

6 December 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VICTORIA 8007

Dear Ms Peach,

Exposure Draft 286 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities

Thank you for the opportunity to respond to AASB Exposure Draft 286 - *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*.

We generally support the proposal to provide optional temporary relief to not-for-profit (NFP) entities from measuring right-of-use (ROU) assets arising from 'peppercorn leases' (i.e. leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives) at initial recognition at fair value. We think however further analyses from the AASB is warranted to determine whether a permanent option should be provided for the NFP entities, including the consideration of the appropriate financial reporting thresholds for the NFP private sector entities. We also agree that further guidance is needed to assist NFP entities to determine fair value of ROU assets in peppercorn lease arrangement, specifically where there are significant restrictions on the use of the underlying asset.

Nevertheless, we think the AASB should reconsider the proposed disclosure requirements for the NFP entities, in particular where an NFP entity elects to measure right of use assets at initial recognition at cost for peppercorn leases.

Disclosures related to 'material' leases

The proposed paragraph Aus59.1 of AASB 16 requires additional disclosures if a lessee is an NFP entity and elects to measure right of use assets at initial recognition at cost for all peppercorn leases. The proposed paragraph Aus59.2 of AASB 16 then further clarifies:

"The disclosures provided by a not-for-profit entity in accordance with paragraph Aus59.1 *shall be provided individually for each **material** lease* [emphasis added] that has *significantly below-market terms* [emphasis added] and conditions principally to enable the entity to further its objectives or in aggregate for such leases involving right-of-use assets of a similar nature. ..."

The proposed paragraph implies that information regarding to fair value and market terms of the ROU asset at initial recognition is needed in order to assess materiality and therefore whether disclosures are required. In our view, NFP entities (also lessees) that elect to measure ROU assets at initial recognition at cost, in many cases, are not likely to have determined the fair value of the related ROU assets.

As such, these NFP entities may have difficulty in assessing whether a peppercorn lease is or is not material. Further, the proposed amendments assume that the "market-terms" based lease payments could be readily determined, however this may not always be the case. For example, as the Board has also acknowledged, it is difficult for an NFP entity to determine the fair value of ROU assets arising from peppercorn leases when there are often-significant restrictions on the ROU assets and/or the specialised nature of the underlying assets.

As such, we recommend the AASB consider clarifying or reviewing the disclosure requirements stated above. If you would like to discuss our comments, please contact me at 03 9671 7553 or Prajita Balavinodan at 03 9671 6412.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Clive Mottershead
Partner
Chartered Accountants