

7 December 2018

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

*Via Email: standard@asb.gov.au*

Dear Ms Peach

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

Thank you for the opportunity to provide a submission on ED 286 – *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (the **Exposure Draft**).

The Australian Institute of Company Directors (**AICD**) has a membership of more than 43,000 including directors and senior leaders from business, government and the not-for-profit (**NFP**) sectors. The mission of the AICD is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society.

The AICD does not support the AASB's proposals to temporarily defer the requirement for NFP entities to fair value the right-of-use assets arising from peppercorn leases. Instead, the AICD would prefer the AASB introduce a permanent option to account for those peppercorn leases that exist at the date of transition to the new standards, at either fair value or cost with relevant disclosures. In addition, we consider the AASB should consider extending the cost option to all peppercorn lease arrangements, as part of its review of the NFP reporting framework, as outlined below.

We support the disclosures outlined in the ED, which include:

- The entity's dependence on leases that have significantly below market terms and conditions
- The nature and terms of the leases, including the payments, the term, a description of the underlying assets and the restrictions on the use of the underlying assets.

Determining the fair value of peppercorn lease arrangements is a difficult and costly exercise for NFPs, because:

- Many NFPs have little or no financial reporting expertise in-house, therefore they will need to seek external advice from independent valuers;
- Restrictions that may impact fair value are often placed on the use of such assets covered under peppercorn lease arrangements;
- The valuation of peppercorn leases can often be subjective and arbitrary, making the audit of such values difficult and costly; and

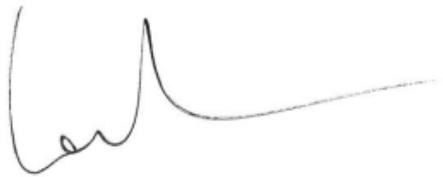
- A fair value, even if it can be determined, is often difficult for a user of NFP reports to understand.

The AICD considers that costs will exceed any benefits gained by determining a fair value of peppercorn lease arrangements and that appropriate disclosures provide better information to users.

As recommended in our previous submission dated 9 November 2018 covering the reporting entity and special purpose financial statement problems, the AASB should consider a simpler accounting standard, with recognition, measurement and disclosure simplifications, to apply to certain NFP entities. In the development of such a model, we consider that the appropriate accounting model is to account for all peppercorn lease arrangements (not just those at transition) at cost with appropriate disclosures, given the ongoing difficulties that NFPs (other than those very large NFPs) will have with fair value measurement of peppercorn leases.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 028248 6635 or at [khicks@aicd.com.au](mailto:khicks@aicd.com.au).

Yours sincerely



**LOUISE PETSCHLER**  
General Manager, Advocacy