



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

Our ref Submission-ED286

7 December 2018

Dear Kris

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

We are pleased to have the opportunity to comment on Exposure Draft 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (ED 286).

We broadly support the proposals, as a whole, set out in ED 286. We expect the proposed temporary option for not-for-profit entities to not measure right-of-use assets at initial recognition at fair value for peppercorn leases will provide significant relief to most not-for-profit entities and help in their implementation of AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers*.

The proposals will reduce the likelihood of diversity in practice calculating the fair value of the right-of-use asset applying AASB 13 *Fair Value Measurement* in the absence of additional guidance and avoid undue associated cost and effort. The additional proposed disclosures will, however, provide information which helps the users assess the entity's dependence on peppercorn leases to enable the entity to further its objectives.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9120.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kim Heng', written in a cursive style.

Kim Heng

Partner

## Appendix

### Specific matters for comment

- 1 Do you agree with the proposed temporary option for not-for-profit entities to not measure right-of-use assets at initial recognition at fair value for leases with significantly below-market terms and conditions principally to enable the entity to further its objectives ('peppercorn leases')? This option would permit not-for-profit entities to measure such right-of-use assets at initial recognition at cost instead of fair value. The AASB will reassess the option when further guidance has been developed to assist not-for-profit entities in fair valuing such right-of-use assets and the financial reporting requirements for not-for-profit private sector entities have been finalised. If you disagree, please provide reasons.**

We agree with the temporary option for not-for-profit entities to not measure the right-of-use assets at initial recognition at fair value for peppercorn leases.

Given the ongoing project relating to fair value measurement in the public sector and the ACNC deliberations on the financial reporting requirements for not-for-profit private sector entities, we agree that an optional deferral is appropriate. We agree with the AASB's proposal to reassess this option once the aforementioned have been finalised.

- 2 If you disagree with providing a temporary option, do you consider that not-for-profit entities should be permitted to measure right-of-use assets at initial recognition at either fair value or cost for peppercorn leases entered into prior to the initial application of AASB 16? In your view, should such a permanent option be provided for not-for-profit entities in the private sector, the public sector, or both sectors? Please provide your reasons.**

We do not disagree with providing a temporary option.

We recommend the AASB defer a decision on whether a permanent option be provided for not-for-profit entities in the private and/or public sector until the outcomes of the AASB's *Fair Value Measurement for Public Sector Entities* project are known. Useful and appropriate guidance may arise from that project that could be applied in both the public and private not-for-profit sector.

- 3 ***Additional disclosure requirements are set out in the proposed paragraphs Aus59.1 and Aus59.2 of AASB 16 for application to peppercorn leases where the right-of-use assets are measured at cost rather than at fair value. In conjunction with the other disclosure requirements in AASB 16, would these additional disclosures provide adequate information for users to understand the effects on the financial position, financial performance and cash flows of the entity arising from such peppercorn leases? If not, what additional disclosures would be appropriate?***

We agree that the additional disclosure requirements set out in the proposed paragraphs Aus 59.1 and Aus 59.2 would provide adequate information for users to understand the effects of peppercorn leases on the financial statements.

We note that Aus59.2 requires that “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 such leases involving right-of-use assets of a similar nature.” (emphasis added).

In our view it is not clear how to determine whether a peppercorn lease is material. For example, if there were no requirement to fair value the right-of-use asset how should the assessment of whether the lease is individually material be performed? Is the assessment qualitative? We suggest that further guidance on how to assess whether a peppercorn lease is individually material be provided.

#### **General matters for comment**

- 4 ***Whether The AASB’s Not-for-Profit Entity Standard Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?***

We agree the process in issuing the exposure draft is consistent with the AASB Not-for-Profit Standard Setting Framework.

- 5 ***Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?***

We are not aware of any specific issues.

**6 Whether, overall, the proposals would result in financial statements that would be useful to users?**

We agree the proposals would result in financial statements that would be useful to users.

**7 Whether the proposals are in the best interests of the Australian economy?**

We do not have any specific comments on whether the proposals are in the best interest of the Australian economy.

**8 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

We do not have any specific additional comments on the costs and benefits of the proposals.