



<b>Project:</b>	<b>Income of NFP Entities</b>	<b>Meeting</b>	AASB August 2016 (M153)
<b>Topic:</b>	<b>Leases: Lease-by-lease vs portfolio assessment</b>	<b>Agenda Item:</b>	3.3.3
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Redeliberations

## Introduction and objective of this paper

- 1 The objective of this paper is to obtain Board member views on whether the requirement to measure at fair value the carrying amount of the right-of-use asset for leases with below-market terms and conditions at the date of initial application of AASB 10XX is on a lease-by-lease basis or a portfolio of leases basis.
- 2 At the June 2016 AASB meeting, the Board decided that in relation to existing leases with below-market terms and conditions:
  - the transition requirements in AASB 10XX should replicate the practical expedients in AASB 16 *Leases*; and
  - the lessee have an option to measure the fair value of the right-of-use asset at the date of initial application of AASB 10XX or retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board did not conclude whether this would be on a lease-by-lease basis or another basis and asked staff to research this issue and bring it back to the next meeting.

## Portfolio application in AASB 16

- 3 As a practical expedient, an entity may apply AASB 16 to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying AASB 16 to the portfolio would not differ materially from applying the Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio (paragraph B1 of AASB 16).
- 4 The IASB considered that the portfolio approach would be particularly useful for lessees with a large number of similar leases (Basis for Conclusions paragraph BC83).

5 Examples of leases with reasonably similar characteristics are leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment (paragraph C10(a) of AASB 16).

**Staff recommendation**

6 Staff recommend that the practical expedient in AASB 16 on accounting for leases on a portfolio basis be made available to not-for-profit entities applying the requirements in AASB 10XX at the date of initial application to existing leases with below-market terms and conditions (i.e. the requirement to measure at fair value the carrying amount of the right-of-use asset and lease liability at the date of initial application of AASB 10XX). This would provide not-for-profit entities with leases within the scope of AASB 10XX similar relief as those within the scope of AASB 16 and, accordingly, not make the requirements in AASB 10XX more onerous than AASB 16.

7 Staff recommend the portfolio application wording in paragraph B1 of AASB 16<sup>1</sup> be replicated in the transition requirements of AASB 10XX in the section that prescribes the requirements for measurement of leases with below-market terms and conditions, as illustrated below:

C10 An entity may, as a practical expedient, apply paragraph C9 to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of this approach would not differ materially from applying paragraph C9 to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

**Feedback from Project Advisory Panel (PAP) members**

8 The majority of PAP members agreed with staff recommendation in paragraph 6 that AASB 10XX transition requirements for leases with below-market terms and conditions replicate the portfolio application option in AASB 16.

<p><b>Question for Board members</b></p> <p>Q1 Do Board members agree with staff view that AASB 10XX transition requirements for leases with below-market terms and conditions replicate the portfolio application option in AASB 16?</p> <p>Q2 If yes, do Board members have any comments on the draft wording for the application of the portfolio basis in paragraph 7?</p>
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<sup>1</sup> AASB 16 specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply AASB 16 to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.