

Pre-Ballot Draft (amendment section)
Alternative 2B – Relieve Private Sector NFP entities from fair valuing existing peppercorn leases

Accounting Standard AASB 2018-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2018-X *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated [...] 2018

Kris Peach
Chair – AASB

Accounting Standard AASB 2018-X *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*

Objective

This Standard amends:

- (a) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);
- (b) AASB 16 *Leases* (February 2016);
- (c) AASB 117 *Leases* (August 2015); and
- (d) AASB 1058 *Income of Not-for-Profit Entities* (December 2016);

to relieve not-for-profit private sector entities from initial fair value measurement requirements for right-of-use assets arising under leases with an inception date before 1 January 2019 and with significantly below-market terms and conditions principally to enable the entity to further its objectives.

Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

This Standard applies to annual periods beginning on or after 1 January 2019, except that the amendment to AASB 117 applies to periods beginning before 1 January 2019 if AASB 1058 is applied to such a period. Earlier application of this Standard is permitted.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amending paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015)

Paragraphs AusD7.1, AusD9D.1 and AusD9D.2 are amended and paragraphs AusD7.2 and AusD9D.3 are added.

Deemed cost

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- AusD7.1 Notwithstanding paragraphs D5–D7, where a lessee is a not-for-profit private sector entity, a lease has an inception date on or after 1 January 2019 and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, the entity shall measure the right-of-use asset at fair value at the beginning of the current period presented in the entity's first Australian-

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Accounting-Standards financial statements or at the previous GAAP valuation if that valuation broadly reflects that fair value.

- AusD7.2 Notwithstanding paragraphs D5–D7, where a lessee is a not-for-profit public sector entity and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, the entity shall measure the right-of-use asset at fair value at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements or at the previous GAAP valuation if that valuation broadly reflects that fair value.

...

Leases

...

- AusD9D.1 Notwithstanding paragraphs D9B–D9D, where a lessee is a not-for-profit entity and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, all references in those paragraphs to the date of transition to Australian Accounting Standards shall be read as referring to the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements. Consequently, the entity shall measure the lease liability and the right-of-use asset at that date. When applicable, the ~~The~~ right-of-use asset shall be measured in accordance with paragraph AusD7.1 or AusD7.2.
- AusD9D.2 Where a lessee is a not-for-profit private sector entity, a lease has an inception date on or after 1 January 2019 and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, the entity shall also recognise any related items in accordance with paragraph 9 of AASB 1058 *Income of Not-for-Profit Entities*. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements.
- AusD9D.3 Where a lessee is a not-for-profit public sector entity and the lease had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives, the entity shall also recognise any related items in accordance with paragraph 9 of AASB 1058. Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the beginning of the current period presented in the entity's first Australian-Accounting-Standards financial statements.

Amendments to AASB 16 Leases (February 2016)

Paragraphs Aus25.1, AusC5.1, AusC5.2, AusC8.1 and AusC11.1 are amended and paragraph Aus25.2 is added.

- Aus25.1** Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit private sector entity, the lease has an inception date on or after 1 January 2019, and the lease has significantly below-market terms and conditions principally to enable the entity to further its objectives, the right-of-use asset shall initially be measured at fair value in accordance with AASB 13 *Fair Value Measurement*. AASB 1058 *Income of Not-for-Profit Entities* addresses the recognition of related amounts.
- Aus25.2** Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit public sector entity and the lease has significantly below-market terms and conditions principally to enable the entity to further its objectives, the right-of-use asset shall initially be measured at fair value in accordance with AASB 13. AASB 1058 addresses the recognition of related amounts.
- ...
- AusC5.1 Not-for-profit public sector entities applying this Standard retrospectively in accordance with paragraph C5(a) to leases that at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives shall:
- measure the right-of-use asset at fair value;
 - measure the lease liability in accordance with this Standard; and
 - recognise any related items in accordance with paragraph 9 of AASB 1058 *Income of Not-for-Profit Entities*.

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Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest prior period presented.

AusC5.2 Notwithstanding paragraph AusC5.1, not-for-profit public sector entities that adopted AASB 1058 in an earlier reporting period are not required to remeasure the fair value of the right-of-use asset arising from leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as finance leases applying AASB 117. Instead, the entity shall transition those leases in accordance with paragraph C11, regardless of which transition option in paragraph C5 is applied.

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AusC8.1 Not-for-profit public sector entities applying this Standard retrospectively in accordance with paragraph C5(b) to leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as operating leases applying AASB 117 shall:

- (a) notwithstanding paragraph C8(b), measure the right-of-use asset at fair value at the date of initial application of this Standard;
- (b) measure the lease liability in accordance with paragraph C8(a); and
- (c) recognise any related items in accordance with paragraph 9 of AASB 1058.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

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AusC11.1 Subject to paragraph AusC5.2 and notwithstanding paragraph C11, not-for-profit public sector entities applying this Standard retrospectively in accordance with paragraph C5(b) to leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were previously classified as finance leases applying AASB 117 shall:

- (a) measure the right-of-use asset at fair value at the date of initial application of this Standard;
- (b) measure the lease liability in accordance with this Standard; and
- (c) recognise any related items in accordance with paragraph 9 of AASB 1058.

Any income arising shall be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

Amendments to AASB 117 Leases (August 2015)

The amendment to AASB 117 applies to periods beginning before 1 January 2019. This means that the amendment applies only if AASB 1058 is applied to an earlier period.

Paragraph Aus20.1 is amended.

Finance Leases

Initial recognition

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Aus20.1 Notwithstanding paragraph 20, the leased asset shall initially be measured at fair value in accordance with AASB 13 *Fair Value Measurement* where:

- (a) at inception the lease has significantly below-market terms and conditions principally to enable the lessee to further its objectives; and
- (b) the lessee is a not-for-profit public sector entity and applies AASB 1058 *Income of Not-for-Profit Entities* to the period.

AASB 1058 addresses the recognition of related amounts.

Amendments to AASB 1058 *Income of Not-for-Profit Entities* (December 2016)

Paragraphs C10 and C11 are amended and paragraph C10A is added.

Leases with significantly below-market terms and conditions

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Leases classified as finance leases

C10 If ~~an~~ a not-for-profit public sector entity applies this Standard before applying AASB 16, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as finance leases in accordance with AASB 117, and if ~~an~~ the entity elects to apply this Standard in accordance with:

- (a) paragraph C3(a) – the entity shall:
 - (i) measure the leased asset at fair value at the beginning of the earliest period presented;
 - (ii) measure the lease liability in accordance with AASB 117;
 - (iii) recognise any related items in accordance with paragraph 9; and
 - (iv) recognise any income arising as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest period presented; or
- (b) paragraph C3(b) – the entity shall:
 - (i) measure the leased asset at fair value at the date of initial application of this Standard;
 - (ii) measure the lease liability in accordance with AASB 117;
 - (iii) recognise any related items in accordance with paragraph 9; and
 - (iv) recognise any income arising as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of this Standard.

C10A If a not-for-profit private sector entity applies this Standard before applying AASB 16, for leases that (1) at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives and (2) were classified as finance leases in accordance with AASB 117, the entity shall continue to apply its accounting policy under AASB 117 to those finance leases. On transition to AASB 16, the entity shall apply the transition requirements of that Standard to leases classified as finance leases in accordance with AASB 117.

C11 ~~An~~ A not-for-profit public sector entity may, as a practical expedient, apply paragraph C10 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 C10 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.

Commencement of the legislative instrument

For legal purposes, this legislative instrument commences on 31 December 2018.