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	**Agenda Item:**	7.1
		Date:	13 August 2026
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Objective of this paper

1 At its April 2022 meeting, the Board decided to defer a decision on the initial measurement of right-of-use (ROU) assets arising under concessionary leases for not-for-profit (NFP) public sector lessees until after it had considered the outcome of the IPSASB's Leases project.[1] Since then, the Board has also received feedback on this topic through ITC 55 *Post-implementation Review of AASB 16* Leases (June 2025).

2 The objective of this paper is to assist the Board in determining the initial measurement requirements for concessionary ROU assets recognised by NFP public sector lessees. Specifically, the Board is asked to:

(a) **note** the requirements in IPSASB Accounting Standards relating to the initial measurement of concessionary ROU assets;

(b) **consider** the stakeholder feedback received through ITC 55 and staff analysis of that feedback;

(c) **decide** whether the existing accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2, which permits concessionary ROU assets to be measured initially at either cost or fair value, should be retained, amended or removed; and

(d) **decide** whether any amendments are needed to AASB 16 paragraphs Aus59.1–Aus59.2, which specify the disclosure requirements for NFP lessees that elect to measure concessionary ROU assets at cost.

3 For ease of reference, the term "concessionary ROU assets" in this paper refers to ROU assets "arising under leases that have significantly below-market terms and conditions principally to enable a not-

1 This decision is also reflected in paragraph BC25 of AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*.

for-profit entity to further its objectives" recognised by NFP lessees in accordance with AASB 16 paragraphs Aus25.1–Aus25.2.

4 AASB 16 paragraphs Aus25.1–Aus25.2 and paragraphs Aus59.1–Aus59.2 are reproduced in the Appendix for ease of reference.

Background: Timeline of key Board decisions on concessionary ROU assets

5 The following table summarises the key decisions made by the Board regarding the initial measurement of concessionary ROU assets recognised by NFP lessees and explains why this issue is now being reconsidered for NFP public sector lessees.

Year/milestone	Board action	Key rationale
2016 – when AASB 1058 *Income of Not-for-Profit Entities* was first issued	Amended AASB 16 to require NFP lessees to initially recognise concessionary ROU assets at fair value.	Measuring such ROU assets at fair value, and recognising income for the difference between the ROU asset's fair value and the lease liability, is consistent with the principles in AASB 1058 for other assets acquired significantly below fair value principally to enable an entity to further its objectives.
2018 – before AASB 16 became effective	Issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* to provide the accounting policy choice to permit concessionary ROU assets to be recognised at either cost or fair value.	Stakeholders raised concerns about the complexity and cost of measuring concessionary ROU assets at fair value. The relief was intended to be a **temporary relief** while the Board considered whether additional fair value measurement guidance was needed, and while the IPSASB's Leases project was underway.
2022	The Board: • made the accounting policy choice permanent for NFP private sector entities; and • did not reach a final conclusion for NFP public sector lessees. Instead, it retained the accounting policy choice on a temporary basis and decided to revisit the issue after considering the outcomes of the IPSASB's Leases project. This decision is reflected in paragraph BC25 of AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*.	***NFP private sector lessees*** (a) Although measuring concessionary ROU assets at fair value was considered conceptually consistent with AASB 1058, the Board concluded that, for NFP private sector entities, the costs of applying the fair value model would generally outweigh the benefits. This was because many NFP private sector entities do not otherwise measure non-financial assets at fair value and may therefore lack the expertise and resources needed to apply AASB 13 *Fair Value Measurement*. (b) The Board considered the disclosures required by AASB 16 paragraphs Aus59.1–Aus59.2 to be sufficient to provide decision-useful information to users. (c) Some stakeholders considered that recognising income on initial recognition (for the difference between the ROU asset's fair value and the lease liability) and subsequently amortising the ROU asset

Year/milestone	Board action	Key rationale
		distorts the operating results of NFP entities and may not provide decision-useful information. ***NFP public sector lessees*** Although the Board acknowledged that the considerations outlined in points (b) and (c) also apply to NFP public sector entities, it observed that the cost-benefit assessment may differ. This is because many NFP public sector entities are already required to measure most assets at fair value to align with Government Finance Statistics and therefore generally have established fair value measurement processes and expertise.

6 Given that the IPSASB project has now concluded and additional feedback has been received through ITC 55, staff consider it timely for the Board to reconsider the initial measurement requirements for concessionary ROU assets recognised by NFP public sector lessees.

