PUBLIC SESSION</b>					
4.50 pm	<i>Finish</i>				

Next NZASB meeting: 28 June 2023, in-person (Auckland)

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**Date:** 2 May 2023  
**To:** NZASB Members  
**From:** Jamie Cattell and Carly Berry  
**Subject:** Tier 3 and Tier 4 – Awareness Raising and Guidance Material Development

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## COVER SHEET

### Project priority and complexity

<b>Project priority</b>	<b>High</b> The new Tier 3 and Tier 4 Standards affect many not-for-profit and public sector entities in New Zealand.
<b>Complexity of Board decision-making at this meeting</b>	<b>N/A</b> The Board is not asked to make any decisions in this agenda item.

### Overview of agenda item

<b>Project status</b>	Promotion and raising awareness of the new Tier 3 and Tier 4 Standards. Development of guidance materials explaining the changes to the Standards and to support consistent application.
<b>Project purpose</b>	To promote awareness of and increase rates of compliance with the new Tier 3 and Tier 4 Standards.
<b>Board action required at this meeting</b>	NOTE the matters discussed in this paper.

### **Purpose and introduction**

1. The purpose of this memo is to provide an update on the development of additional guidance for entities applying the Tier 3 and Tier 4 Standards.

### **Recommendations**

2. The Board is asked to NOTE the update in this memo.

### **Background**

3. In August 2021 we issued a feedback statement following the completion of the post-implementation review of the Tier 3 and Tier 4 Standards. The feedback statement grouped the feedback received into topic areas and for each topic area the planned response was noted.
4. The planned response categories from the feedback statement were:
  - (a) **Further consideration by the NZASB:** These matters were considered and addressed through amendments to the Tier 3 and/or Tier 4 Standard(s). As these Standards have now been approved, no further work is required at this time.
  - (b) **Additional education and awareness-raising activities:** These matters the Board considered were best addressed by developing additional guidance (such as FAQs, illustrative examples, and other staff guidance) and/or conducting other activities (such as webinars or presenting at other events on the changes).
  - (c) **No further action:** These matters the Board considered did not require a response at the time the feedback statement was published. However, the Board noted that it will monitor the issues for evidence that action is required in the future.
5. Now that the Tier 3 and Tier 4 Standards have been approved by the Board, we are beginning the awareness raising/education phase of the project. This phase includes developing a plan to address the matters categorised into (b) above and any other matters brought to our attention following the issuance of the new standards.

### **Structure of this memo**

6. The remaining sections in this memo are:
  - (a) Areas of the Tier 3 and Tier 4 Standards for which the Board agreed to address through guidance;
  - (b) Engagement and resource development plan;
  - (c) Current progress; and
  - (d) Next steps.

**Areas of the Tier 3 and Tier 4 Standards for which the Board agreed to issue additional guidance**

7. Following the completion of the post-implementation review in August 2021, we issued a feedback statement that listed the topics on which we received feedback and the Board’s planned response. In addition to the areas which the Board decided to address via amendments to the Tier 3 and Tier 4 Standards, it also listed the topics which the Board considered could best be addressed by further guidance.
8. The topics which the Board expected to address via further guidance are summarised in Table 1 below along with the planned response. We do not intend to develop guidance on disaggregating the minimum categories for the following reasons.
  - (a) We have removed the option to disaggregate the minimum categories in the statement of financial performance/statement of cash received and cash paid from the final NFP versions of the Tier 3 and Tier 4 Standards
  - (b) Excessive disaggregation of the minimum categories was not identified as an issue for public sector entities through the post-implementation review.

**Table 1 – Additional education or guidance**

Issue per feedback statement	Response
<p><b>Selecting appropriate performance measures</b> NFP entities have difficulty selecting appropriate performance measures and more specific guidance would be useful.</p>	<p>We will develop an FAQ on selecting and measuring performance measures for Tier 3 and Tier 4 entities.</p>
<p><b>Intangible assets</b> No explicit guidance is provided in the Tier 3 Standard on intangible assets.</p>	<p>We will develop an FAQ explaining how intangible assets should be accounted for based on the requirements in the Tier 3 Standard.</p>
<p><b>Disaggregation of the minimum categories</b> The standards are unclear about the degree to which disaggregation and relabelling of the minimum categories is permissible.</p>	<p>We no longer intend to provide guidance on this topic for the reasons outlined above.</p>
<p><b>Understandability of the requirements for the statement of cash flows in the Tier 3 Standard</b> The statement of cash flows was difficult to prepare due to difficulty distinguishing between operating cash flows and investing and financing cash flows.</p>	<p>Additional guidance will be developed to explain the purpose of the statement of cash flows and the difference between operating and other cash flows.</p>
<p><b>Meaning of significant</b> There is a lack of understanding among small PBEs about what is meant by the term “significant”.</p>	<p>We have moved the guidance on significance to feature more prominently in the Tier 3 Standard. We intend to develop short FAQ guidance on the meaning of significant and the factors an entity should consider when making judgements about significance in the Tier 3 Standard.</p> <p>As we have made the Tier 4 Standard more rules based which reduces the need to assess</p>

Issue per feedback statement	Response
	significance, we do not intend to develop specific guidance for Tier 4 entities.
<p><b>Going concern and events after balance date in the Tier 3 Standard</b> Requirements related to going concern and events after balance date are difficult to apply to NFPs.</p>	We will review the existing guidance on assessing an entity’s ability to continue operating to check that they are understandable and in plain English.
<p><b>Consolidation requirements</b> Concerns were raised about the requirement to consolidate where there is a control relationship for financial reporting purposes. The requirements are unclear and too judgemental.</p>	<p>The existing guidance in EGs 8 and 9 will be reviewed to check that they are understandable and in plain English:</p> <ul style="list-style-type: none"> <li>(a) the meaning of control for financial reporting purposes and how it differs from the layman’s definition;</li> <li>(b) the key factors PBEs need to consider to determine whether there is a control relationship; and</li> <li>(c) the rationale for requiring consolidated financial statements. Activities will include promoting awareness of existing guidance material on this topic.</li> </ul>
<p><b>Related party transactions</b> The requirements for reporting related party transactions are not well understood in practice. More guidance is required about who is captured by the definition of related parties and which transactions are required to be disclosed.</p>	<p>Additional guidance will be developed to explain the requirements for reporting related party transactions including:</p> <ul style="list-style-type: none"> <li>(a) the meaning of “related parties”;</li> <li>(b) how to determine if a person or entity is a related party; and</li> <li>(c) how related party transactions and balances are reported in the Tier 3 and Tier 4 Standards.</li> </ul>

**Engagement and resource development plan**

9. We have two main objectives for our engagement and resource development related to the Tier 3 and Tier 4 Standards.
  - (a) **Increase awareness** – including both awareness of the new standards and awareness of the specific changes. An important part of this phase will be promotion of the standards with a focus on the key messages. For Tier 4, the key message is that we have made the standards easier to read, understand, and apply. For Tier 3, the key message is that we have improved the standard through targeted changes. Engagement through XRB newsletters, webinars, events, and regulators/umbrella bodies will be the primary activities that contribute to this objective.
  - (b) **Increase compliance and consistency** – This phase includes development of guidance materials, reporting templates, and other resources to support entities applying the

new Tier 3 and Tier 4 Standards. This will include development of the resources noted in Table 1.

10. In addition to the guidance materials noted in Table 1 above, we intend to first develop short summary documents highlighting the changes preparers need to be aware of for their first period applying the new requirements. Included in Appendix 1 is our intended timeline for developing and publishing guidance material on the Tier 3 and Tier 4 Standards.

#### **Current progress**

11. This section outlines the progress to date on planning events and developing guidance materials.

#### *Charities Services*

12. Staff met with Charities Services Staff on 2 May to set out a high-level plan for promoting the new Tier 3 and Tier 4 Standards through their channels.
13. Charities Services staff confirmed they are supportive of the changes we have made to the Tier 3 and Tier 4 Standards. We have tentatively scheduled a webinar for the end of June 2023, where we will present the key changes and answer any questions from the participants. They will also promote the webinar in their June newsletter
14. The content of the webinar will be consistent with the approach outlined above focusing on the key changes for tier 3 entities and simplification and ease of use for tier 4 entities.
15. In addition, Charities Services have agreed to keep a regular feature in their newsletters for XRB updates. This can be used to promote our guidance material, FAQs and any other material related to the Tier 3 and Tier 4 Standards.

#### *CA ANZ For-Purpose Special Interest Group Webinar*

16. Staff presented on the new Tier 3 and Tier 4 Standards at an Auckland For-Purpose Special Interest Group event on 18 April 2023. The presentation was well received by participants and positive feedback was received on the final standards both during and following the event.

#### *Tier 3 and Tier 4 Templates*

17. We have updated all the reporting templates to reflect the final versions of the Tier 3 and Tier 4 Standards. We will publish the templates on the XRB website at the same time as the final standards.

#### *Tier 4 Template Guidance Animation*

18. We are in the process of developing an animation to support entities to apply the Tier 4 reporting template which has been amended based on the requirements of the new Tier 4 Standard. The objective of the animation is to facilitate and promote the adoption of the new standard upon its issuance.

19. The animation will be concise and informative, lasting no more than 15 minutes, and will provide an overview of the template. A script for the animation has been provided to the XRB communications team who are liaising with the designer on creating the video.
20. Development of the animation is expected to begin in May 2023, but we do not yet have a timeline for when the final animation will be ready for publication. The Board will be provided with an update on the animation as more progress is made.

*Tier 3 and Tier 4 Summary of changes document*

21. Staff have begun drafting summary documents providing an overview of changes to the Tier 3 and Tier 4 Standards. We expect to publish these in June 2023.

**Next steps**

22. We will continue developing guidance materials and present further updates to the Board at a future meeting.

**Question for the Board**

Q1. Does the Board have any comments on this update?

