

[AASB release proposed changes to accounting for peppercorn leases](#)

On 23 November 2018, the AASB released an [exposure draft](#) which proposes to provide temporary relief to Not-for-Profit Entities (NFPs) from fair valuing Right-of-Use Assets as required by AASB 16 and AASB 1058.

The proposed changes are a result of feedback received by the AASB on the difficulties associated with valuations of NFP's specialised assets.

AASB 16 and AASB 1058 will be mandatory for NFPs for reporting periods beginning on or after 1 January 2019. Under the existing version of these standards, NFPs that have a peppercorn lease (or a lease that is significantly less than fair value), are required to measure the right of use asset at fair value on commencement of the lease. This results in a day one income, recognised in profit or loss. The requirement to fair value the Right of Use Asset may provide significant challenges to an NFP and would likely incur significant cost as an external valuer will be required in most instances.

The AASB are acknowledging that the ACNC legislative review is still on-going. The outcome of which is currently unknown, but it may result in thresholds being increased such that some NFPs may no longer be required to apply Australian Accounting Standards. In addition, there is an ongoing project to develop guidance to assist NFP entities in fair valuing assets. As a result of these ongoing projects, the AASB is proposing to provide temporary relief until these projects are finalised.

It should be noted that the relief is both temporary and optional. NFPs wishing to fair value Right of Use Assets can continue to apply the requirements of AASB 16 and AASB 1058.

NFPs that elect to apply the relief will be required to include additional disclosures to explain the impact of the peppercorn leases on their financial position and results. The extent of these disclosures is set out in the exposure draft, [ED 286](#).

Due to the imminent effective date of the standards effective, the exposure draft only has a 14 day comment period. Comments are due to the AASB by 7 December 2018. We encourage affected NFPs to provide comments to the [AASB](#) directly, or reach out to your Crowe Horwath adviser to include your comments in our submission to the AASB.

If you are engaging external valuers for this purpose, we recommend this is put on hold until further notice.

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