Structure of this paper

7 This paper is structured as follows:

(a) Section 1 summarises the IPSASB's requirements for concessionary leases;

(b) Section 2 summarises stakeholder feedback received through ITC 55 on the existing accounting policy choice for concessionary ROU assets recognised by NFP public sector lessees;

(c) Section 3 sets out staff analysis of whether the accounting policy choice should be retained, amended or removed;

(d) Section 4 considers due process matters; and

(e) Appendix reproduces the AASB 16 paragraphs relating to the accounting policy choice available to NFP lessees for the initial measurement of concessionary ROU assets at cost or fair value, and the related disclosure requirements for entities that apply the cost approach.

Summary of staff recommendations

8 Staff recommend that the Board:

(a) make the existing accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 available on an ongoing basis for NFP public sector lessees. This would permit concessionary ROU assets to continue to be initially measured at cost or fair value;

(b) retain the existing disclosure requirements in AASB 16 paragraphs Aus59.1–Aus59.2 without amendment; and

(c) subject to agreeing with recommendation (a), add a footnote to paragraph BC25 of the Basis for Conclusions to AASB 2022-3 to reflect the Board's decision.

Section 1: IPSASB requirements for concessionary leases

9 In 2022, the IPSASB issued IPSAS 43 *Leases*, which aligns with IFRS 16 *Leases*. Subsequently, in October 2024, the IPSASB issued an amending Standard, *Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48)*, which prescribes accounting requirements for concessionary leases. The amendments apply to annual periods beginning on or after 1 January 2027.

10 Under those amendments, an NFP public sector lessee is required to initially recognise:

(a) an ROU asset arising from a concessionary lease or an ROU asset in-kind, measured at the present value of payments for the lease at market rates based on the current use of the underlying asset (i.e. market-based payments) as at the commencement date;

(b) a lease liability measured at the present value of the contractual lease payments (i.e. the contractual concessionary payments); and

(c) either a liability for the difference between (a) and (b), where the lessee has a "compliance obligation", or else revenue.

11 Staff observe that the IPSASB concluded that a cost measure based on contractual lease payments would not appropriately reflect the economics of a concessionary lease because it would not capture the embedded concession (paragraph BC143). The IPSASB therefore decided to require concessionary ROU assets to be measured at the present value of lease payments at market rates based on the current use of the underlying asset, noting that this measurement technique is consistent with the fair value measurement basis (paragraph BC146(a)). Accordingly, the IPSASB's conclusions provide support for the view that, in principle, measuring concessionary ROU assets at fair value is conceptually appropriate.

12 However, the IPSASB also acknowledged the practical challenges associated with applying a market-based measurement approach to concessionary lease arrangements. In particular, concessionary leases frequently involve specialised assets, significant restrictions on use or other terms and conditions that make it difficult to determine market-rate lease payments. Reflecting these practical challenges, the IPSASB requires a lessee to make a "reasonable level of effort" to determine the present value of lease payments at market rates, but permits the lessee to apply a practical expedient where such information is not readily available. In those circumstances, the lessee measures the ROU asset based on the present value of the contractual concessionary lease payments.[2] This outcome is the same as measuring concessionary ROU assets using the cost approach under AASB 16.

13 Staff consider the IPSASB amending Standard provides support for both aspects of the Board's previous deliberations. First, they support the view that fair value measurement of concessionary ROU assets is conceptually appropriate. Secondly, they acknowledge that significant practical challenges may arise in implementing such an approach and therefore provide relief where market-based information is not readily available. Consequently, staff do not consider the IPSASB Standards provide evidence that the Board's existing accounting policy choice has become inappropriate.

2 IPSAS 43 paragraph 26C states that "A lessee shall make a reasonable level of effort in determining the present value of payments for the lease at market rates based on the current use of the underlying asset. If payments for the lease at market rates based on the current use of the underlying asset are not readily available for the right-of-use asset, the lessee shall measure the right-of-use asset in a concessionary lease in accordance with paragraphs 24–26." IPSAS 43 paragraphs 24–26 describe the cost approach.

14 Staff also considered whether the existing accounting policy choice in AASB 16 should be replaced with a practical expedient similar to that in IPSAS 43. Staff observed such an approach would add complexity because entities would first need to demonstrate that a reasonable level of effort had been made to determine market-rate lease payments before the relief could be applied. By contrast, the existing accounting policy choice provides a simpler and efficient framework while achieving broadly similar outcomes. Staff therefore do not consider the IPSASB developments provide a compelling basis for replacing the current Australian approach.

