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**From:** Zowie Pateman

**Sent:** Thursday, 6 December 2018 12:08 PM

**To:** Australian Accounting Standards Board ; Peach, Kris

**Cc:** Kandiah, Kala

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

Dear Kris

Thank you for the opportunity to comment on the above ED which proposes to defer the requirement for not-for-profit (NFP) entities to measure right-of-use assets at initial recognition at fair value in respect of concessionary leases. Due to the short comment period, Chartered Accountants Australia and New Zealand (CA ANZ) is not able to provide a formal submission to the AASB. However, we wanted to share some high level comments.

Feedback from our members is that the costs of this new requirement under AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* are exceeding the benefits provided. This is due to practical difficulties being encountered in determining fair value, particularly in situations where the underlying leased asset has a restricted use (eg an entity can only undertake certain activities) or where the underlying leased asset is of a specialised nature (eg a school). These issues are of concern to both private and public sector NFPs and were raised in our joint submission with the ACCA to the IPSASB on its Exposure Draft (ED) 64 *Leases*. Therefore we support the proposals in this ED as a pragmatic response to these challenges.

We agree with an indefinite deferral, until such time as:

- (a) the financial reporting requirements for private sector NFPs have been finalised; and
- (b) guidance has been developed to assist both private and public sector NFPs in fair valuing right-of-use assets.

However stakeholders need to be advised of an expected timeframe for this work, and given sufficient notice of any change, so that they can adequately prepare for revised requirements if need be.

It is important that the option is able to be applied both retrospectively (ie to concessionary leases held prior to the initial application of AASB 16) and prospectively (ie those entered into on or after 1 January 2019).

We recommend that a simpler term is used to describe such an arrangement, for example “concessionary lease” instead of “leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives”. Although the latter can be used as said definition. We recommend not using the term “peppercorn lease” as it is generally used to describe a lease that has nil or nominal lease payments, so that could cause confusion. In our view peppercorn leases are a subset of concessionary leases.

Kind regards

**Zowie Pateman CA**

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