

# **Explanatory Statement**

## **Accounting Standard AASB 2019-8** *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases*

**December 2019**



**Australian Government**

**Australian Accounting  
Standards Board**

# EXPLANATORY STATEMENT

## Standards Amended by AASB 2019-8

This Standard makes amendments to AASB 16 *Leases* (February 2016) and AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007).

In December 2018, the AASB issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* to provide a temporary option for not-for-profit entities to elect to measure a class or classes of right-of-use assets arising under concessionary leases at initial recognition at cost or at fair value. Concessionary leases in this context are leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.

The AASB received feedback that public sector entities would need to revalue their right-of-use assets under concessionary leases (and other leases) at fair value at subsequent measurement to satisfy the requirements of AASB 1049 to elect accounting treatments in Accounting Standards that align with the principles in the ABS GFS Manual. Stakeholders also requested clarification of whether right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases.

### Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

## Main Features of AASB 2019-8

### Main Requirements

AASB 2019-8 amends AASB 16 and AASB 1049 to specify for not-for-profit entities that right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases for the purposes of AASB 16; and also to provide an option for a Whole of Government and a General Government Sector to measure right-of-use assets arising under concessionary leases at cost or at fair value in subsequent measurements.

### Application Date

AASB 2019-8 applies to annual reporting periods beginning on or after 1 January 2019, which is the mandatory effective date (application date) of AASB 16. Earlier application is permitted, provided that AASB 1058 *Income of Not-for-Profit Entities* is also applied at the same time.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

## Consultation Prior to Issuing this Standard

The AASB issued a Fatal-Flaw Review Draft of an amending Standard titled *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases* in October 2019 for public comment by 29 November 2019. The Board received three submissions, including from the following public sector stakeholders: the Heads of Treasuries Accounting and Reporting Advisory Committee, and the Australasian Council of Auditors-General. All respondents supported giving the Whole of Government (WoG) and the General Government Sector (GGS) a temporary option, in subsequent measurement, to measure a class of right-of-use assets at cost or at fair value if the entity applies the revaluation model in AASB 116 *Property, Plant and Equipment* to the related class of property, plant and equipment. The respondents also supported the proposed clarification that right-of-use assets arising under concessionary leases could be treated as a separate class of assets to right-of-use assets arising under other leases.

One respondent commented that the proposed temporary option to measure concessionary right-of-use assets at cost at subsequent measurement should be permitted for all not-for-profit public sector entities, rather than being restricted only to WoG and GGS. The AASB noted that Australian Accounting Standards do not require any other entities, other than WoG and GGS, to align any optional financial reporting treatments with Government Finance Statistics (GFS) principles (which approach requires assets to be measured at fair value). Whether these other entities are required to adopt a fair-value approach is a matter for the Treasury or Finance Department or other authority in each jurisdiction. These entities therefore do not need the relief proposed for the WoG and the GGS under AASB 1049.

The AASB considered the feedback and decided to issue AASB 2019-8 to specify right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases for the purposes of AASB 16; and to extend the initial-measurement temporary relief, established through AASB 2018-8, to provide a temporary option for the Whole of Government and the General Government Sector not to measure right-of-use assets arising under concessionary leases at fair value in subsequent measurement.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2019-8 as the amendments made do not have a substantial direct or indirect impact on business or competition.

## **Statement of Compatibility with Human Rights**

Prepared in accordance with Part 3 of the  
*Human Rights (Parliamentary Scrutiny) Act 2011*

### **Accounting Standard AASB 2019-8 Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases**

#### **Overview of the Accounting Standard**

AASB 2019-8 makes amendments to AASB 16 *Leases* (February 2016) and AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007).

In December 2018, the AASB issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* to provide a temporary option for not-for-profit entities to elect to measure a class or classes of right-of-use assets arising under concessionary leases at initial recognition at cost or at fair value. Concessionary leases in this context are leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.

The AASB received feedback that public sector entities would need to revalue their right-of-use assets under concessionary leases (and other leases) at fair value at subsequent measurement to satisfy the requirements of AASB 1049 to elect accounting treatments in Accounting Standards that align with the principles in the ABS GFS Manual. Stakeholders also requested clarification of whether right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases. The AASB considered stakeholders' feedback and decided to amend AASB 16 and AASB 1049 to address these issues.

AASB 2019-8 amends AASB 16 and AASB 1049 to specify for not-for-profit entities that right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets to right-of-use assets arising under other leases for the purposes of AASB 16; and also to provide an option for a Whole of Government and a General Government Sector to measure right-of-use assets arising under concessionary leases at cost or at fair value in subsequent measurements.

#### **Human Rights Implications**

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

#### **Conclusion**

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.