

Proposed changes to fair valuing 'peppercorn leases' for Not-for-profit Entities.

December 2018

The proposed Standard provides a temporary option for NFP entities to elect not to fair value 'peppercorn leases'.

Background

In light of the potential changes to the Australian conceptual framework for financial reporting, the AASB has released an Exposure Draft (ED 286) *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit (NFP) Entities*. The proposed Standard provides a temporary option for NFP entities to elect not to fair value 'peppercorn leases'.

Prior to the proposed amendments AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* required NFP entities to measure and recognise right-of-use (ROU) assets at fair value effective from reporting periods beginning on or after 1 January 2019 for all below-market i.e. 'peppercorn leases'.

Proposed changes

The proposed amendment provides temporary relief for NFP entities to measure a ROU asset at initial recognition for leases under AASB 16 and AASB 1058 upon the adoption of those Standards on 1 January 2019.

The options to measure the ROU assets are:

- + At cost – reflects the initial measurement of the lease liability; or
- + At fair value

The Exposure Draft provides a temporary option since further guidance is expected to be released at a later date.

This means that engaging an external consultant to conduct a valuation on a ROU asset should be deferred where possible.

Additional disclosure

The Exposure Draft also proposes that additional disclosures will need to be made by NFPs that choose to measure any ROU assets at cost rather than at fair value.

When will this apply?

The proposed option is expected to apply for reporting periods beginning on or after 1 January 2019 and the AASB expects final amendments to be released by 31 December 2018.

The AASB's Exposure Draft can be found here: [ED 286 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities](#).