

PO Box 1411  
Beenleigh QLD 4207  
5 December 2019

Ms Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Kris

**Fatal Flaw Review Version – AASB 2019-X – Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases**

I am pleased to make this submission on the fatal version of AASB 2019-X.

I have over 30 years' experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

I agree with a specific NFP amendment (rather than an AASB interpretation), and I highlight some suggested changes to the proposals.

I disagree with the reasoning given for the proposed changes. I also disagree with the stated intention for the exclusion of local governments and other not-for-profit entities from the proposed changes.

The attachment to this letter outlines my issues:

1. Justification for the change
2. Applying the definition of class based on the nature of use with the former finance and operating leases definitions
3. Application of exemption to owned property, plant and equipment
4. Local government exclusion from the proposals
5. Application to all of the not-for-profit sector
6. Confusion over the operation of the proposals in practice
7. Temporary nature of concessionary leases relief
8. Disclosure of concessionary leases at cost (AASB 16 paragraphs Aus59.1 and Aus59.2)

I believe a longer exposure period should have been implemented for these changes as they are not perfunctory.

Yours sincerely

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>

## **Identified issues**

### **1. Justification for the change**

In the Basis for Conclusions paragraphs BC5 and BC7, the AASB states that it received feedback that AASB 1049 required the fair value measurements of all property, plant and equipment (PPE), including Right-of-Use (ROU) assets. I do not agree with this interpretation, as it would require the fair value measurement of non-GFS assets – something that AASB 1049 does not require.

I suggest that the Basis for Conclusion does not indicate acceptance of the submitters' views. I also suggest that the AASB include commentary along the lines that AASB 1049 only requires consistent accounting policies with GFS (i.e. fair value measurement) for assets recognised for accounting and GFS. Therefore, as operating leases are generally not recognised for GFS purposes, there is no requirement for fair value measurement of such assets for accounting purposes.

### **2. Applying the definition of class based on the nature of use with the former finance and operating leases definitions**

I believe that the distinction of right-of-use property, plant and equipment assets based on the finance and operating lease classification is appropriate for many entities and I disagree with Basis for Conclusions paragraphs BC17 and BC18.

While I believe that the intention of the proposals will resolve the identified issues, I do not agree with the retention of the paragraphs noted above, and I believe that the finance / operating distinction is permitted. That distinction meets the definition of class within AASB 116 and other standards, as the nature and risks of such assets are often different in an entity's operations. The distinction has operated for over 30 years, and will continue to operate for lessors and the current ABS manual. Distinguishing class based on the definitions of finance lease / operating lease would be optional for those entities wanting to distinguish such assets.

### **3. Application of exemption to owned property, plant and equipment**

I note that the AASB is not proposing to create a similar exemption, based on whether the asset is provided at a concessionary amount or not, to owned (non-leased) property, plant and equipment.

This reinforces my view that the proposed exemption should be categorised as a specific NFP amendment. If the reasoning for the distinction for leases was based on interpreting the general definition of class under AASB 116, then the concessionary distinction should also apply to owned property, plant and equipment and how those assets were funded.

### **4. Local government exclusion from the proposals**

Basis for Conclusions paragraph BC12 states that the proposals will not apply to local governments. This is consistent with the decision announced in the AASB Action Alert September 2019:

The Board noted the exemption does not extend to entities outside WOG or GGS, such as local governments as these entities are not required by current accounting standards to adopt a fair-value approach.

While I could not find the restriction in the proposed amendments to AASB 116, I disagree with any exclusion of the proposals to local governments. Many local governments fair value their property, plant and equipment assets and should have the proposed relief available to them.

## **5. Application to all of the not-for-profit sector**

Similar to the reasons above, I believe that the proposals should apply to any not-for-profit entity that has concessionary leases and revalues some or all of their assets under AASB 116. Universities (that are not consolidated into commonwealth or state / territory government reporting) also commonly fair value land and buildings.

Paragraph Aus25.2 applies to all not-for-profit entities, while proposed paragraph Aus35.1 is restricted to not-for-profit public sector entities.

I see no reason for the AASB's stated intention (BC12 and AASB Action Alert September 2019) of restricting the proposals to only some not-for-profit public sector entities.

## **6. Confusion over the operation of the proposals in practice**

I find the operation of the proposals confusing. I request that the Board clarify that the proposals allow the following classes (as an example):

- Land – Owned and ROU Non-Concessionary
- Land – ROU Concessionary
- Plant – Owned and ROU Non-Concessionary
- Plant – ROU Concessionary

Further, that the following revaluation choices are available using the classes above:

- |   |                    |
|---|--------------------|
| Land – Owned and ROU Non-Concessionary  | Fair value         |
| Land – ROU Concessionary                | Cost or Fair value |
| Plant – Owned and ROU Non-Concessionary | Fair value         |
| Plant – ROU Concessionary               | Cost or Fair Value |

Also, that the following classes (as an example) could be used:

- |  |                    |
|--|--------------------|
| Land – Owned, ROU Non-Concessionary (finance),<br>ROU Concessionary (finance)  | Fair value         |
| Land – ROU Non-Concessionary (operating)                                       | Cost or Fair value |
| Land – ROU Concessionary (operating)   | Cost or Fair value |
| Plant – Owned, ROU Non-Concessionary (finance),<br>ROU Concessionary (finance) | Fair value         |
| Plant – ROU Non-Concessionary (operating)                                      | Cost or Fair Value |
| Plant – ROU Concessionary (operating)  | Cost or Fair Value |

In particular, I would like to clarify the non-concessionary / concessionary split for leased assets is by type (previous definition of class) of asset, rather than the entire non-concessionary holdings and concessionary holdings being treated as separate classes.

**7. Temporary nature of concessionary leases relief**

The proposals describe the amendments from AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities as temporary. I note that every submission to the AASB on ED286 (except from the large and medium sized accounting firms, and from the audit offices (ACAG)) specifically requested the relief to be permanent. That feedback covered professional organisations, a regulator, small accounting firms, preparers (state government, local government, private sector not-for-profit) and an individual.

I believe that the AASB 2018-8 relief, and these proposals as amended, should be permanent.

**8. Disclosure of concessionary leases at cost (AASB 16 paragraphs Aus59.1 and Aus59.2)**

I believe that the disclosures related to concessionary leases at cost under AASB 16 need to be revised for the proposed changes. I believe that the disclosures in paragraphs AASB 16 Aus59.1 and Aus59.2 may not be applicable to when concessionary leases as a class are recognised at cost, as these can be different circumstances to initial recognition.