

AFSL entities with leases under AASB 16

ASIC's media release in December 2019 advised AFSL holders that the right-of-use asset resulting from adoption of the new accounting standard on leases (AASB 16) will be intangible, which may impact AFSL holders' compliance with licensing conditions.

On 6 December 2019 ASIC issued a press release which included the following statement:

"Many Australian Financial Services (AFS) Licensees are subject to financial condition requirements that may be affected by the new standards. For example, a net tangible assets requirement **would** include lease liabilities, but **intangible assets such as a lease right-of-use asset would not** be counted in meeting that requirement.

Directors and auditors of AFS licensees should report any breaches of financial condition requirements to ASIC as required by the Corporations Act 2001. Because the financial condition requirements 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. This is the case even if ASIC were to subsequently change a licensee's conditions to allow right-of-use assets to be counted. Similar issues may arise with contract assets recognised in accordance with the revenue standard."

Effectively this is telling AFSL holders that any **right-of-use asset** under AASB 16 will be intangible, and therefore be excluded from the Net Tangible Asset requirement calculation; however, the **liability** will need to be included. Resulting in potential AFSL breaches.

ASIC currently has a sharp focus on AFSL breach reporting by the auditor and the Directors. During stakeholder consultation, ASIC advised that the purpose of their press release was to remind AFSL holders to report breaches, rather than about how to account for leases.

They further advised that if they receive a number of breach reports because of accounting for leases, they will consider changing all AFSL licencing conditions to rectify the issue.

While AFSL holders may not have a lease directly in its own name, the entity may have a sub-lease for office space, for example.

The AFSL conditions are in force 'at all times', so it is advisable not to wait for the year end to consider if you're impacted.

How we can help

Any AFSL holder that has a property lease or a lease of another asset, even if it is a sub-lease, can speak with their ShineWing Australia representative to ensure they are not in breach of their licencing conditions.

Contact Us

Contact one of our experts below to discuss how these changes might present an opportunity for your business.



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