## Appendix A

### Guidance material development timeline

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
<b>Guidance documents</b>															
Tier 4 overview of changes		Draft	Publish												
Tier 3 overview of changes		Draft	Publish												
Going concern and events after balance date			Update												
Meaning of significant			Draft	Draft	Publish										
Selecting appropriate performance measures					Draft	Draft	Publish								
Intangible Assets							Draft	Draft	Publish						
Consolidation requirements									Draft	Draft	Publish				
Related party transactions											Draft	Draft	Publish		
Statement of Cash Flows													Draft	Draft	Publish
<b>Other guidance</b>															
Tier 4 Animation	Script	Design													
Reporting Templates	Update														



**Date:** 2 May 2023

**To:** NZASB Members

**From:** Gali Slyuzberg and Charis Halliday

**Subject:** **PBE IPSAS 43 Leases: Modification in response to certain points raised by ED respondents and discussion on next steps**

## COVER SHEET

### Project priority and complexity

<b>Project priority</b>	<p><b>Medium</b></p> <ul style="list-style-type: none"> <li>The IPSASB issued IPSAS 43 <i>Leases</i> in January 2022, which introduces a new lessee accounting model aligned with IFRS 16 <i>Leases</i>. PBE Standards are currently not aligned with these updated international requirements.</li> <li>Leases are prevalent and significant across both the public and NFP sectors.</li> </ul>
<b>Complexity of Board decision-making at this meeting</b>	<p><b>Medium</b></p> <p>The Board is being asked to agree on certain modifications to draft PBE IPSAS 43 <i>Leases</i> to address feedback received from public sector ED respondents. Furthermore, following recent discussions with stakeholders, the Board is being asked for feedback on staff's plan to carry out a detailed cost/benefit analysis with respect to draft PBE IPSAS 43, in both the public sector and NFP contexts – in order to confirm the scope of PBE IPSAS 43 and determine next steps.</p>

### Overview of agenda item

<b>Project status</b>	<ul style="list-style-type: none"> <li>Feb 2022: NZASB agreed to propose incorporating IPSAS 43 into PBE Standards.</li> <li>Aug 2022: XRB issues ED PBE IPSAS 43 <i>Leases</i>, which is based on IPSAS 43 and introduces the right-of-use model for lessees (comments closed Nov 2022).</li> <li>Feb 2023: NZASB to consider ED feedback and provide direction on next steps.</li> <li>May 2023: NZASB to consider response to certain points raised in the ED submissions, and provide feedback on staff's plan to carry out a detailed cost/benefit analysis.</li> </ul>
<b>Project purpose</b>	<ul style="list-style-type: none"> <li>International alignment with IPSASB (as per our PBE Policy Approach) and IASB – allowing PBEs to benefit from the latest international thinking on lease accounting.</li> <li>Enhance transparency around leases in the financial statements of PBE lessees.</li> <li>Easier reporting for 'mixed groups' containing PBEs and for-profit entities.</li> </ul>
<b>Board action required at this meeting</b>	<p>CONSIDER staff recommendations on how to address certain comments raised by ED respondents, and provide FEEDBACK on staff's plan to carry out a detailed cost/benefit analysis.</p> <p>We will ask for Board feedback on the questions raised in this memo.</p> <p>We encourage any editorial comments to be sent directly to staff - <a href="mailto:gali.slyuzberg@xrb.govt.nz">gali.slyuzberg@xrb.govt.nz</a></p>

## Purpose and introduction<sup>1</sup>

1. This memo relates to the development of a PBE Standard based on IPSAS 43 *Leases*. It does not cover IPSASB ED 84 *Concessionary Leases and Right-of-Use Assets In-kind*.
2. During August–November 2022, the XRB consulted on Exposure Draft (ED) PBE IPSAS 43 *Leases*. The ED proposed a new lessee accounting model for Tier 1 and Tier 2 PBEs. The proposals, which are based on IPSAS 43 and aligned with IFRS 16, would require lessees to recognise most leases on the balance sheet, using the ‘right of use’ (ROU) model. Key expected benefits of the proposals included alignment with international requirements and best practice, enhanced transparency around leases in the financial statements of PBE lessees, and improved comparability between PBEs that lease assets and those that purchase them.
3. Feedback received on the New Zealand ED was mixed. While there was general support for the proposals from the public sector for incorporating IPSAS 43 into PBE Standards, respondents from the not-for-profit (NFP) sector expressed concerns regarding the cost/benefit aspect of the proposals. Furthermore, some public sector respondents also expressed concerns and raised questions relating to concessionary leases – and while concessionary leases are the focus of ‘Phase 2’ of the lease accounting project, there is a degree of interconnection between these matters and ‘Phase 1’ of the leases project.
4. In February 2023, staff provided the Board with an analysis of the ED feedback received, and sought strategic direction from the Board on how to take this project forward. Staff proposed to defer the finalisation of PBE IPSAS 43 until New Zealand requirements related to concessionary leases are developed, and to exempt NFP PBEs from the ROU model. However, the Board ultimately agreed on the following:
  - (a) to finalise PBE IPSAS 43 in the near future, and *not* to defer it until it can be finalised together with additional New Zealand requirements for concessionary leases; and
  - (b) rather than exempting NFP PBEs from the ROU model, staff should explore the development of practical expedients in relation to the ROU model – this is to be considered from the NFP perspective in the first instance.
5. Since the February 2023 meeting, staff have:
  - (a) developed possible solutions to address certain matters raised by public sector ED respondents – namely, the recommendation to clarify the wording of the requirements for sale and leaseback transactions, and the recommendation to provide more disclosure concessions for Tier 2 PBEs; and
  - (b) considered possible simplifications to the ROU model, with a view to address the concerns from the NFP respondents – and discussed the possible simplifications with the Accounting Technical Reference Group (TRG), as well as with the NFP stakeholders who responded to ED PBE IPSAS 43.

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

6. The purpose of this memo is to:
  - (a) seek the Board’s agreement on how to address two specific matters raised by public sector respondents to ED PBE IPSAS 43 *Leases*;
  - (b) update the Board on the abovementioned recent discussions with stakeholders; and
  - (c) seek the Board’s feedback on staff’s proposal to carry out a detailed cost/benefit analysis with respect to draft PBE IPSAS 43.

### Recommendation

7. We recommend that the Board:
  - (a) AGREES on the following modifications to PBE IPSAS 43 as per the staff recommendations in this memo, in response to ED feedback:
    - (i) clarify the paragraphs relating to sale and leaseback transactions; and
    - (ii) provide additional disclosure concessions for Tier 2 PBEs; and
  - (b) Provides FEEDBACK on staff’s recommendations to carry out a detailed cost/benefit analysis with respect to PBE IPSAS 43, in both the public sector and NFP context – with the view to confirm the appropriate scope of the Standard.

### Structure of this memo

8. This memo includes the following sections.
  - (a) [Background](#)
  - (b) [Proposed modifications to draft PBE IPSAS 43 based on ED feedback](#)
  - (c) [Update on recent discussions with stakeholders](#)
  - (d) [Next steps](#)
  - (e) [Appendices 1A-1C: Background information](#)
  - (f) [Appendix 2: Proposed additional RDR concessions](#)

### Background

9. The following background information is included in the appendices of this paper – given that the Board has already seen this information several times, but may still find it useful to refer back to this information.
  - (a) [Appendix 1A: Project timeline](#)
  - (b) [Appendix 1B: Summary of ED PBE IPSAS 43 \*Leases\* and the Consultation Document](#)
  - (c) [Appendix 1C: Summary of ED feedback](#)

### Proposed modifications to draft PBE IPSAS 43 based on ED feedback

10. As noted above, public sector respondents to ED PBE IPSAS 43 generally agreed with incorporating the requirements of IPSAS 43 into PBE Standards – but recommended certain improvements and refinements to the proposals (and also raised certain questions and

concerns regarding concessionary leases). NFP respondents expressed concerns about the proposals in general, without recommending specific modifications.

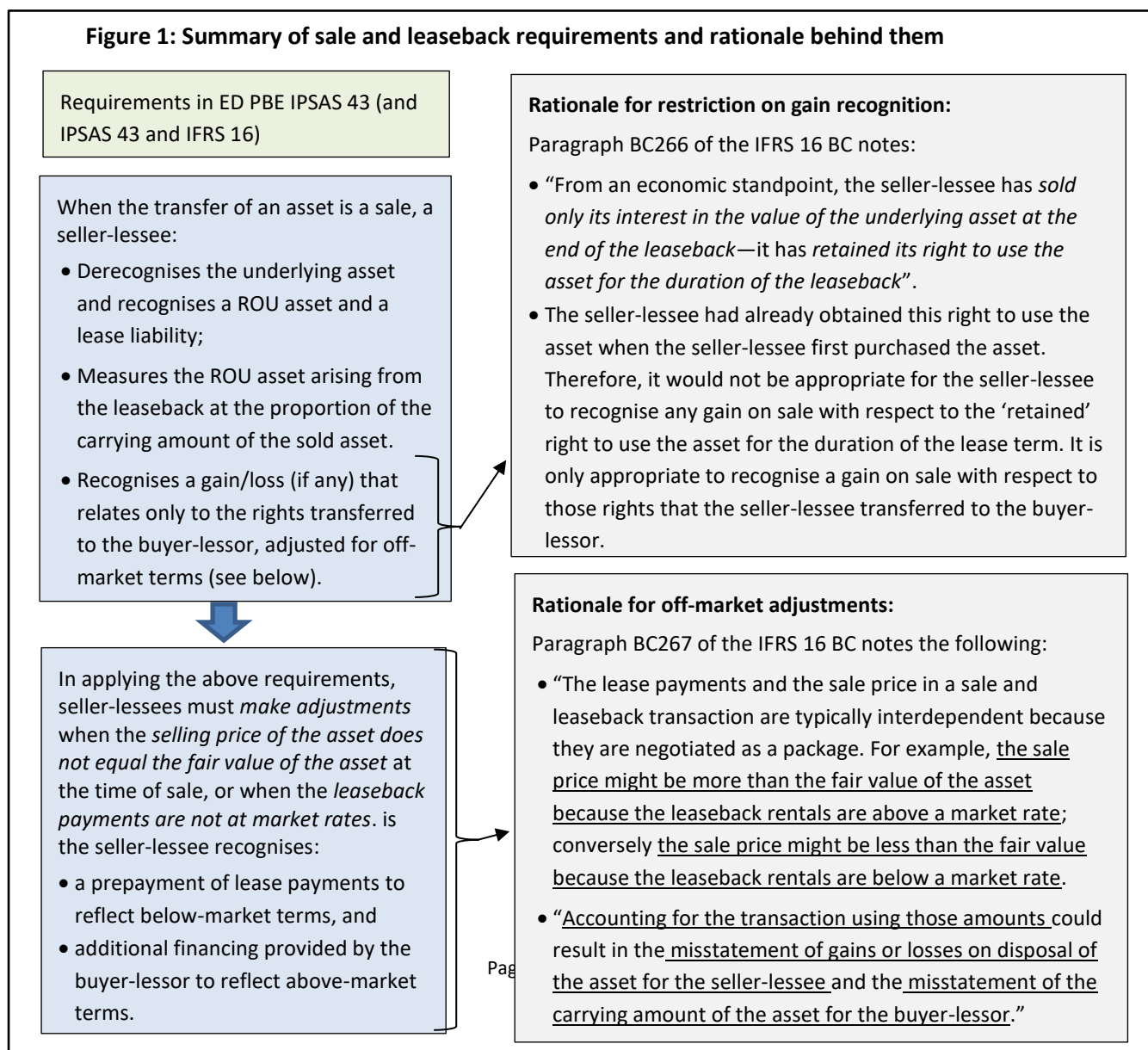
11. In this section, we recommend modifications to draft PBE IPSAS 43 to address two matters raised by the public sector ED respondents: clarifying the wording of the requirements for sale and leaseback transactions, and adding more disclosure concessions for Tier 2 entities.
12. We recommend considering the remaining matters after carrying out the detailed cost/benefit analysis mentioned in the 'next steps' section of this memo.

