

30 Nov 2018

Our ref: EXT2018/66

[REDACTED]

Dear [REDACTED]

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

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on Exposure Draft 286 – **Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities** (ED 286).

The ACNC was established on 3 December 2012 by the *Australian Charities and Not-for-Profits Commission Act 2012* (Cth) (**ACNC Act**). The objects of the ACNC Act are to:

- maintain protect and enhance public trust and confidence in the Australian not-for-profit (NFP) sector;
- support and sustain a robust, vibrant, independent and innovative Australian NFP sector; and
- promote the reduction of unnecessary regulatory obligations on the Australian NFP sector.

The ACNC maintains a free and searchable online public register of charities (**the Charity Register**). The Charity Register helps the public to understand the work of the charity sector and enables charities to be transparent by publishing information about their governance, activities, operations, and finances.

As at 30 November 2018, there were 56,650 charities registered with the ACNC. The ACNC regulates charities in Australia which are a sub-sector of the Not-for-profit sector. It is with regard to the impact of the proposed change on the charities sub-sector within which we frame our response. [ACNC Commissioner's Policy Statement 2017/04: Financial reporting scaffolding policy](#) guides ACNC participation in dialogue about financial reporting.





The ACNC agrees with the proposals to provide temporary relief for the Not-for-profit (NFP) private sector lessees from fair valuing the right-of-use (ROU) assets arising from leases that have significantly below market terms and conditions once AASB 1058 *Income of Not-for-profit Entities* and AASB 16 *Leases* come into effect from 1 January 2019.

The requirement to disclose qualitative and quantitative information about ROU assets associated to the temporary relief is welcomed as it provides transparency and accountability for the public including users of financial statements. The ACNC does not consider the proposed disclosure overly cumbersome and information needed for the disclosure requirement should be readily available by charities.

The ACNC supports charities to have the option to grandfather ROU assets, not requiring to fair value existing peppercorn leases, however, some charities may already be working through these requirements and potentially incurring significant costs and using precious resources. It is therefore pertinent to consider possible options for temporary or permanent relief at the earliest stages. There is a need to conduct broad consultation when effecting changes to existing and/or introducing new accounting standards. The ACNC believes the proposed disclosure requirement should also apply to permanently grandfathered ROU assets which are not measured at fair value.

The attached appendix provides the ACNC's detailed response to the Specific Matters for Comment as set out in ED 286. Please note that these responses focus on the perspective of NFP private sector entities which are ACNC registered charities and we have not considered the components in ED 286 that relate to NFP public sector entities (ie. Government entities).

Please do not hesitate to contact [REDACTED]
[REDACTED] should you have any queries in relation to the above.

Yours sincerely

[REDACTED]

[REDACTED]

Commissioner



Appendix – Response to Specific Matters for Comment – ED 286

1. *Do you agree with the proposed temporary option for not-for-profits to not measure right-to-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.*

The ACNC agrees with the proposed temporary option for NFP private sector entities to not measure ROU assets at initial recognition at fair value for leases with significantly below-market terms and conditions. As stated in the third object of the ACNC Act, the ACNC's remit is to promote the reduction of unnecessary regulatory obligations on the Australian NFP sector. The ACNC agrees that it would be inappropriate to require charities to incur unnecessary cost to fair value their ROU assets. Following the ACNC Legislative Review recommendation, if the reporting thresholds for the NFP private sector entities are revised in the future, this would ultimately result in a significant number of these charities no longer required to fair value their ROU assets (removing the requirement to prepare financial statements).

The ACNC has already received some feedback from charities of the difficulty of fair valuing some ROU assets especially those with restricted use, which is common within the charity sector. The ACNC suggests the AASB consult widely with NFP private sector entities when developing further guidance and examples of fair valuing ROU assets to ensure the guidance is relevant and useful to the NFP private sector.

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.*

The ACNC believes that a permanent option should be provided to allow NFP private sector entities to measure ROU assets at initial recognition at either fair value or cost for peppercorn leases entered into prior to the initial application of AASB 16. By providing temporary relief without an enduring solution, this leaves uncertainty within the sector. The sector will also need to monitor future developments in the guidance in fair valuing ROU assets which may lead to an increase in compliance costs and using associated resources.

The ACNC is cognisant that some NFP private sector entities have already undertaken work to enable fair valuing ROU assets to meet the requirements prior to the issuance of ED 286. The ACNC believes that these entities should be permitted to continue the implementation and allowed to fair value ROU assets



should they choose to, whilst giving other entities the option to measure existing ROU assets at cost.

Transparency and accountability should be the underlying principles in which financial information is provided that is useful to users in making decisions. Allowing the choice to measure ROU assets at fair value or cost with additional disclosures as proposed in ED 286 could be considered equally useful for users in making decisions about the NFP private sector entity.

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?*

The additional disclosure requirements set out in proposed paragraphs Aus59.1 and Aus59.2 would provide adequate information for users to understand the effects on the financial position, financial performance and cash flow of the entity. As required by Aus59.1, the additional information must be qualitative and quantitative in nature and should include; the description of the ROU assets, the lease term and payments, the restrictions and the dependence on these leases, allowing users of these financial statements to be aware that such ROU assets exist.

ACNC agrees that material ROU assets, if measured on a cost basis, should be presented individually on the face of the Statement of Financial Position. However the ACNC anticipates the possibility of confusion amongst some NFP private sector entities when considering whether ROU assets, although measured on a cost basis may not have a material impact overall to the financial position of the entity, the nature and dependency of the ROU asset would have an overall material impact on the charity to be able to carry out its activities in furthering their charitable purposes. The ACNC supports an example/s to be provided, either within the standards or in the form of a frequently asked questions document, to enable NFP private sector entities to fully understand the requirements of the proposed disclosures, and the possibility of the application of different accounting policies to measuring new and grandfathered ROU assets.

Response to General matter for comment

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



The ACNC believes *The AASB's Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately in making modifications for the NFP sector to ensure NFP entities are not incurring unnecessary costs in complying with measuring ROU assets at fair value especially if reporting thresholds could be revised in the future.

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?*

The ACNC is not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

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

As outlined in our response to question 3, both the quantitative and qualitative information required as additional disclosures would enhance the understanding of users seeking information and allow them to make decisions.

7. *Whether the proposals are in the best interests of the Australian economy?*

The ACNC considers the proposals are in the best interest of the Australian economy as the temporary relief option will prevent additional costs for NFP private sector entities and the additional disclosure requirements associated with the proposals are not considered onerous or costly to comply with.

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.*

As the ACNC does not collect data on these specific costs, we cannot provide comment. The ACNC does however support measures that seek to support greater transparency and accountability within the sector as per ACNC objectives.