



Technical Accounting Alert

TA 2021-4

ASIC allows certain AFS licensees to use lease assets to satisfy their licence financial requirements

Executive summary

On 29 April 2021, the Australian Securities and Investment Commission (ASIC) announced changes to the financial requirements for some type of Australian Financial Services (AFS) licensees in relation to the treatment of leased assets in 21-088MR *ASIC allows certain AFS licensees to use lease assets to satisfy their licence financial requirements*. These changes will allow certain AFS licensees to include, where the licensee is a lessee, a right-of-use asset recognised in accordance with AASB 16 *Leases* in the calculation of their net tangible assets (NTA). Where the right-of-use asset is a current asset, it may be included in the calculation of adjusted surplus liquid funds and surplus liquid funds.

To implement the changes, ASIC has updated:

- ASIC Class Order [CO 13/760] – *Financial requirements for responsible entities and operators of investor directed portfolio services*,
- ASIC Class Order [CO 13/761] – *Financial requirements for custodial or depository service providers*,
- ASIC Class Order [CO 12/752] – *Financial requirements for retail OTC derivative issuers*,
- the standard licence conditions in ASIC Pro Forma 209 – *Australian financial services licence conditions*, and
- ASIC Regulatory Guide 166 – *Licensing: Financial requirements*.

ASIC has also modified existing AFS licence conditions so that a right-of-use asset is deemed to not be an excluded asset.

Who is impacted?

All entities that currently possess an AFS licence who are required to present Net Tangible Assets (NTA) are impacted.

Background

The application of the new leases standard, AASB 16 *Leases*, results in a right-of-use asset (and a lease liability).

Neither AASB 16, nor its international equivalent (IFRS 16 *Leases*), explicitly state whether the right-of-use asset is tangible or intangible in nature. As a result, there has been disparity in practice regarding whether the right-of-use asset is considered a tangible or intangible asset for the purposes of calculating ratios (such as NTA) or compliance with covenants such as those commonly included in certain agreements.

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Previously, ASIC had announced that it considered right-of-use as being intangible in nature. On 6 December 2019, ASIC released Media Release 19-34MR *Financial reporting focuses for 31 December 2019*. In this media release, ASIC announced it considered right-of-use assets arising from the application of AASB 16 as intangible in nature and therefore it required that such assets were excluded from the calculation of NTA.

The changes announced in 21-088MR are thus significant as they represent a significant change in policy and interpretation by ASIC.



Further information

If you wish to discuss any of the information included in this Technical Accounting Alert, please contact your Grant Thornton Relationship Partner or a member of the Financial Reporting Advisory Team at fra@au.gt.com.