

Ref: KLB/dr

4 December 2018

Ms Kris Peach
Chairman
Australian Accounting Standards Board
Level 14, 530 Collins Street
Melbourne VIC 3000

Dear Kris

SUBMISSION – ED 286 “PEPPERCORN LEASES”

We appreciate the opportunity to provide comment to the Australian Accounting Standards Board (the AASB) on Exposure Draft 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (the Exposure Draft or ED 286).

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

Overall, we support the proposal to provide temporary relief for not-for-profit entities to initially measure right-of-use assets arising from ‘peppercorn leases’ at either cost or fair value until the completion of the AASB project on the Fair Value Measurement for Public Sector Entities and the completion of the ACNC Legislative Review.

We share the AASB’s concern regarding the possible impact of recommendations resulting from the ACNC Legislative Review (i.e., that it is possible that not-for-profit entities at the lower level of the reporting thresholds might not be required in future to apply the requirements of AASB 16 and AASB 1058). In our opinion, this is sufficient justification for the proposed temporary relief.

However, we also note that the other requirements of AASB 16 and AASB 1058 (i.e., in addition to the initial measurement of right-of-use assets arising from ‘peppercorn leases’), and the requirements of AASB 15, will also have a significant impact on the accounting policies of not-for-profit entities.

B J BRITTEN
J BRAZZALE
R RIGONI
M W PRINGLE
G M RAMBALDI
D A THOMSON

D A KNOWLES
M J LANGHAMMER
M C HAY
S SCHONBERG
V A MACDERMID
S DAHN

P A JOSE
A R YEO
M J HARRISON
P W TONER
T SAKELL
G I NORISKIN

A T DAVIDSON
K L BYRNE
C D WHATMAN
S D WHITCHURCH
A E CLERICI
D J HONEY

P MURONE
G J NIELSEN
A D STANLEY
N R BULL
D C BYRNE
A M KOKKINOS

P B BRAINE
G A DEBONO
R I MCKIE
F V RUSSO
M R SONEGO
A T CLUGSTON

S J DALL
M G JOZWIK
D W LOVE
B POWERS
A SULEYMAN
K J DAVIDSON

D R DOHERTY
J C CHENG
J L BEAUMONT
M DAWES
B A LETHBORG
M J WILSON

I CULL
B FARRELLY
A O’CARROLL

We are also concerned that some not-for-profit entities that are required to apply the other requirements of AASB 16 and AASB 1058, and the requirements of AASB 15, with effect from 1 January 2019, might not be required to apply these requirements following the outcome of the ACNC Legislative Review.

We therefore encourage the AASB to consider deferring the application of AASB 15, AASB 16 and AASB 1058 to not-for-profit entities until the completion of the ACNC Legislative Review.

Our detailed responses to the questions contained in ED 286 are attached to this letter.

Please contact either myself or Darryn Rundell, Director - Audit & Accounting Technical (03 8610 5574 or darryn.rundell@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely



K L Byrne
Partner



D J Rundell
Director, Audit & Accounting Technical

Specific matters for comment:

Question 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.

Response:

Yes, we agree with the proposal to provide temporary relief for not-for-profit entities to initially measure right-of-use assets arising from 'peppercorn leases' at either cost or fair value until the completion of the AASB project on the Fair Value Measurement for Public Sector Entities and the completion of the ACNC Legislative Review.

Question 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.

Response:

We agreed with Question 1.

Question 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?

Response:

In our opinion, the additional disclosures provide adequate information for users of the financial statements.

General matters for comment:

Question 4

Whether *The AASB's Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?

Response:

In our opinion, *The AASB's Not-for-Profit Entity Standard-Setting Framework* has been appropriately applied in developing the proposals in this Exposure Draft.

Question 5

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Financial Statistics (GFS) implications?

Response:

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

Question 6

Whether, overall, the proposals would result in financial statements that would be useful to users?

Response:

In our opinion, permitting not-for-profit entities to initially measure right-of-use assets arising from 'peppercorn leases' at cost, rather than at fair value, detracts from the usefulness of the financial statements.

However, in our opinion, this is an acceptable outcome in the circumstances on the basis that the relief provided by the proposals will be temporary (until the completion of the AASB project on the Fair Value Measurement for Public Sector Entities and the completion of the ACNC Legislative Review).

Question 7

Whether the proposals are in the best interests of the Australian economy?

Response:

In our opinion, the proposals are in the best interests of the Australian economy.

Question 8

Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Response:

We have no additional comments in relation to the costs and benefits of the proposals relative to the current requirements.