



# Technical Accounting Alert

## TA 2018-08

### AASB proposes relief for NFPs from fair valuing peppercorn leases

#### Introduction

The Australian Accounting Standards Board (AASB) has published ED 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*.

The ED proposes to introduce a relief allowing Not-for-Profit (NFP) entities to not measure peppercorn leases at fair value for initial measurement purposes when transitioning to AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*. Under the proposals, NFP entities will be allowed to measure peppercorn leases initially either at cost or fair value.

The term 'peppercorn lease' is generally used to describe a lease that has nil or nominal lease payments. However, in this document all leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives are referred to as 'peppercorn leases' for ease of reference.

#### The Amendments

AASB 1058 and AASB 16 are effective for annual reporting periods beginning on or after 1 January 2019.

These Standards currently require NFP entities to measure right-of-use assets at initial recognition at fair value in respect of leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.

However, the AASB has now decided to allow a temporary option for NFP entities to not measure such right-of-use assets at initial recognition at fair value, since further guidance is expected to be developed to assist NFP entities in measuring right-of-use assets at fair value. The temporary option would also avoid requiring NFP private sector entities at the lower level of the reporting thresholds to apply the fair value initial measurement requirements of AASB 16 when they might not be required to apply these requirements in the future as a result of recommendations arising from the Australian Charities and Not-for-profits Commission (ACNC) Legislative Review.

It is expected that the AASB will reassess the proposed optional measurement approach when further guidance has been developed to assist NFP entities in fair valuing right-of-use assets, and the financial reporting requirements for private sector not for profit entities have been finalised.



When an entity elects to apply the option to measure the right of use asset at cost (rather than fair value), it will need to provide additional disclosures in the financial statements (e.g. entity's dependence on peppercorn leases, the nature and terms of such leases) to assist users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

## Next steps

The ED is open for public comment until 7 December 2018. It is expected that the AASB will issue the final amendment by 31 December 2018.

## Effective date and transition

The amendment is expected to be effective for annual periods beginning on or after 1 January 2019. Earlier application will be permitted provided that AASB 1058 is also applied at the same time.

## Further information

If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your Grant Thornton Relationship Partner or a member of the National Assurance Quality Team at [national.assurance.quality@au.gt.com](mailto:national.assurance.quality@au.gt.com).