Section 2: High-level summary of stakeholder feedback from ITC 55

15 Most respondents strongly supported making the exiting accounting policy choice available on an ongoing basis for NFP public sector lessees.[3] Respondents noted that:

(a) the accounting policy choice provides flexibility and alleviates NFP entities from the burden of determining fair value;

(b) measuring the fair value of concessionary leases can be challenging, particularly where the underlying assets are specialised in nature or subject to significant restrictions on use. These characteristics often result in limited observable market information, making fair value measurements complex, costly and potentially unreliable;

(c) the cost approach is more practical to apply and better reflects the operational nature of concessionary lease arrangements;

(d) the cost approach can reduce administrative burden and valuation risks while enabling consistent application across the NFP public sector; and

(e) the disclosure requirements in AASB 16 paragraphs Aus59.1–Aus59.2 are sufficient to provide users with information about an entity's dependence on concessionary leases and the nature and terms of those leases.

16 However, two respondents preferred mandatory fair value measurement:

(a) ABS commented that permitting the cost approach is inconsistent with Government Finance Statistics (GFS) principles, which require market valuation; and

(b) One ACAG jurisdiction commented that continuing to permit the cost approach creates conceptual inconsistencies with other assets acquired significantly below fair value principally to enable an entity to further its objectives that are recognised in accordance with AASB 1058. This would reduce the coherence and comparability of financial reporting.

17 Detailed feedback received in response to ITC 55 on this topic can be found in Agenda Paper 7.2.

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3 This includes eight of the nine Australian jurisdictions represented on 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 and comments from roundtable attendees and Disclosure Initiative Project Advisory Panel members.

Section 3: Staff analysis

Should the accounting policy choice be retained, amended or removed?

18 Staff acknowledge that initially measuring concessionary ROU assets at fair value is conceptually consistent with the principles in AASB 1058 for assets acquired significantly below fair value principally to enable an entity to further its objectives.

19 However, paragraph 30(h) of the *AASB Not-for-Profit Entity Standard-Setting Framework* acknowledges that NFP-specific requirements may be justified in certain circumstances, including where the costs of preparing information outweigh the benefits to users. Consistent with the Board's decision in 2018 to introduce the accounting policy choice for concessionary ROU assets, staff consider that determining the fair value of concessionary ROU assets can remain complex and costly in practice.

20 Staff also note that the IPSASB reached a broadly similar conclusion when developing its requirements for concessionary leases. Although the IPSASB concluded that concessionary ROU assets should, in principle, be measured using a market-based measurement approach because this better reflects the economics of the arrangement and captures the embedded concession, it also acknowledged that obtaining market-based information can be difficult in practice. Consequently, IPSAS 43 permits entities to measure concessionary ROU assets using contractual lease payments where market-based information is not readily available.

21 The Board previously considered whether additional guidance should be developed to assist NFP public sector lessees in measuring the fair value of concessionary ROU assets as part of its Fair Value Measurement for Not-for-Profit Public Sector Entities project. During that project, stakeholders identified a range of valuation issues relating to concessionary lease arrangements, particularly where underlying assets were specialised or subject to restrictions on use, or where the lessee was required to undertake asset maintenance activities as part of the lease arrangement. Although the Board considered these issues, it ultimately decided to defer further work on fair value guidance for concessionary ROU assets pending the outcome of the IPSASB's Leases project.[4] Staff observe that neither the IPSASB's project nor the feedback received through ITC 55 indicates that these practical valuation challenges have been resolved.

22 Staff also considered stakeholder concerns described in paragraph 16 regarding consistency with GFS requirements and the conceptual consistency of fair value measurement with AASB 1058. Staff do not consider they outweigh the continuing cost-benefit concerns identified by stakeholders. Furthermore, stakeholder feedback has not demonstrated that mandatory fair value measurement of concessionary leases is necessary to meet the information needs of users of financial statements.

23 Accordingly, staff recommend retaining the accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 and making it available on an ongoing basis for NFP public sector lessees.

Are amendments needed to the disclosure requirements?

24 Staff considered whether retaining the accounting policy choice could reduce transparency or comparability and whether amendments to the disclosure requirements in AASB 16 paragraphs Aus59.1–Aus59.2 might be needed. Based on the feedback received through ITC 55, staff have not

4 The Board developed tentative proposals on the fair value measurement of concessionary ROU assets in November 2019 and further considered a revised approach in March 2020. Upon considering feedback from the Fair Value Project Advisory Panel, the Board decided in November 2021 to defer further work on the topic pending the outcome of the IPSASB's Leases project.

identified evidence that the current disclosure requirements fail to provide users with sufficient information about the nature and financial effects of concessionary lease arrangements.

25 Accordingly, staff recommend retaining the existing disclosure requirements in AASB 16 paragraphs Aus59.1 and Aus59.2 without amendment.

Questions to Board members

Q1: Do Board members agree with the staff recommendation in paragraph 23 to make the accounting policy choice in AASB 16 paragraphs Aus25.1–Aus25.2 available on an ongoing basis for NFP public sector entities?

