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Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204, Collins St West
MELBOURNE VIC 8007

By online submission:- www.aasb.gov.au

Dear Kris

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

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the AASB's proposals to defer the requirement for not-for-profit (NFP) entities to fair value the right-of-use assets arising from peppercorn leases. Our preference is for a permanent option as explained in the attachment to this letter.

We note and agree with the comment that the proposed deferral will avoid undue cost and effort being incurred by entities affected by the requirements. Feedback we have received indicates that some NFP entities in the public and private sectors have already commenced preparing for the new accounting requirements, including the requirement to fair value right-of-use assets arising from peppercorn leases. An earlier decision by the AASB to defer the requirement could have further reduced the undue cost and effort associated with the requirements for those who have already begun preparing for the change.

In addition to the above comments, we have provided responses to the questions raised in the Consultation as an attachment. If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Ram Subramanian
Policy Adviser, Reporting
CPA Australia

Craig Laughton
Executive General Manager
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Attachment

Specific questions/ comments

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.**

CPA Australia supports a permanent option for NFP entities to not measure the right-of-use assets at initial recognition at fair value. See our comments in response to Question 2 below.

If however, the AASB proceeds with a temporary option, it will be helpful if the AASB provides the proposed timelines associated with the further guidance it intends to develop, so that stakeholders can be better prepared for the reinstatement of the requirement.

We provide two editorial comments below in respect of the proposed amendments arising from the deferral:

- Amendments to AASB 1 *First-time Adoption of Australian Accounting Standards*, para AusD9D.2 – We suggest the paragraph is amended to read "Where a lessee is a not-for-profit entity and elects to measure **at fair value in accordance with paragraph AusD7.1**, the right-of-use assets arising under all leases that had at inception significantly below-market terms and conditions principally to enable the entity to further its objects, the entity shall….."
- We suggest a simpler, defined term such as "concessionary leases" or "peppercorn leases" is used instead of the term "leases that had at inception significantly below-market terms and conditions principally to enable the entity to further its objectives". This will allow a simpler sentence construct for the paragraphs where the term is used.

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 suggest the AASB provide a permanent option to measure right-of-use assets at either fair value or cost for leases entered into prior to the initial application of AASB 16. It is our view that such a permanent option should be provided for NFP entities in both the private and public sector. Feedback we have received indicates that the valuation of peppercorn leases in many cases can be both subjective and arbitrary and provide little or no value to users of financial statements. Agreeing an appropriate value can often require the involvement of external independent valuers, at a cost, and could prove challenging for external audit as well. Given the undue cost and effort associated with the requirement, we suggest the AASB consider providing a permanent option not just for peppercorn leases entered into prior to the initial application of AASB 16, but to all peppercorn lease arrangements.

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 with the additional disclosures proposed.

We however suggest clarifying the following:

- Lease payments – is disclosure expected for the entire lease term, for the period in question, or for the remaining lease term?
- Lease term – is disclosure expected for the entire lease term, or for the remaining period?