



Redland
CITY COUNCIL

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Our Ref: FSG·CJ:RL:MW:RC:JL
File No: A3489807
Contact: Rukmie Lutherus

AASB
PO Box 205
COLLINS STREET WEST V 8007

Dear Sir / Madam

Formal Submission: AASB Exposure Draft ED 286

Further to your request for submissions, please find below Redland City Council (Council) position in relation to the changes proposed in the AASB Exposure Draft ED 286.

With respect to the specific matters identified for comment Council:

- Supports the proposed temporary option for not-for-profit (NFP) entities to measure right-of-use (ROU) assets at initial recognition at cost, for peppercorn leases
- Supports the cost option being made permanent
- Believes this measure will provide the following benefits to the reporting entity while enhancing the value of the financial statements from a user perspective
 - Minimise compliance costs for the reporting entity, thereby reducing the proportion of member fees and / or donations that needs to be allocated to projects supporting the community that they represent. Increased compliance cost associated with applying AASB 16 in its current form to peppercorn leases may take the form of:
 - suitably qualified staff required to apply the standard
 - extra time taken by auditors to audit the application of the standard
 - time burden on volunteers
 - cost of engaging external valuers to determine fair value
 - Remove what may be considered to be 'artificial' costs from the entity's statement of financial performance which could potentially distort how the entity is performing and how community funds are used (e.g. inflated depreciation charge)
 - Remove distortion of financial position of the entity by having inflated assets and liabilities which could potentially mislead the community and negatively impact on funding sources available to the entity (e.g. by negatively impacting on Key Performance Indicators that potential donors and funding bodies may consider when supporting the entity)
 - Remove room for potential disputes with auditors and valuers regarding the fair value of certain assets subject to peppercorn leases, and associated assumptions
 - Note: It is considered that users of NFP reports being the communities and causes they support, along with financiers (private and corporate donors, lenders and grant funding providers)

- Considers that it will be appropriate to provide the proposed option to NFPs in both private and public sectors
- Believes that it should not be limited only to leases existing prior to AASB 16 coming into effect, whether permanent or temporary
- Considers that the additional disclosures proposed in Aus59.1 and Aus59.2 in support of the cost option will provide adequate information for users to understand the effects on the financial position, financial performance and cash flows of the entity. It is not considered that any additional disclosures are required.

Additionally the proposed provisions may be enhanced by providing further guidance around the meaning of 'material lease' with respect to peppercorn leases e.g. material may mean the potential to significantly impact on the entity's abilities to deliver its core services and further their objectives.

The opportunity to provide the above feedback is greatly appreciated. Please do not hesitate to contact Rukmie Lutherus, Principal Advisor Finance, on (07) 3843 8001 should you have any queries in relation to the above.

Yours faithfully



Kailesh Naidu
Acting Chief Financial Officer