

Explanatory Statement

Accounting Standard AASB 2018-8 ***Amendments to Australian Accounting Standards –*** ***Right-of-Use Assets of Not-for-Profit Entities***

December 2018



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2018-8

This Standard makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015), AASB 16 *Leases* (February 2016), AASB 117 *Leases* (August 2015), AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016).

AASB 1058 made amendments to AASB 16 to require not-for-profit 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 ('concessionary leases').

However, the AASB decided to issue AASB 2018-8 to provide a temporary option for not-for-profit entities to not measure a class or classes of right-of-use assets arising under concessionary leases at initial recognition at fair value, since further guidance is expected to be developed to assist not-for-profit entities in measuring right-of-use assets at fair value. The temporary option would also avoid requiring not-for-profit 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 of the ACNC Legislative Review.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2018-8

Main Requirements

AASB 2018-8 amends AASB 1, AASB 16, AASB 117, AASB 1049 and AASB 1058 to provide a temporary option for not-for-profit entities to elect to measure a class (or classes) of right-of-use assets arising under concessionary leases at initial recognition either at cost or at fair value. The Standard requires an entity that elects to apply the cost option to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

Application Date

AASB 2018-8 applies to annual reporting periods beginning on or after 1 January 2019, which is the mandatory effective date of AASB 16 and AASB 1058. Earlier application is permitted provided that AASB 1058 is also applied at the same time.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued an Exposure Draft ED 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* in November 2018 for public comment by 7 December 2018. The Board received 21 submissions. All respondents agreed that not-for-profit entities should be given some form of relief to not measure right-of-use assets for concessionary leases at initial recognition at fair value. Some respondents agreed that the relief should only be given on a temporary basis until further guidance has been developed to assist not-for-profit entities in fair valuing right-of-use assets and the financial reporting requirements for not-for-profit private sector entities have been finalised. However, other respondents were of the view that the option to elect either cost or fair value measurement should be made available on a permanent basis for all concessionary leases.

The AASB considered the feedback and decided to issue AASB 2018-8 to provide temporary relief to permit not-for-profit entities to elect to measure a class (or classes) of right-of-use assets arising under concessionary leases at initial recognition either at cost or at fair value. At a later time, when fair value measurement guidance has been developed and the not-for-profit private sector financial reporting requirements have been finalised, the AASB will consider whether the option should be made permanent.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2018-8 as the amendments made to provide a temporary option do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*

Overview of the Accounting Standard

AASB 2018-8 makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015), AASB 16 *Leases* (February 2016), AASB 117 *Leases* (August 2015), AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007) and AASB 1058 *Income of Not-for-Profit Entities* (December 2016).

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AASB 2018-8 amends AASB 1, AASB 16, AASB 117, AASB 1049 and AASB 1058 to provide a temporary option for not-for-profit entities to elect to measure a class (or classes) of right-of-use assets arising under concessionary leases at initial recognition either at cost or at fair value. The Standard requires an entity that elects to apply the cost option to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.