**Modification 1: Clarification of the requirements for sale and leaseback transactions**

*Background: The proposed accounting requirements for sale and leaseback transactions*

13. The accounting requirements for sale and leaseback transactions in ED PBE IPSAS 43 are identical to the requirements in IPSAS 43, which are in turn based on the requirements in IFRS 16. The rationale for these requirements is explained in the Basis for Conclusions (BC) accompanying IFRS 16. The IPSASB’s BC accompanying IPSAS 43 does not specifically discuss the accounting for sale and leaseback transactions. A high-level summary of the sale and leaseback requirements (focusing on the seller-lessee) and the rationale as per the IFRS 16 BC is provided below.

**Figure 1: Summary of sale and leaseback requirements and rationale behind them**



14. The exact wording of the sale and leaseback requirements as per paragraphs 99–101 of ED PBE IPSAS 43 are included below.

**Figure 2: Extract from ED PBE IPSAS 43 – sale and leaseback transactions**

<b>Sale and Leaseback Transactions</b>
[...]
<i>Transfer of the Asset is a Sale</i>
99. If the transfer of an asset by the seller-lessee satisfies the requirements of NZ IFRS 15 to be accounted for as a sale of the asset:
(a) The seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
(b) The buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.
100. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
(a) Any below-market terms shall be accounted for as a prepayment of lease payments; and
(b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.
101. The entity shall measure any potential adjustment required by paragraph 100 on the basis of the more readily determinable of:
(a) The difference between the fair value of the consideration for the sale and the fair value of the asset; and
(b) The difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

15. Consistently with IPSAS 43 and IFRS 16, there are no specific requirements in the authoritative text of ED PBE IPSAS 43 on how to determine the proportion of the carrying amount of the sold asset that is retained by the seller-lessee as a ROU asset, or how to make adjustments for the off-market terms of a sale and leaseback. However, there is a non-authoritative illustrative example relating to off-market adjustments in a sale and leaseback, and in that example the seller-lessee makes adjustments for off-market terms when calculating the ROU asset and the gain on sale.

*ED feedback on the requirements for sale and leaseback transactions*

16. The Ministry of Education (MOE) recommended to clarify the paragraphs in ED PBE IPSAS 43 that relate to sale and leaseback transactions. Specifically, MOE noted the following.
- (a) The ED includes a New Zealand scope clarification stating that concessionary leases are to be accounted for based on the lease payments as per the lease agreement, and *not based on what the payments would have been at market terms* (and the BC explains

that this is to be reconsidered once the IPSASB finalises its project on concessionary leases).

- (b) However, paragraphs 100–101 of the ED imply that when a sale and leaseback transaction results in a *concessionary lease*, it would be necessary to determine what the lease payments would have been had the lease been at market terms, and to use these market-based amounts when accounting for the sale and leaseback transaction. This seems inconsistent with the abovementioned paragraphs 4.1–4.2.
- (c) Therefore, MOE recommended revising paragraphs 100–101, to clarify that a sale and leaseback transaction resulting in a concessionary lease need not be accounted for based on what the lease payments would have been had the lease been at market terms.

#### *Staff analysis*

17. Staff considerations regarding the above matter raised by MOE are summarised below.

The intention behind the New Zealand scope clarification was to ensure that PBEs are (for now) not required to determine what the market lease payments would have been in a concessionary lease.

- 18. Under paragraphs 100–101 of the ED as currently drafted, if the leaseback payments are not at market terms, then the seller-lessee is required to determine what the lease payments would have been at market terms, and the difference is taken into account in the calculation of the ROU asset and gain/loss on sale (and consequently, the lease liability). This means that in a sale and leaseback transaction where the leaseback is concessionary, the seller-lessee would effectively be required to determine what the lease payments would have been had the lease been at market terms.
- 19. The New Zealand scope clarification paragraph 4.2 says that “in applying the measurement requirements in this Standard, an entity takes into account the amount of lease payments as per the lease agreement, and not the amount of lease payments that would have been charged had the lease been on market terms”. However, this sentence is followed by the caveat “except when this Standard [...] requires or permits a different accounting treatment.”
- 20. It could be argued that the requirement to determine what the lease payments would have been at market terms in paragraphs 100-101 is a case where ‘this Standard requires a different accounting treatment’, and therefore there is no conflict between paragraphs 4.1–4.2 and paragraphs 100–101.
- 21. However: The intention behind paragraphs 4.1–4.2 was to ensure that until we develop specific requirements for concessionary leases (after the IPSASB finalises its project on this topic), New Zealand PBEs would not need to determine what the market lease payments would have been in a concessionary lease, and would not need to take these hypothetical market lease payments into account when applying PBE IPSAS 43. Arguably, this intention applies not only to leases where the lessee did not previously own the asset, but also to sale and leaseback transactions.

IASB rationale for the treatment of off-market terms in a sale and leaseback transaction is consistent with commercial leases, rather than concessionary leases

22. We also note that the IASB’s rationale for the treatment of off-market terms in a sale and leaseback transaction was that the sale price of the asset and the lease payments are negotiated as a package – therefore, if the asset sale price is above fair value, then the lease payments are likely to also be above market terms, and vice versa. Therefore, off-market terms are treated either as additional financing from the buyer-lessor (which the seller-lessee subsequently repays when making lease payments), or as a prepayment of the lease payments by the seller-lessee (meaning that the seller-lessee pays less than market terms during the lease term).
23. The above makes sense in the case of a *commercial lease*. In a commercial lease arrangement, if the buyer-lessor agrees to receive below-market lease payments from the seller-lessee, the buyer-lessor would also expect to acquire the asset at less than fair value.
24. However, in the public sector (and NFP sector), concessionary leases are often provided without the lessor expecting monetary compensation in exchange for the concession. That is, if a public sector seller-lessee and the buyer-lessor enter into a concessionary lease arrangement with respect to the sold asset, whereby the seller-lessee is charged lease payments at below market terms, the buyer-lessor would not necessarily expect to acquire the asset at below fair value. Rather, the buyer-lessor is likely to be providing the concession to the seller-lessee in order to support the seller-lessee in achieving public benefit objectives that are aligned with the objectives of the lessor.

Staff conclusion

25. Based on the consideration above, we think there is merit in modifying the text of paragraphs 100-101 of draft PBE IPSAS 43, to ensure that seller-lessees do not need to determine what lease payments would have been at market terms when the leaseback arrangement is concessionary and the buyer-lessor does not expect direct financial compensation for the fact that the lease payments are below market terms.

*Staff recommendations*

26. To address the matter raised by MOE, we recommend the following modifications to paragraphs 100-101.

**Figure 3: Recommended modifications to the sale and leaseback paragraphs**

<b>Sale and Leaseback Transactions</b>
[...]
100. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates <u>and the arrangement is not a ‘concessionary leaseback’ as described in paragraph 100A</u> , an entity shall make the following adjustments to measure the sale proceeds at fair value:
(a) Any below-market terms shall be accounted for as a prepayment of lease payments; and

<p>(b) Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.</p> <p>101. The entity shall measure any potential adjustment required by paragraph 100 on the basis of the more readily determinable of:</p> <p>(a) The difference between the fair value of the consideration for the sale and the fair value of the asset; and</p> <p>(b) The difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.</p> <p><u>100A. For the purpose of paragraph 100, a ‘concessionary leaseback’ arrangement is one where:</u></p> <p><u>(a) The lease payments are at below market rates; and</u></p> <p><u>(b) The substance of the lease is not commercial, as indicated by the following:</u></p> <p><u>(i) The purpose of setting the lease payments at below market rates is for non-commercial reasons, such as the buyer-lessor wishing to support the seller-lessee in delivering goods or services for community or social benefit; and;</u></p> <p><u>(ii) The determination of the consideration to be paid by the buyer-lessor is not affected by the determination of the lease payments. That is, the consideration to be paid by the buyer-lessor is not set below the asset’s fair value to compensate for the difference between the lease payments and market rates.</u></p> <p><u>100C. When a sale and leaseback transaction results in a ‘concessionary leaseback’ arrangement, an entity does not make the adjustments required by paragraphs 100 and 101.</u></p>
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27. We acknowledge that IPSASB ED 84 *Concessionary Leases and Right-of-Use Assets In-kind* includes proposals relating to sale and leaseback transactions containing a concession. However, we understand that these proposals require *determining what the lease payments would have been had the lease been at market terms*, as explained below.
- (a) IPSASB ED 84 adds paragraphs 97B, which says: “If an entity (the seller-lessee and the buyer-lessor) identifies below-market terms embedded in the leaseback transaction as a concession the seller-lessee shall account for the concession in accordance with IPSAS 23, and the buyer-lessor shall account for the concession in accordance with this Standard. Otherwise, the entity shall account for the below-market terms as prepayments in accordance with paragraph 100(a).”
- (b) IPSASB ED 84 also adds an Illustrative Example for a concessionary sale and leaseback transaction with an ‘embedded concession’ – where a buyer-lessor purchases an asset at fair value, but charges the seller-lessee lease payments that are below market terms, in order to allow the seller-lessee to keep making the asset available to the public (the asset is an architecturally-unique building that attracts tourists to the region, and the buyer-lessor is a local authority). In the Illustrative Example, both the seller-lessee and the buyer-lessor need to determine what the lease payments would have been at market terms in accounting for the sale and leaseback transaction. For example, the seller-lessee uses the present value of the lease payments had the lease been at market terms as an input for calculating the ROU asset as a proportion of the sold asset’s carrying amount.



