Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Post-implementation Review of AASB 16 *Leases*	**Meeting:**	AASB August 2026 (M222)
Topic:	Concessionary leases in the NFP public sector–detailed summary of feedback	**Agenda Item:**	7.2
		Date:	13 August 2026
Contact(s):	Jia Wei jwei@aasb.gov.au Kim Carney kcarney@aasb.gov.au Patricia Au pau@aasb.gov.au Eric Lee elee@aasb.gov.au	**Project Priority:**	Medium
		Decision-Making:	High
		Project Status:	Consider stakeholder feedback and decide on next steps

The objective of this paper

1 This paper reproduces relevant extracts from Agenda Paper 5.1 considered by the Board at its May 2026 meeting (M220), comprising feedback received in response to Topic 5 of ITC 55 *Post-implementation Review of AASB 16* Leases (June 2025) on the initial measurement of right-of-use (ROU) assets arising from concessionary leases recognised by not-for-profit (NFP) public sector lessees.

2 This paper is provided to support the Board's consideration of Agenda Paper 7.1. It does not include any questions for Board members.

Detailed feedback on NFP public sector concessionary leases

> Regarding NFP public sector concessionary leases, do you have any comments about:
> 1. whether there are any reasons to remove the current accounting policy choice to measure initially concessionary ROU assets at either cost or fair value?
> 2. whether the temporary accounting policy choice for NFP public sector entities should be made permanent?
> 3. whether the disclosures prepared in accordance with paragraphs Aus59.1 and Aus59.2 of AASB 16 are sufficient in providing useful information to financial statement users regarding concessionary leases when the ROU assets are measured at cost?
>
> If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful. .

3 Of the 11 comment letters received, seven provided feedback on concessionary leases: Australian Bureau of Statistics (ABS), the Australasian Council of Auditors-General (ACAG), CA ANZ, CPA Australia, Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), KPMG and Stevenson McGregor Rugers (SMR), with additional observations from roundtable attendees and Disclosure Initiative Project Advisory Panel (DIPAP) members.

Accounting Policy Choice

4 Respondents expressed divergent views on the appropriate accounting policy for measuring concessionary ROU assets in the NFP public sector. While a majority supported **making the existing policy choice between cost and fair value permanent**, citing flexibility and practicality, others opposed retaining the cost option, some did not agree.

5 Respondents including eight of the nine Australian jurisdictions represented on ACAG, CA ANZ, CPA Australia, HoTARAC, KPMG and SMR strongly supported making the current accounting policy choice permanent, enabling NFP public sector entities to measure concessionary ROU assets at cost or fair value. They noted that flexibility is essential given the unique nature of concessionary lease arrangements. KPMG also observed that uncertainty remains because the AASB has not expressly confirmed that the policy choice is permanent for the public sector, although this has been clarified for NFP private sector entities.

6 However, ABS opposed retaining the cost-model option, preferring fair value to maintain alignment with Government Finance Statistics (GFS) principles. Under GFS principles all assets and liabilities should ideally be measured at their current market value. As this can sometimes be challenging to obtain, ABS has accepted an equivalent, which to date has been fair value. If NFP public sector entities continue to be permitted to use the cost method, this means the resulting data will not be consistent with GFS. One ACAG jurisdiction also supports fair value measurement only on conceptual grounds, observing that:

(a) Fair value is conceptually about current cost accounting, and this information supports fee setting and reflects the current cost of service delivery.

(b) Knowing the value of resources received by public sector entities is essential for informed decision-making by governments, Parliament, agencies, and the community, consistent with AASB 1058 *Income of Not-for-Profit Entities* requirements for assets provided free of charge.

(c) There is no justification for treating concessionary leases differently from other 'benefits' such as volunteer services and complex intangible assets that are transferred and whose fair value may be difficult to determine.

(d) If fair value is not required, anomalies may arise, such as when a lessor derecognises an asset under a concessionary finance sublease while the lessee records only nominal consideration. This results in the asset's fair value not being shown in the financial statements, reducing the usefulness of the information.

(e) The cost versus benefits argument may not be justifiable as there are other non-financial physical assets that may be equally as complex to fair value that are not exempt from the requirement. The more significant challenge is capability, as some preparers mistakenly attempt to value the underlying asset rather than the ROU asset. Standard-setters need to provide clearer guidance to address this.

(f) Offering a permanent option to avoid fair value for concessionary leases would be inconsistent with the International Public Sector Accounting Standards Board's (IPSASB) approach.

Retaining the Cost Option

7 SMR stated that although fair value can provide relevant information, it is often very difficult for specialised public assets with no market rentals for comparison. They emphasised that fair value should remain an available option but not be mandated.

8 HoTARAC similarly supported retaining the cost model, noting that fair value measurement for concessionary leases is costly, complex and frequently requires external valuers, while disclosures under the cost model have proven sufficient. They also consider the costs of fair value outweigh any potential benefits for financial statement users.

9 CPA Australia provided examples such as perpetual land leases or in-substance land grants, noting that sometimes they are carried at cost, particularly where there are ongoing obligations to maintain the land, and at other times they are carried at fair value. The option to use cost avoids unnecessary complexities such as valuing assets with no active market, variable or contingent rentals or early termination provisions.

10 CPA Australia also noted that in the public sector, many entities rely on the cost model rather than fair value because, unlike the private sector, market-based valuations may not be as meaningful. Differences in this regard are less about inconsistency and more about the flexibility needed to address the unique nature of concessionary leases in the NFP public sector. CPA Australia also highlighted that making fair value mandatory would impose high costs, require specialised valuation expertise and add unnecessary administrative burden with little benefits to users. Measuring the fair value of concessionary leases was also noted as a concern.

11 CA ANZ noted that determining control and whether a sale has occurred can be particularly challenging for concessionary arrangements involving repurchase rights or nominal consideration and suggested clearer guidance to support consistent interpretation.

12 ACAG notes that the accounting policy choice allows central regulatory bodies to decide whether they too permit agencies to make a choice or they mandate a measurement basis. Generally, treasuries have mandated cost on initial recognition and subsequent measurement. This choice means NFP public sector entities can avoid the complexities of fair value measurement of concessionary leases include identifying market participants, how much they are willing to pay, considering specialised assets and those with restrictions and dealing with variable and contingent rentals, early termination provisions etc. ACAG further noted that they consider the IPSASB's current proposals on concessionary leases insufficient and that the concessionary lease component of the Leases project does not adequately resolve the concerns they previously raised with the IPSASB.

Other Feedback

13 CA ANZ noted that determining whether control has transferred and a genuine sale has occurred is especially difficult in these sectors when repurchase rights exist or when transaction costs are minimal and that more explicit guidance is needed to support consistent interpretation.

14 SMR also noted that while it is valid to require that any 'grant' component of a below-market lease be accounted for, in practice, it can be difficult to separate the grant portion from other elements of the arrangement. For example, if a below-market lease enables a NFP to deliver services that also help the lessor achieve its objectives, the transaction involves more than just

a grant. This overlap in purpose complicates how the lease should be assessed and accounted for, with SMR suggesting this ‘coincidence’ should not always be recognised as revenue.

Disclosures

15 Overall, respondents generally agreed that the disclosure requirements for concessionary leases measured at cost are adequate and continue to meet user information needs. For example, ACAG, HoTARAC and SMR agreed the disclosures required by AASB 16 Aus59.1 and Aus59.2 provide sufficient information to users when concessionary leases are measured at cost. Preparers have not raised concerns about the adequacy of these disclosures since their introduction in 2019.