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By email: accounting@xrb.govt.nz

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Subject: Proposed new lease accounting standard for Tier 1 and 2 PBEs - PwC response

Dear Gali

We appreciate the opportunity to submit our views on the External Reporting Board (XRB) Proposed new lease accounting standard for Tier 1 and Tier 2 Public Benefit Entities (PBEs) (PBE IPSAS 43 Leases)).

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only.

Overall comments

We support the XRB's proposal to introduce a new lease accounting standard based on the recently-issued IPSASB standard IPSAS 43 Leases.

We also support the proposal to clarify the scope of PBE IPSAS 43 as it relates to the application of the standard to concessionary leases.

We have made some observations where we believe further guidance would be helpful to ensure consistent application of the new standard.

Questions for respondents

Our responses to the specific questions raised in the consultation document are attached in Appendix A.

We appreciate the opportunity to provide feedback on the proposed guidance.

Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely

Stephen Hogg
Capital Markets and Accounting Advisory Services Partner

Appendix A

Our responses to the specific questions raised in the consultation document: Proposed new lease accounting standard - Tier 1 and Tier 2 Public Benefit Entities

Question number	Response
<p>Q 1</p> <p>Clarification of the scope of PBE IPSAS 43 with respect to concessionary leases</p> <p>1. Do you agree with the proposed scope clarification with respect to concessionary leases?</p> <p>That is, do you agree with the clarification that:</p> <ul style="list-style-type: none"> • Concessionary leases that meet the definition of a lease are in the scope of the proposed PBE IPSAS 43; • Arrangements that convey the right to use an asset for a specified period of time for no consideration do not meet the definition of a lease in the proposed PBE IPSAS 43; and • In applying the measurement requirements in PBE IPSAS 43, an entity takes into account the lease payments as per the lease agreement, and not the lease payments that would have been charged had the lease been on market terms?* <p>* Except when PBE IPSAS 43 or another Standard requires or permits a different accounting</p>	<p>We support the XRB's proposal to clarify that concessionary leases are in the scope of PBE IPSAS 43.</p> <p>We also note the consequential amendments to PBE IPSAS 23 to exclude leases within the scope of PBE IPSAS 43 and arrangements that convey the right to use an asset for a specified period of time for no consideration from its scope. This will resolve a historic apparent conflict between the leases standard (PBE IPSAS 17) and PBE IPSAS 23.</p> <p>However we are concerned that this creates an exception to the general principle within PBE IPSAS 23 that the concessionary element of non-exchange transactions should be recognised at fair value whenever possible. This could introduce scope for entities to try and engineer different accounting outcomes through structuring arrangements as a lease to avoid having to recognise the concessionary portion of the arrangement at fair value.</p>

<p>treatment (for example, if right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in PBE IPSAS 17, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment).</p>	
<p>Q2</p> <p>2. Do you think that the assessment of whether a leased asset is of 'low value' should be performed on an absolute value basis for each individual leased asset, as proposed in the ED?</p> <p>If not, on what basis should this assessment be performed?</p>	<p>We agree with the proposals that entities should determine whether a leased asset is of 'low value' on an absolute basis and not based on whether the asset is material to the entity.</p> <p>However, we think that the proposal to not provide an indicative figure, in line with the IASB's Basis for Conclusion to IFRS 16, as to what would constitute a 'low value' leased asset could lead to inconsistent application of this exception by for profit entities and public benefit entities in mixed groups.</p> <p>Therefore we would prefer an alignment to the guidance in this respect in the IASB's Basis for Conclusion to IFRS 16 that states that low-value assets are assets whose value (when new) is "in the order of magnitude of US \$5,000 or less" .</p>
<p>Q3</p> <p>Do you agree with the proposed RDR concessions?</p>	<p>Yes</p>
<p>Q4</p> <p>Do you agree with the proposed effective date of 1 January 2027, with early adoption permitted?</p>	<p>Yes, we agree with the reasons outlined by the XRB in the consultation document for a long adoption period. We also agree that entities should be able to adopt the standard early.</p>
<p>Q5</p> <p>Do you have any other comments on the ED?</p>	<p>We have no further comments.</p>