28. As noted above, we are aiming to avoid a requirement for PBE lessees (and lessors) to determine market-based lease payments for concessionary leases, until we have considered specific requirements for concessionary leases in New Zealand. Therefore, when developing our recommendations to address the MOE's comments regarding concessionary sale and leaseback transactions, we have *not* followed the approach in IPSASB ED 84.
29. We also note that the IASB recently issued the amendments *Lease Liability in a Sale and Leaseback*, which clarify the subsequent measurement of a lease liability resulting from a sale and leaseback transaction. The Board issued these amendments in New Zealand for for-profit entities in November 2022. As per the usual practice under the PBE Policy Approach, the Board had agreed to *wait for the IPSASB* to consider these amendments before proposing to incorporate them into PBE Standards. In light of this decision – and given that the IASB amendments address the *subsequent measurement* of lease liabilities arising from a sale and leaseback, whereas the paragraphs that the MOE recommended to clarify (paragraphs 100–101) address the accounting for a sale and leaseback *at the transaction date* – we did not attempt to incorporate the IASB amendments into our recommended modifications above at this stage.
30. However, we understand that the IPSASB expects to consider the IASB's *Lease Liability in a Sale and Leaseback* as part of its *Improvements to IPSAS, 2023* project – for which an ED is to be published in June 2023, and a final pronouncement is expected in December 2023. If the IPSASB decide to incorporate *Lease Liability in a Sale and Leaseback* into IPSAS 43, we think it would be preferable to incorporate these amendments into PBE IPSAS 43 *before this Standard is issued as final* – to ensure that PBEs do not have to re-work the subsequent measurement of their leaseback liabilities soon after transitioning to PBE IPSAS 43. We therefore plan to consider the incorporation of these amendments into draft PBE IPSAS 43 after carrying out the cost/benefit analysis described in the 'next steps' section.

#### Question for the Board

- Q1. Does the Board agree with staff's recommendations to amend the paragraphs relating to sale and leaseback transactions as per Figure 3 above?

#### **Modification 2: Additional disclosure concessions for Tier 2 PBEs**

*What Tier 2 disclosures concessions were proposed in the ED?*

31. ED PBE IPSAS 43 *Leases* included proposed disclosure concessions for PBEs in Tier 2 ('RDR concessions'). These disclosure concessions were aligned with those provided to Tier 2 for-profit entities under NZ IFRS 16 *Leases*. The Tier 2 disclosure concessions that were proposed in the ED are summarised below:
- (a) Tier 2 PBEs will not be required to provide certain disclosures in tabular format [see paragraphs 57, RDR 57.1 and 90];
  - (b) Lessees in Tier 2 will not be required to disclose a maturity analysis for lease liabilities [see paragraph 61];

- (c) Lessors in Tier 2 will not be required to disclose operating lease revenue relating to variable lease payments that do not depend on an index or a rate separately from other operating lease revenue [see paragraph 89(b) and RDR 89.1];
- (d) Tier 2 PBEs will not be required to provide certain disclosures relating to lease term extension options, lease termination options, residual value guarantees and sale and leaseback transactions [see paragraphs AG51–AG53].

*ED feedback on Tier 2 disclosure concessions*

- 32. Most respondents either agreed with the proposed Tier 2 disclosure concession or did not specifically comment on them. However, the Treasury recommended providing additional RDR concessions, noting the following:

“[...] we suspect that the NZASB could go further in reducing disclosures. It is not clear to us why any information more than the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset, and the carrying amount of lease liabilities is justified for a Tier 2 PBE.”

- 33. Furthermore, while the OAG agreed with the proposed Tier 2 disclosure concessions on the basis that they are consistent with the concessions in NZ IFRS 16, the OAG recommended to undertake a review of the Tier 2 disclosure concessions across all PBE Standards, “to determine if more RDR concessions could be provided”.

*Staff considerations*

- 34. The Tier 2 disclosure concessions in PBE Standards are generally aligned with those provided in for-profit standards. However, in our understanding, neither the New Zealand Accounting Standards Framework nor the PBE Policy Approach prevent the development of Tier 2 disclosure concessions for PBEs that are different to for-profit Tier 2 disclosure concessions.
- 35. Therefore, we consider that there is scope for addressing the abovementioned recommendations from Treasury and the OAG – by adding further disclosure concessions to draft PBE IPSAS 43 *Leases*. We agree that there is benefit in adding further disclosure concessions for Tier 2 PBEs, particularly considering the comment made by one of the NFP ED respondents that many of the entities within the Tier 2 PBE population are smaller than the entities in the Tier 2 for-profit population.
- 36. Having said this: The Treasury recommended that Tier 2 PBEs should only be required to disclose “the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset, and the carrying amount of lease liabilities”. We are not certain that providing only this information regarding leases would be sufficient for the users of Tier 2 PBEs’ financial statements.
- 37. We therefore considered what basis to use when determining what additional Tier 2 disclosure concessions should be added into draft PBE IPSAS 43. Two sources that we have considered as a basis for adding further disclosure concessions were AASB 1060 and the IASB ED *Subsidiaries without Public Accountability: Disclosures* (‘the IASB ED’). Both documents contain more disclosure concessions as compared to the RDR concessions in NZ IFRS 16 – and

therefore, both provide more disclosure concessions as compared with the RDR concessions in draft PBE IPSAS 43. Therefore, both would help reduce disclosure requirements for Tier 2 PBEs as compared to the disclosures proposed in ED PBE IPSAS 43.

38. Ultimately, we decided to use the IASB ED as a basis for recommending additional RDR concessions in draft PBE IPSAS 43. We note that once the IASB ED is issued as final, both New Zealand and Australia would consider using the final Standard as a basis for for-profit RDR concessions. We acknowledge that the IASB ED is not yet a final standard and therefore is subject to change upon finalisation. However, based on IASB discussions to date, the disclosure concessions relating to leases appear unlikely to change.
39. We acknowledge that there may be public sector-specific and NFP-specific reasons to provide even more disclosure concessions than we are recommending based on the IASB ED. We view the disclosure concessions based on the IASB ED (plus the disclosure concessions already included in ED PBE IPSAS 43) as a 'base line' of Tier 2 disclosure concessions. We recommend considering whether to add further disclosure concessions over and above the ones recommended in this memo after staff complete the detailed cost/benefit analysis discussed in the 'next steps' section in this memo.

*Staff recommendations*

40. We recommend adding into draft PBE IPSAS 43 the Tier 2 disclosure concessions shaded in blue in [Appendix 2](#) of this memo – *in addition* to the Tier 2 disclosure concessions that were already included in ED PBE IPSAS 43 (which are shaded in grey in Appendix 2).
41. Examples of suggested additional Tier 2 disclosure concessions include the replacement of certain lessee disclosures regarding specific amounts with a more general requirement to disclose information about certain aspects of the lease for significant leases, simplified maturity analysis requirements, and concessions with respect to most of the specific lessee disclosure paragraphs in the Application Guidance ('AG' paragraphs).

**Question for the Board**

- Q2. Does the Board agree to add the Tier 2 disclosure concessions recommended by staff into draft PBE IPSAS 43 *Leases* (noting that there is scope to consider further concessions at later stage of this project)?

***Plan for addressing the remaining matters raised by ED respondents***

42. We acknowledge that we have not yet addressed all of the matters raised by ED respondents. Our plan for addressing the remaining matters raised is outlined below.
  - (a) We plan to address the following specific matters raised by public sector ED respondents *after* carrying out the detailed cost/benefit analysis outlined in the section 'next steps', as the cost/benefit analysis will inform our response to most of these matters.
    - (i) The Treasury's recommendation to consider the scope of the Standard;

- (ii) Whether to specify a monetary threshold for 'low value' leased assets (several respondents recommended specifying such a threshold); and
  - (iii) Whether to specify that certain types of assets such as photocopiers/multi-function devices are generally considered 'low value' leased assets.
- (b) We acknowledge the comment made in PwC's submission, regarding the inconsistency between the proposed requirement in the ED to measure concessionary leases (and arrangements to use assets for a specified period of time for nil consideration) at cost, and the general requirement in PBE Standards to measure assets received in a non-exchange transaction at fair value. We note that in our Consultation Document and in the ED's Basis for Conclusions, we explained that the abovementioned proposed requirement for accounting at cost will be reconsidered during 'Phase 2' of the lease accounting project, in which we will consider the development of specific requirements for concessionary leases (once the IPSASB finalises its project on concessionary leases).
- (c) Regarding the general concerns raised by the ED respondents from the NFP sector: We have been discussing possible solutions with stakeholders as explained in the next section. However, those NFP stakeholders that we have spoken to continue to raise significant concerns regarding the ROU model in the NFP sector (particularly for Tier 2 NFPs), and they are of the view that practical expedients regarding specific aspects of the model would not go far enough to address these concerns. We believe that carrying out a detailed cost/benefit analysis as described in the 'next steps' section of this memo would inform our recommendations for addressing the NFP stakeholders' concerns. As part of the cost/benefit analysis, we are considering the feasibility of conducting further outreach with the NFP sector regarding the proposed PBE IPSAS 43 – to better understand whether the views expressed by those NFPs who responded to the ED are prevalent in the NFP sector.

#### **Update on recent discussions with New Zealand stakeholders**

43. As noted above, respondents to ED PBE IPSAS 43 from the NFP sector expressed concerns regarding the proposals, noting that the proposed ROU model would be costly and complex to apply, and the cost would outweigh the benefit in the NFP sector.
44. In February 2023, staff proposed to temporarily exempt NFP PBEs from the ROU model and/or from PBE IPSAS 43. However, the majority of the Board did not prefer this option. Rather, the Board agreed that staff should explore practical expedients in relation to the ROU model – with a focus on NFP PBEs in the first instance, given that the concerns are coming from this sector.
45. Following the Board's decision, we have developed possible practical expedients relating to the ROU model. We discussed these possible practical expedients with the Accounting TRG and with those NFP stakeholders who responded to ED PBE IPSAS 43.
46. The main practical expedient that we proposed at the abovementioned discussions related to the discount rate used in determining the lease liability and ROU asset under the ROU model.