Q2: Do Board members agree with staff recommendation in paragraph 25 to retain the existing disclosure requirements in AASB 16 paragraphs Aus59.1–Aus59.2 without amendment?

Section 4: Due process considerations

26 In 2022, when the Board decided to make the accounting policy choice available on an ongoing basis for NFP private sector entities, it obtained stakeholder feedback through ED 318 *Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases*. At that time, consultation on the accounting policy choice was undertaken as part of a broader package of proposed amendments relating to NFP entities.

27 Staff considered whether further due process would be necessary if the Board agrees with the staff recommendation in paragraph 23 to make the accounting policy choice available on an ongoing basis for NFP public sector entities. Staff concluded that further due process is not necessary because:

(a) the Board would not be proposing any amendments to the requirements of AASB 16 or any other Australian Accounting Standard. Rather, it would confirm the ongoing availability of an existing accounting policy choice and remove uncertainty regarding its temporary status;

(b) stakeholder views on this issue have already been obtained through extensive consultation activities. Most recently, feedback was received through ITC 55 and ITC 57 *AASB 2027–2031 Agenda Consultation*. As noted above, except for two stakeholders, respondents generally supported retaining the accounting policy choice, and no significant user needs, transparency or implementation concerns were identified; and

(c) staff do not expect further consultation to provide significant new information, given the feedback already obtained through the PIR and agenda consultation processes.

28 To document the Board's decision, staff recommend adding a footnote at the end of paragraph BC25 of AASB 2022-3 to note the Board's subsequent decision to make the accounting policy choice available on an ongoing basis for NFP public sector entities. Specifically, staff propose the following footnote:

> "At its August 2026 meeting, the Board decided to make the accounting policy choice in paragraphs Aus25.1–Aus25.2 available on an ongoing basis for not-for-profit public sector lessees. Accordingly, concessionary right-of-use assets may continue to be initially measured at either cost or fair value."

29 Paragraph BC25 of AASB 2022-3 is reproduced below for context.[5]

> "Accordingly, after considering the feedback to ED 318, the Board decided to proceed with the proposals in ED 318 to retain the accounting policy choice on an ongoing basis for not-for-profit private sector lessees and to defer consideration of the accounting policy choice for not-for-profit public sector lessees until the Board decides on any additional guidance for measuring the fair value of right-of-use assets under concessionary leases. This decision would be made after considering the outcomes of the concessionary leases part of the IPSASB's current Leases project and the Board's ED 320."

Question to Board members

Q3: Subject to agreeing with Q1, do Board members agree with the staff recommendation in paragraph 28 to add a footnote to paragraph BC25 of the Basis for Conclusions to AASB 2022-3 to note the Board's decision?

5 Paragraph BC25 of the Basis for Conclusions to AASB 2022-3, is compiled in both AASB 15 and AASB 16.

Appendix: Relevant AASB 16 requirements for concessionary ROU assets

A1 This Appendix reproduces the AASB 16 paragraphs relating to the accounting policy choice available to NFP lessees for the initial measurement of concessionary ROU assets at cost or fair value, and the related disclosure requirements for entities that apply the cost approach.

Aus25.1 Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit entity, the lessee may elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value in accordance with AASB 13 *Fair Value Measurement* for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives. AASB 1058 *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

Aus25.2 Right-of-use assets arising under leases that have significantly below-market terms and conditions principally to enable a not-for-profit entity to further its objectives may be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases, despite their similar nature and use in the entity's operations. Identifying separate classes of right-of-use assets despite their similar nature and use in the entity's operations applies for the purposes of this Standard and other Standards that refer to classes of assets. However, this approach shall not be applied by analogy to distinguish sub-classes of other assets as separate classes of assets.

Aus59.1 In addition to the disclosures required in paragraphs 53–59, where a lessee is a not-for-profit entity and elects to measure a class or classes of right-of-use assets at initial recognition at cost in accordance with paragraphs 23–25 for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives, the lessee shall disclose additional qualitative and quantitative information about those leases necessary to meet the disclosure objective in paragraph 51. This additional information shall include, but is not limited to, information that helps users of financial statements to assess:

(a) the entity's dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives; and

(b) the nature and terms of the leases, including:

(i) the lease payments;

(ii) the lease term;

(iii) a description of the underlying assets; and

(iv) restrictions on the use of the underlying assets specific to the entity.

Aus59.2 The disclosures provided by a not-for-profit entity in accordance with paragraph Aus59.1 shall be provided individually for each material lease that has significantly below-market terms and conditions principally to enable the entity to further its objectives or in aggregate for leases involving right-of-use assets of a similar nature. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.