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Technical Accounting Alert TA 2019-16

Effect of AASB 16 on Net Tangible Asset Calculations

Introduction

The Australian Securities and Investments Commission (ASIC) has stated that it considers the right of use (ROU) assets arising from the application of AASB 16 *Leases* as a 'intangible assets', requiring entities to exclude such assets from Net Tangible Asset (NTA) calculations.

This development is particularly significant for many Australian Financial Services Licence (AFSL) holders who have an obligation to report on their NTA.

This may also be a relevant consideration for entities listed on the Australian Securities Exchange (ASX) which requires listed entities to report NTA per security as part of Appendix 4D *Half Year Report* and Appendix 4E *Preliminary Final Report*.

Background

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

Neither AASB 16, nor its international equivalent (IFRS 16 *Leases*), explicitly state whether the ROU asset is of tangible or intangible nature. As a result, there has been some uncertainty in practice as to whether the ROU asset should be considered as a tangible or intangible asset for the purposes of calculating ratios (such as NTA) and covenants.

ASIC Interpretation

On 6 December 2019, ASIC released Media Release 19-341MR [Financial reporting focuses for 31 December 2019](#), outlining ASIC's areas of focus for 31 December 2019 reporting season.

Among other things, the media release makes it clear that ASIC considers ROU assets arising from the application of AASB 16 as 'intangible assets' and thus such assets need to be excluded from the calculation of NTA which is a requirement for many Australian Financial Services Licence (AFSL) holders.

ASIC has expressed a similar view on contract assets (including trailing commissions) arising from AASB 15 *Revenue from Contracts with Customers*.

ASIC requires directors and auditors of affected entities to report any breaches to ASIC as required by *Corporations Act 2001*. As the financial condition requirements applicable to AFSL holders are on an 'at all time' basis, compliance needs to be considered from the commencement of the financial year to which the standard first applied (even if ASIC were to subsequently change a licensee's conditions to allow ROU to be counted in NTA calculations).

It is worth noting that, for capital adequacy purposes, prudential regulators have taken a slightly different interpretation. In particular, the [Basel Committee's view](#) is that the assessment of ROU asset as tangible or

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intangible asset should follow the nature of the underlying asset. This approach allows banks to treat an ROU asset as tangible when the underlying asset is tangible.

Further information



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