Determining the discount rate was a common area of concern among NFP respondents to ED PBE IPSAS 43. We understand that this issue arises for the following reasons.

- (a) Under the proposed PBE IPSAS 43, it is expected that most lessees would use their 'incremental borrowing rate' as the discount rate for calculating the lease liability and ROU asset. Consistently with IPSAS 43 and NZ IFRS 16, the lessee's incremental borrowing rate is a lessee-specific, lease-term-specific and asset-specific rate.
  - (b) While the rate at which the lessee has borrowed from its bank is not necessarily the lessee's incremental borrowing rate (because the rate is also asset-specific), such a borrowing rate could be used as a starting point for calculating the incremental borrowing rate. However, from the ED feedback received, we understand that charities tend to not have borrowings, and therefore would not have a readily-available starting point for determining their incremental borrowing rate. They would have to obtain such a rate from a third party, which some respondents noted would be costly.
47. We therefore discussed with the TRG and NFP stakeholders the possibility of allowing NFP PBEs, or both public sector and NFP PBEs, to use a specified published discount rate (e.g. a risk-free rate corresponding to the lease term) in the calculation of the lease liability and ROU asset. We also discussed certain other practical expedients, as explained below.
48. This section summarises our discussions with the TRG and the NFP stakeholders. Please note that in both discussions, we made it clear to participants that the possible practical expedients we mentioned are staff suggestions and are yet to be discussed with the Board.

### **Discussion with the Accounting TRG**

#### *TRG comments on practical expedients in general*

49. Comments from TRG Members regarding practical expedients in general included the following.
- (a) TRG Members generally agreed that it is worth exploring New Zealand practical expedient(s) regarding the ROU model, especially expedients relating to the discount rate (see below), given the feedback received on ED PBE IPSAS 43 from NFP respondents.
  - (b) TRG Members preferred not to limit the practical expedients to the NFP sector only.
  - (c) Some TRG Members preferred limiting the availability of any New Zealand practical expedients to Tier 2 PBEs only. However, we note that the practical expedients would relate to recognition and measurement – and we understand that under the current New Zealand Accounting Standards Framework, we are not able to provide practical expedients relating to recognition and measurement to Tier 2 entities only. Furthermore, a TRG Member noted that if practical expedients were made available to Tier 2 PBEs only, such PBEs would struggle if and when they have to transition to Tier 1.
  - (d) A TRG Member noted that if we provide practical expedients relating to the ROU model for PBEs, for-profit entities (particularly those in Tier 2) may also request similar practical expedient. In a similar vein, some TRG Members were concerned that any

differences between PBE IPSAS 43 and NZ IFRS 16 could cause confusion and could make reporting more challenging for mixed groups. Nevertheless, as noted above, TRG Members generally acknowledged that possible practical expedients for PBEs should be explored.

*TRG comments on the suggested practical expedient relating to the discount rate*

50. TRG Members noted the following regarding staff's proposed practical expedient that would expressly allow lessees to use a specified published discount rate (e.g. the risk-free rate corresponding to the lease term) as their incremental borrowing rate:
- (a) TRG Members generally agreed that a practical expedient in relation to the discount rate is worth exploring.
  - (b) A TRG Member suggested considering a practical expedient that would allow an entity *not to discount lease payments at all* under the ROU model. He noted that deferred tax assets and liabilities are not discounted. Some TRG Members thought this option is worth exploring due to its simplicity, but others expressed nervousness regarding this option.
  - (c) Two TRG Members noted that a practical expedient allowing entities to discount using a *risk-free rate* as their incremental borrowing rate (as staff suggested) is better than allowing entities not to discount at all.
  - (d) In a similar vein, a TRG Member suggested that a *government bond rate* with a term corresponding to the lease term could be used as a proxy to the incremental borrowing rate.
  - (e) A TRG Member suggested that instead of allowing entities to use the risk-free rate as their incremental borrowing rate, the practical expedient could allow entities to use the *advertised business borrowing rate of one of the main banks*. He noted that even if this rate does not exactly match the lease term, using such a rate would be superior to using the risk-free rate, as the risk-free rate may be 'nowhere near' the rate at which a lessee could borrow.
  - (f) Another TRG Member suggested that there should be a *hierarchy of rates* that could be used as the incremental borrowing rate – similarly to the hierarchy of inputs into fair value measurement. The hierarchy could start from the lessee's specific bank borrowing rate (if available) and then the 'next level down' could be published commercial borrowing rates, then overdraft rates published by the RBNZ, etc. If it is not practical to determine the lessee-specific, asset-specific and term-specific incremental borrowing rate, the lessee would 'work their way down' the hierarchy and select a rate based on the information available to the lessee. A second TRG Members supported the idea of a hierarchy of rates, noting that if information is available to determine the incremental borrowing rate as described in ED PBE IPSAS 43 and NZ IFRS 16, then the lessee should use this information – but when this abovementioned information is not readily available or costly to obtain, the suggested hierarchy of rates would be useful.
  - (g) A TRG Member noted that if an entity finds it challenging to determine the incremental borrowing rate for one lease, e.g. because they do not have bank borrowings where

they could use the borrowing rate as a starting point, then this challenge is likely to apply to all of the entity’s leases. Therefore, it makes sense that a practical expedient relating to the discount rate would apply to *all leases*, when a lessee chooses to apply this expedient. However, another TRG Member thought the decision on what type of rate to use within the abovementioned hierarchy of rates should be made on a lease-by-lease basis.

- (h) As an alternative option, a TRG Member suggested that instead of providing a discount-rate related practical expedient directly in the Standard, we could develop educational material on how the incremental borrowing rate can be determined. Given that the incremental borrowing rate is an estimate, such educational material could refer to the existing requirements and guidance in PBE Standards in relation to *accounting estimates* – and it could explain that for smaller PBEs applying the forthcoming PBE IPSAS 43, the level of precision and the ‘quality’ of the inputs into the estimate need not be as high as for, say a large listed company.

*TRG comments on other possible practical expedients*

51. Staff also sought TRG Members’ views of the following possible practical expedients.

**Table 1 Other possible practical expedients and exemptions**

Possible expedient/exemption	TRG Members’ comments
<p><b>[1] Add another exemption from the ROU model – to exempt a subset of leases</b> from the model (in addition to the existing exemptions for low-value leased assets and short-term leases).</p> <p>For example, we could exempt leases that are <u>not ‘strategically significant’</u> to the entity from the ROU model, or we could exempt <u>leases that do not relate to land/building</u>, etc.</p>	<p>TRG Members did not support this option, noting that:</p> <ul style="list-style-type: none"> <li>• if we provide an exemption for ‘strategically significant’ leases, it would be relatively easy for entities to argue that most/all of their leases are not strategically significant; and</li> <li>• providing an exemption for leases that do not relate to land/buildings would not be desirable, as there are some assets other than land and buildings where application of the ROU model would result in useful and important information.</li> </ul>
<p><b>[2] Low-value leased asset exemption from the ROU model:</b> Enhance the existing exemption by <b>expanding the list of examples of assets that are typically of ‘low value’</b>.</p> <p>For example, we could include <u>photocopiers</u> and/or other assets not currently mentioned in the list of examples of low-value leased assets.</p>	<p>Some TRG Members supported providing additional examples of commonly-leased assets that would generally be considered ‘low value’ leased assets – except that these Members preferred this to be done via educational material/staff guidance, rather than within the Standard.</p>
<p><b>[3] Low-value leased asset exemption from the ROU model:</b> Enhance the guidance relating to the existing exemption – by <b>introducing a monetary threshold</b> for ‘low value’ leased assets, and making that threshold <b>higher than the IASB’s</b> threshold included in the Basis for Conclusions of IFRS 16.</p>	<p>Some TRG Members supported the idea of introducing a low-value leased asset threshold that would be higher than the threshold indicated by the IASB.</p> <p>However, other Members did not support this option – because it would represent a departure from international standards, and because a monetary threshold would need to be monitored and adjusted for inflation, etc.</p>

52. TRG Members also made the following additional suggestions on how to address the concerns raised by the ED respondents from the NFP sector:
- (a) Charities Services could develop a tool for charities to assist in the application of the new lease accounting requirements under the forthcoming PBE IPSAS 43; and
  - (b) A software company that sells lease accounting-related software could possibly offer charities access to a simplified version of the software for free or at a reduced price.

**Roundtable discussion with NFP respondents to ED PBE IPSAS 43**

*Further refinements of the practical expedient relating to the discount rate*

53. Following the discussion with the TRG, we considered how to refine our proposals relating to the discount rate, for the purpose of our roundtable discussion with the ED respondents from the NFP sector. Initially, we considered proposing a ‘hierarchy’ approach, as per the recommendation from one of the TRG Members – i.e. specify several a hierarchy of several types of published rates (see above). However, we ultimately considered that NFPs may find the ‘hierarchy’ approach to be complex.
54. Therefore, for the purpose of the roundtable discussion with the NFP ED respondents, we decided to suggest the same practical expedient that we suggested at the TRG discussion, i.e. a practical expedient would allow lessees to use a specified published discount rate (e.g. the risk-free rate corresponding to the lease term) as their incremental borrowing rate. At the roundtable, we referred to the discount rates published by the Treasury as an example of the specified discount rate that the practical expedient could refer to.
55. Nevertheless, we agreed with TRG Members that if it is feasible/practicable for an entity to use the entity-specific, lease-specific incremental borrowing rate as defined in draft PBE IPSAS 43 (and as aligned with IFRS 16), then the entity should do so.
56. Therefore, based on the above considerations, we suggested that the discount rate requirements in draft PBE IPSAS 43 could be amended as follows:
- (a) Currently, draft PBE IPSAS 43 requires lessees to use the interest rate implicit in the lease as the discount rate for calculating the lease liability, and if that rate is not readily determinable, then the lessee’s incremental borrowing rate must be used.
  - (b) We are considering the possibility of amending this requirement, by specifying that:
    - (i) When the interest rate implicit in the lease is not readily determinable, then there is a *rebuttable presumption* that the lessee uses its incremental borrowing rate – but if the lessee’s incremental borrowing rate is impracticable to determine, then this presumption can be rebutted, in which case the lessee can use the risk-free rate commensurate with the lease term to discount lease payments.
    - (ii) To rebut the abovementioned presumption, the lessee would need reasonable and supportable information that it is impracticable to determine the incremental borrowing rate – e.g. if the lessee has no material borrowings/debt.



*Comments from the NFP stakeholders*

57. Our roundtable discussion was attended by most of the NFP stakeholders who responded to ED PBE IPSAS 43 – including Charities Services staff, staff of a Tier 2 NFP preparer, the director of an accounting firm providing services to small and medium NFPs – as well as an academic who published research on the impact that the ROU model would have on NFPs.
58. Charities Services staff and the academic participant were broadly supportive of our suggested practical expedient regarding the interest rate – noting that a published rate would be easily accessible without additional cost, and specifying a particular published rate that should be used (e.g. the Treasury’s discount rates) would help ensure comparability. The academic participant suggested that 100 basis points should be added to the published discount rate.
59. However, the Tier 2 NFP preparers and the representative of the accounting firm catering for smaller NFPs continued to raise significant concerns regarding the ROU model. They did not think that our suggested practical expedient would help alleviate these concerns, particularly for Tier 2 NFP PBEs. They expressed the following views.
- (a) Instead of considering practical expedients from the ROU model, we should take a step back and consider an exemption from the ROU model for Tier 2 NFPs [Staff note: we understand that we are unable to provide recognition and measurement concessions to Tier 2 entities under the current New Zealand Accounting Standards Framework].
  - (b) The Tier 2 threshold is too low – many of the charities that are in Tier 2 are too small to be required to apply a complex standard such as PBE IPSAS 43.
  - (c) It will be difficult to explain to those charged with the governance of an NFP and to users of NFPs’ financial statements why leased buildings, leased vehicles, etc. are recognised on the balance sheet.
  - (d) Under the ROU model, the interest expense on the lease liability and the depreciation expense on the ROU asset do not match the lease payments – which ‘muddies the waters’ and could be confusing for those charged with an NFP’s governance and for users of the financial statements.
  - (e) For NFPs, particularly those in Tier 2, applying the ROU model would result in no benefits for users of the financial statements – it will not help them understand the financial statements.
  - (f) Debt-to-equity and similar ratios are generally not as important to NFPs as they are to for-profit entities.
  - (g) If we allow PBEs to use a specified published discount rate only when it is ‘not practicable’ to use the incremental borrowing rate as defined in the Standard, entities will need to spend time and money on ‘proving’ that it is not practicable for them to determine the incremental borrowing rate.
  - (h) To avoid applying the ROU model, NFPs would renegotiate their lease agreements to make the lease term 12 months or less, so that the ‘short-term lease’ exemption from the

ROU model would apply. However, lessors charge higher rentals for short-term leases, therefore NFPs will be facing higher leasing costs.

60. One of the participants who expressed the concerns above suggested that if the ROU model were to become mandatory for NFPs, then it should be restricted to leases that are above a certain quantum, e.g. X% of PP&E or of the entity's 'overall activities' – to ensure that ROU information is provided only where it is meaningful.
61. A participant also noted that the number of ED submissions/responses that we received from the NFP sector was not high. They thought it is possible that many NFPs have not engaged with the proposed Standard or do not understand it, which might be an issue.

***Staff considerations following the TRG discussion and NFP roundtable***

62. While both discussions resulted in useful feedback for staff and the Board's consideration, the feedback from the NFP roundtable prompted us to consider carrying out a detailed cost/benefit assessment with respect to the proposed Standard before proceeding with its finalisation. More information is provided in the next section.

**Next steps**

63. We think it is necessary to conduct a cost benefit assessment of what PBE IPSAS 43 would entail in New Zealand, both from the not-for-profit and the public sector perspectives – with a view to confirm the appropriate scope of the Standard.
64. We have heard clear concerns from not-for-profits with regards to PBE IPSAS 43. While we have received general support from the public sector for incorporating IPSAS 43 into PBE Standards (and have had similar feedback in past consultations about the IPSASB EDs on leases), we note on-going concerns regarding the scope of PBE IPSAS 43. For example, the Treasury's submission asked us to consider more broadly the scope of the standard, particularly as it relates to concessionary leases, and to do broader thinking about other lease-type arrangements, and MOE raised questions and concerns about leases of school buildings. In re-considering these comments we note that they apply to the scope of leases more broadly, and not just from a concessionary lease viewpoint. Additionally, we are hearing informal feedback that there is concern with the cost of implementing PBE IPSAS 43, based on feedback the sector has heard from the for-profit sector with their experience of NZ IFRS 16.
65. Taking the above into account, we consider it important to understand what public sector and not-for-profit arrangements would likely be in the scope of PBE IPSAS 43 – and whether the cost/benefit considerations regarding PBE IPSAS 43 'stack up' for these arrangements.
66. We have applied the PBE Policy Approach to IPSAS 43 (which includes consideration of costs and benefits) – but our PBE Policy Approach includes a rebuttable presumption that we will adopt a new IPSAS – and this rebuttable presumption assumes that the IPSASB considered the costs and benefits for the public sector. We note that while the IPSASB mentions cost/benefit considerations in the BC of IPSAS 43, these considerations seem to rely heavily on the benefit

of alignment with IFRS. It does not look like the IPSASB did a detailed cost/benefit analysis for IPSAS 43 in the public sector context.

67. The cost benefit analysis that we plan to undertake with respect to PBE IPSAS 43 would include:
- (a) Building a high-level picture of the population of leased assets that would be in scope.
    - (i) For council and not-for-profit data, we can leverage research performed by Tom Scott on this topic.
    - (ii) Analysis can be performed in conjunction with Treasury for public sector focusing on significant groupings of leased assets.
  - (b) Assessing at a high level what would be brought onto balance sheets and the cost of doing so, both from an implementation perspective and an on-going perspective.
  - (c) Considering what New Zealand users of PBE financial statements want to know regarding leases, and whether other information is available which meets their needs already, such as considering the 5 year planning process for the public sector.
  - (d) Considering the importance of international alignment in this area.
  - (e) Concluding whether the benefits of applying the Standard as currently proposed would outweigh the costs in NZ; This would be considered separately for Tier 1 public sector, Tier 2 public sector, Tier 1 NFP and Tier 2 NFP.
68. The outcome of the cost benefit analysis would then drive the next stages in this project.

**Question for the Board**

- Q3. Does the Board have any feedback on staff's plan to conduct a detailed cost/benefit analysis with respect to draft PBE IPSAS 43, in the context of the public and NFP sectors?

## Appendix 1A: PBE Leases project timeline

Date	Project activity
Jan 2018	IPSASB issues IPSASB ED 64 <i>Leases</i> – which includes lessee accounting proposals aligned with IFRS 16 <i>Leases</i> , but also proposals to introduce the ROU model for lessors, and proposals for the fair value measurement of concessionary leases.
Feb-May 2018	XRB carried out broad outreach in New Zealand on IPSASB ED 64 (including roundtables, etc.) Feedback indicated broad support for the proposed ROU model for PBE <i>lessees</i> , except in relation to concessionary leases and other lease-type arrangements
Jun 2018	NZASB submitted comments on IPSASB ED 64 <i>Leases</i>
Jan 2021	IPSASB issued IPSASB ED 75 <i>Leases</i> – proposals aligned with IFRS 16 <i>Leases</i> (for lessees and lessors) Separate Request for Information (RFI) issued on <i>Concessionary Leases and Other Arrangements Similar to Leases</i>
Feb 2021	XRB carried out broad outreach in New Zealand on IPSASB ED 75 <i>Leases</i> and received feedback on the RFI
May 2021	NZASB submitted comments on IPSASB ED 75 <i>Leases</i> and the RFI
Jan 2022	IPSASB issued IPSAS 43 <i>Leases</i> – aligned with ED 75 proposals and IFRS 16 No specific requirements for concessionary leases, and public sector arrangements that are similar to leases are scoped out – considered separately under the project <i>Other Lease-type Arrangements</i> .
Feb 2022	NZASB applied the PBE Policy Approach and agreed that it should propose incorporating the requirements in IPSAS 43 into PBE Standards – and not wait for the project on concessionary leases and public sector arrangements that are similar to leases to be completed.  The NZASB agreed in principle to allow for a long effective date to enable PBEs the option to adopt the new lease accounting requirement early (this was considered important for mixed group entities).
Apr 2022	NZASB discussed whether to make certain modification to IPSAS 43 – to enhance the appropriateness and usefulness of this standard for New Zealand PBEs and the users of their financial statements
Jun 2022	NZASB discussed a working draft of the ED and Consultation Document
<b>August 2022</b>	<b>NZASB APPROVED ED PBE IPSAS 43 <i>Leases</i> and Consultation Document for publication</b>
Aug–Nov 2022	Staff undertook outreach activities – including publicising the consultation in our newsletter and on LinkedIn, recording and publishing a ‘walkthrough webcast’ on the consultation, reaching out to key PBE stakeholders.
<b>25 Nov 2022</b>	<b>Consultation closed – 11 formal and informal submissions received</b>
Dec 2022 – Jan 2023	Staff analysed feedback received on the EDs
Jan 2023	IPSASB issued ED 84: <i>Concessionary Leases and Other Lease-type Arrangements</i>
Feb 2023	<ul style="list-style-type: none"> <li>• NZASB discussed its approach to IPSASB ED 84: <i>Concessionary Leases and ROU Assets In-kind</i></li> <li>• Staff presented analysis of feedback received on ED PBE IPSAS 43 <i>Leases</i> and sought NZASB’s strategic direction for this project. NZASB agreed: <ul style="list-style-type: none"> <li>○ not to defer the publication of PBE IPSAS 43 until NZ requirements for concessionary leases are developed; and</li> <li>○ that staff should explore practical expedients in relation to the ROU model, focusing on not-for-profit PBEs in the first instance (narrow majority, with the Board having split views).</li> </ul> </li> </ul>
This meeting	<ul style="list-style-type: none"> <li>• Staff seeking NZASB agreement to make modification to PBE IPSAS 43 based on ED feedback – namely, to clarify the sale and leaseback requirements and increase RDR concessions for Tier 2.</li> <li>• Staff seeking NZASB feedback on the plan to carry out detailed cost/benefit analysis regarding PBE IPSAS 43, to confirm the appropriate scope of the Standard.</li> </ul>
FUTURE:	
2023	Staff to carry out cost-benefit analysis with respect to PBE IPSAS 43 – which will determine the next steps of this project and the timing of the next steps.
1 Jan 2027	PBE IPSAS 43 becomes effective for periods beginning on or after this date as currently proposed.

**Appendix 1B: Summary of ED PBE IPSAS 43 and the accompanying Consultation Document**

<p><b>ED</b> (To view the ED in full, click <a href="#">here</a>)</p>	<ul style="list-style-type: none"> <li>• Main proposal: PBE <i>lessees</i> to account for most leases using the ROU model, where the lessee recognises on the balance sheet:             <ul style="list-style-type: none"> <li>○ a lease liability, representing the obligation for the future lease payments (based on lease payments discounted to present value); and</li> <li>○ a ROU asset, representing the right to use the leased asset for a specified period of time (based on the lease liability with adjustments where relevant)</li> </ul> </li> <li>• Exemptions from the ROU model for lessees:             <ul style="list-style-type: none"> <li>○ Short-term leases (lease term shorter than 12 months); and</li> <li>○ Leases of low-value assets (consistent with IPSAS 43, ‘low value’ is determined for each individual leased asset and on absolute basis, examples are provided but a monetary threshold is not indicated).</li> </ul> </li> <li>• Proposals are based on IPSAS 43 <i>Leases</i>, with limited NZ modifications:             <ul style="list-style-type: none"> <li>○ Clarification for concessionary leases (see below);</li> <li>○ RDR concessions for Tier 2 PBEs, aligned with Tier 2 for-profit RDR concessions in NZ IFRS 16;</li> <li>○ Minor modification to align with PBE Standards terminology and to take into account differences between IPSAS and PBE Standards (e.g. consequential amendments to those PBE Standards that are not based on IPSAS, etc).</li> </ul> </li> <li>• NZ clarification for concessionary leases:             <ul style="list-style-type: none"> <li>○ Concessionary leases that meet the definition of a lease are within the scope of the proposed Standard;</li> <li>○ However, concessionary leases are accounted for based on the lease payments as per the lease agreement (rather than the payments that would have been charged had the lease been at market terms);</li> <li>○ Furthermore, concessionary leases and arrangements to use an asset for a specified period for no consideration are excluded from the scope and fair value measurement requirements of PBE IPSAS 23.</li> <li>○ The above clarifications will be reconsidered once the IPSASB finalises its project on <i>Concessionary Leases and Other Lease-type Arrangements</i></li> </ul> </li> </ul>
<p><b>Consultation Document</b> (To view the document in full, click <a href="#">here</a>)</p>	<ul style="list-style-type: none"> <li>• Highlighted the benefits of the proposals, including:             <ul style="list-style-type: none"> <li>○ International alignment with IPSASB and IASB – allowing PBEs to benefit from the latest international thinking on lease accounting.</li> <li>○ Greater transparency around leases in lessees’ financial statements,</li> <li>○ Easier reporting for ‘mixed groups’ containing PBEs and for-profit entities (due to alignment with NZ IFRS 16).</li> </ul> </li> <li>• Asked specific questions about:             <ul style="list-style-type: none"> <li>○ The proposed New Zealand clarification for concessionary leases (see above);</li> <li>○ Whether to modify the IPSASB’s requirements for low-value leased assets (no modifications proposed in the ED);</li> <li>○ The proposed RDR concessions (see the left column);</li> <li>○ The proposed ‘long’ effective date – 1 January 2027; and</li> </ul> </li> <li>• Any other comments on the ED.</li> </ul>

**Appendix 1C: Summary of ED feedback**

We have received formal and informal/online submissions on ED PBE IPSAS 43 *Leases* from 11 respondents. The respondents and a high-level summary of their response is shown below. In summary, the responses indicate that:

- (a) from a public sector perspective, there is general support for incorporating IPSAS 43-based requirements into PBE Standards, with some suggested refinements and additional considerations – and with some concerns regarding concessionary leases;
- (b) By contrast, NFP respondents have concerns that the proposed requirements are overly complex and the cost of applying them would outweigh the benefits for NFP PBEs and the users of their financial statements.

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
Formal submissions				
R1	Auckland Council	Public sector PBE preparer, Tier 1	Supports the proposed new Standard in general, with some recommended amendments	<ul style="list-style-type: none"> <li>• Supports the scope clarification for concessionary leases (and would not support fair value measurement for concessionary leases)</li> <li>• Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset, but recommends:                             <ul style="list-style-type: none"> <li>○ adding a monetary threshold for low value; and</li> <li>○ specifying that photocopiers are low-value leased assets.</li> </ul> </li> <li>• Supports the proposed RDR concessions.</li> <li>• Supports the proposed effective date of 1 Jan 2027.</li> </ul>
R2	Charities Services	Charities regulator	Passed on comments from its constituents (charities) – who generally do not support the proposed new Standard	Charities Services’ constituents noted that the proposed requirements are complex and the costs would exceed the benefits for charities. (Respondent did not answer the specific questions in the Consultation Document)

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
R3	New Zealand Family Planning	NFP PBE preparer, Tier 2	Does not support the proposed new Standard for NFPs (particularly Tier 2 NFPs such as itself)	Considers the proposed requirements to be complex and that the costs would exceed the benefits for NFPs. (Respondent did not answer the specific questions in the Consultation Document)
R4	Ministry of Education	Public sector PBE preparer, Tier 1	Supports the proposed new Standard in general, with some recommended amendments	<ul style="list-style-type: none"> <li>• Supports the scope clarification for concessionary leases – but, raises an issue relating to sale and leaseback transactions (the sale and leaseback requirements as currently drafted could be read as requiring the recognition of the ROU asset arising from a leaseback at fair value);</li> <li>• Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset – but, recommends adding a monetary threshold.</li> <li>• Supports the proposed RDR concessions.</li> <li>• Supports the proposed effective date of 1 Jan 2027.</li> <li>• Makes additional recommendations, e.g. around the Treasury setting discount rates.</li> <li>• Would not support fair value measurement for concessionary leases.</li> </ul>
R5	OAG	Public sector agency	Supports the proposed new Standard in general, with some recommended changes	<ul style="list-style-type: none"> <li>• Supports the scope clarification for concessionary leases, but: <ul style="list-style-type: none"> <li>○ Recommends clarifying in the BC that PBEs who currently measure concessionary leases at fair value can continue this practice until PBE IPSAS 43 becomes effective and specific requirements for concessionary leases are developed.</li> </ul> </li> <li>• Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset.</li> <li>• Supports the proposed RDR concessions for now – but suggests revisiting the suite of RDR concessions at a later stage.</li> <li>• Supports the proposed effective date of 1 Jan 2027.</li> </ul>

#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
R6	PwC	Accounting firm – various clients	Supports the proposed new Standard in general, with some recommended amendments	<ul style="list-style-type: none"> <li>• Supports the scope clarification for concessionary leases in general, but:               <ul style="list-style-type: none"> <li>○ Notes that the scope clarification for concessionary leases is inconsistent with the general principle of PBE IPSAS 23 to use fair value measurement for non-exchange transactions wherever possible; and</li> <li>○ Is concerned that the scope clarification for concessionary leases would provide structuring opportunities for entities wanting to avoid the fair value requirements of PBE IPSAS 23.</li> </ul> </li> <li>• Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset- but, recommends adding a monetary threshold for low-valued leased assets.</li> <li>• Supports the proposed RDR concessions.</li> <li>• Supports the proposed effective date of 1 Jan 2027.</li> </ul>
R7	The Treasury	Public sector agency – and public sector preparer, Tier 1 (NZ Government)	Supports the proposed new Standard in general, with some recommended amendments, with the understanding that this Standard represents an 'interim' step and concessionary leases are yet to be considered. Recommends deeper and broader consideration of concessionary leases and lease-type arrangements in Phase 2 of the project.	<ul style="list-style-type: none"> <li>• Supports the scope clarification for concessionary leases, but as an interim solution only – with further work to be performed regarding concessionary leases and lease-type arrangements (see below).</li> <li>• Supports the low-value leased asset exemption being determined on an absolute basis for each individual asset – but, recommends adding a monetary threshold.</li> <li>• Recommends further RDR concessions for Tier 2 PBEs.</li> <li>• Supports the proposed effective date of 1 Jan 2027.</li> <li>• Recommends deeper and broader consideration of concessionary leases and lease-type arrangements as part of Phase 2 of the project – specifically, to consider the following:               <ul style="list-style-type: none"> <li>○ <u>Consider whether certain concessionary leases that meet the definition of a lease should nevertheless be excluded from the scope of PBE IPSAS 43:</u> This is because the IFRS 16-based ROU model is based on the 'foundational presumption' that leases are financing arrangements, whereas many concessionary leases are not financing arrangements, even though they meet the definition of a lease as per ED PBE IPSAS 43. The Treasury considers that "characterising a concessional lease as an operating subsidy is a more fair reflection of its economic substance than reporting it as a financial obligation".</li> <li>○ <u>Consider broader range 'right to use' arrangements (which might not meet the definition of a lease) that the public sector is involved in:</u> The Treasury note that in the public sector, there are various 'rights to use' arrangements relating to property that involve transferring rights to a lessee, or to a proprietor/kaitiaki, or to a lessee. These rights may include a right to use the asset and direct its use, or just to use the asset but not direct its use, or both types of rights. The Treasury recommends taking a holistic approach to the development of financial reporting requirements for public sector arrangements that involve the transfer of rights over property (which may or may not meet the definition of a lease as per PBE IPSAS 43).</li> </ul> </li> </ul>



#	Respondent name	Respondent type	General direction of response	Summary of response by question/topic
Online feedback				
R8	Professor Tom Scott, AUT	Academic	Shared research findings indicating that the proposals would result in benefits without material costs for Councils (public sector PBEs), but for charities there would be a material impact in terms of costs and challenges	<p>Research indicates that:</p> <ul style="list-style-type: none"> <li>• For local councils (public sector PBEs), the proposed requirements would result in more information in the financial statements without material costs, and may be beneficial for those councils that access debt markets.</li> <li>• However, the proposed requirements would materially affect charities through both technical accounting challenges and operational challenges. <ul style="list-style-type: none"> <li>○ Technical challenges could arise due to difficulties in determining the discount rate, particularly given that charities tend to not have borrowings.</li> <li>○ Operational challenges could arise because the proposed requirements are likely to cause charities to have 'debt' for the first time, which may either go against the charity's constitution, and/or it may be viewed unfavourably by the charity's stakeholders.</li> </ul> </li> </ul> <p>(Respondent did not answer the specific questions in the Consultation Document)</p>
R9	Nicol O'Donnell, Aviva (incorp. Christchurch Women's Refuge) Charitable Trust	NFP PBE preparer, Tier 2	Does not support the proposed new Standard	<p>Considers that the proposed requirements are complex and that the costs would exceed the benefits for NFPs.</p> <p>(Respondent did not answer the specific questions in the Consultation Document)</p>
R10	Anne Topham, Peak Chartered Accountants Limited	Accounting firm – clients include SMEs, NFPs, farms, Māori authorities and schools	Does not support the proposed new Standard for Tier 2 NFP and Tier 2 public sector PBEs	<p>Considers that the proposed requirements are complex and that the costs would exceed the benefits.</p> <p>(Respondent did not answer the specific questions in the Consultation Document)</p>
R11	Clare Randall, Arohanui Hospice	NFP Preparer, Tier 2	Does not support the proposed new Standard for NFPs	<p>Considers that the proposed requirements are complex and that the costs would exceed the benefits.</p> <p>(Respondent did not answer the specific questions in the Consultation Document)</p>

## Appendix 2: Recommended additional Tier 2 disclosure concessions

We have included below the disclosure-related paragraphs from ED PBE IPSAS 43 *Leases*, with recommended additional Tier 2 concessions highlighted in blue. The recommended additional disclosure concessions are based on those provided in IASB ED *Subsidiaries without Public Accountability: Disclosures*. The Tier 2 disclosure concessions that were already included in ED PBE IPSAS 43 *Leases* are highlighted in grey. Certain presentation requirements have also been included for completeness and context (no Tier 2 disclosure concessions are proposed with respect to presentation requirements, consistently with the IASB ED).

### Lessee

[...]

#### Presentation

50. A lessee shall either present in the statement of financial position, or disclose in the notes:
- (a) Right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:
    - (i) Include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
    - (ii) Disclose which line items in the statement of financial position include those right-of-use assets.
  - (b) Lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

[...]

52. In the statement of financial performance, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. [...].

[...]

#### Disclosure

54. The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 55–64 specify requirements on how to meet this objective.
55. A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.
56. A lessee shall disclose the following amounts for the reporting period:
- (a) Depreciation charge for right-of-use assets by class of underlying asset;
  - (b) Interest expense on lease liabilities;
  - (c) The expense relating to short-term leases accounted for applying paragraph 7. This expense need not include the expense relating to leases with a lease term of one month or less;
  - (d) The expense relating to leases of low-value assets accounted for applying paragraph 7. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 56(c);

- (e) The expense relating to variable lease payments not included in the measurement of lease liabilities;
  - \* (f) Revenue from subleasing right-of-use assets;
  - (g) Total cash outflow for leases;
  - (h) Additions to right-of-use assets;
  - \* (i) Gains or losses arising from sale and leaseback transactions; and
  - (j) The carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.
- \*57. A lessee shall provide the disclosures specified in paragraph 56 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- RDR 57.1 The amounts disclosed in accordance with paragraph 56 shall include costs that a Tier 2 lessee has included in the carrying amount of another asset during the reporting period
58. A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 7 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 56(c) relates.
59. If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in PBE IPSAS 16. In that case, a lessee is not required to provide the disclosures in paragraph 56(a), 56(f), 56(h) or 56(j) for those right-of-use assets.
60. If a lessee measures right-of-use assets at revalued amounts applying PBE IPSAS 17, the lessee shall disclose the information required by paragraph 92 of PBE IPSAS 17 for those right-of-use assets.
- \*61. A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 46 and AG12 of PBE IPSAS 30 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.
62. In addition to the disclosures required in paragraphs 56–61, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 54 (as described in paragraph AG49). This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- (a) The nature of the lessee’s leasing activities;
  - \* (b) Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
    - (i) Variable lease payments (as described in paragraph AG50);
    - (ii) Extension options and termination options (as described in paragraph AG51);
    - (iii) Residual value guarantees (as described in paragraph AG52); and
    - (iv) Leases not yet commenced to which the lessee is committed.
  - (c) Restrictions or covenants imposed by leases; and
  - (d) Sale and leaseback transactions (as described in paragraph AG53).
- RDR 62.1 A Tier 2 entity shall disclose, with respect to significant leasing arrangements, information relating to variable lease payments, extension options and termination options and subleases that is necessary to meet the disclosure objective in paragraph 54.
- 63 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 7 shall disclose that fact.

[...]

**Lessor**

[...]

**Disclosure**

88. **The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of financial performance and cash flow statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 89–96 specify requirements on how to meet this objective.**

89. A lessor shall disclose the following amounts for the reporting period:

(a) For finance leases:

\***(i) Selling surplus or deficit;**

(ii) Finance revenue on the net investment in the lease; and

(iii) Revenue relating to variable lease payments not included in the measurement of the net investment in the lease.

\***(b) For operating leases, lease revenue, separately disclosing revenue relating to variable lease payments that do not depend on an index or a rate.**

RDR 89.1 For operating leases, a Tier 2 entity shall disclose lease revenue.

\*90 A lessor shall provide the disclosures specified in paragraph 89 in a tabular format, unless another format is more appropriate.

91. A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 88. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

(i) The nature of the lessor's leasing activities; and

\***(ii) How the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.**

*Finance Leases*

92. A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.

\*93 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance revenue relating to the lease payments receivable and any discounted unguaranteed residual value.

RDR 93.1 A Tier 2 lessor shall also disclose the undiscounted lease payments receivable at the end of the reporting period:

(i) not later than one year from the reporting date;

(ii) later than one year and up to five years from the reporting date; and

(iii) later than five years from the reporting date.

A Tier 2 lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance revenue relating to the lease payments receivable and any discounted unguaranteed residual value.

*Operating Leases*

94. For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of PBE IPSAS 17. In applying the disclosure requirements in PBE IPSAS 17, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by PBE IPSAS 17 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.
95. A lessor shall apply the disclosure requirements in PBE IPSAS 16, PBE IPSAS 21 or PBE IPSAS 26, as appropriate, PBE IPSAS 27 and PBE IPSAS 31 for assets subject to operating leases.
- \*96. A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

RDR 96.1 A Tier 2 lessor shall disclose the future lease payments receivable:

- (i) no later than one year from the reporting date;
- (ii) later than one year and up to five years from the reporting date; and
- (iii) later than five years from the reporting date;

[...]

**Effective Date and Transition**

[...]

*Definition of a Lease*

108. If an entity chooses the practical expedient in paragraph 107, it shall disclose that fact and apply the practical expedient to all of its contracts. [...]. [*Paragraph 107 provides a practical expedient whereby an entity is not required to reassess whether an arrangement is a lease or not upon first-time application of the Standard*]

[...]

*Lessees**Leases Previously Classified as Operating Leases*

114. A lessee may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph 109(b) to leases previously classified as operating leases applying PBE IPSAS 13. [...] [*Paragraph 109(b) permits transition using the 'modified retrospective approach'*]
- (c) A lessee may elect not to apply the requirements in paragraph 112 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall:
    - (i) Account for those leases in the same way as short-term leases as described in paragraph 7; and
    - (ii) Include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

[...]

*Disclosure*

116. If a lessee elects to apply this Standard in accordance with paragraph 109(b) [*Paragraph 109(b) permits transition using the 'modified retrospective approach'*], the lessee shall disclose information about initial application required by paragraph 33 of PBE IPSAS 3, except for the information specified in paragraph 33(f) of PBE IPSAS 3. Instead of the information specified in paragraph 33(f) of PBE IPSAS 3, the lessee shall disclose:

- (a) The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and
- (b) An explanation of any difference between:
  - (i) Operating lease commitments disclosed applying PBE IPSAS 13 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph 112(a); and
  - (ii) Lease liabilities recognised in the statement of financial position at the date of initial application.

117. If a lessee uses one or more of the specified practical expedients in paragraph 114, it shall disclose that fact.  
[...]

## Appendix A

### Application Guidance

*This Appendix is an integral part of PBE IPSAS 43.*

[...]

#### Lessee Disclosures (paragraph 62)

AG49. In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 54, a lessee shall consider:

- (a) Whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 62 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:
  - (i) The flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.
  - (ii) Restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.
  - \*(iii) Sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.
  - \*(iv) Exposure to other risks arising from leases.
  - \*(v) Deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.
- (b) Whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.

\*AG50. Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

- (c) The lessee's reasons for using variable lease payments and the prevalence of those payments;
- (d) The relative magnitude of variable lease payments to fixed payments;

- (e) Key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and
- (f) Other operational and financial effects of variable lease payments.

\*AG51 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

- \* (a) The lessee's reasons for using extension options or termination options and the prevalence of those options;
- \* (b) The relative magnitude of optional lease payments to lease payments;
- \* (c) The prevalence of the exercise of options that were not included in the measurement of lease liabilities; and
- \* (d) Other operational and financial effects of those options.

\*AG52 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

- \* (a) The lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;
- \* (b) The magnitude of a lessee's exposure to residual value risk;
- \* (c) The nature of underlying assets for which those guarantees are provided; and
- \* (d) Other operational and financial effects of those guarantees.

\*AG53 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 54 could include information that helps users of financial statements to assess, for example:

- (g) The lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;
- (h) Key terms and conditions of individual sale and leaseback transactions;
- (i) Payments not included in the measurement of lease liabilities; and
- (j) The cash flow effect of sale and leaseback transactions in the reporting period.

[\[Back to Question 2 – question for the Board regarding the additional Tier 2 disclosure concessions\]](#)