

AFS Licensee: lease assets treatment

Reporting Update

30 April 2021, 21RU-010



ASIC modifies treatment of right-of-use assets for AFSL financial condition requirements

Sunset date 1 May 2026

AFS financial conditions – tangible vs intangible

Highlights

- Right-of-use asset not an 'excluded asset'
- Background

Right-of-use asset not an 'excluded asset'

ASIC amended requirements for those types of entities holding Australian financial services (AFS) licences set out in RG 166 *Licensing: Financial requirements* in relation to their treatment of leased assets. Existing AFS licence conditions have been modified so that a right-of-use asset is deemed to not be an excluded asset. Where the licensee is a lessee, the change will allow them to:

- include a right-of-use asset in the calculation of their net tangible assets (NTA)
- where a right-of-use asset is a current asset, include within adjusted surplus liquid funds and surplus liquid funds.

The ASIC Instrument effecting this change, *ASIC Corporations (Licence Conditions—Treatment of Lease Assets) Instrument 2021/229*, has a sunset date of 1 May 2026.

Concurrently ASIC has revoked the temporary no-action position for breaches caused by the exclusion of right-of-use assets in financial condition requirements.

These changes have immediate effect.

Background

AFS licensees are subject to financial condition requirements. Such conditions could include an NTA requirement under relevant conditions or Class Orders. ASIC has previously communicated that the implementation of the new accounting standard, AASB 16 *Leases* may impact an entity's ability to meet its AFS financial condition requirement, as in ASIC's view, right-of-use assets are usually an intangible asset.

An AFS licensee's NTA equals its adjusted assets minus its adjusted liabilities. The calculation of adjusted assets includes subtracting 'excluded assets' from the value of total assets in the AFS licensee's balance sheet.

The definition of 'excluded assets' includes intangible assets. This means that an AFS licensee will be unable to include a right-of-use asset in its adjusted assets. However, an AFS licensee will usually need to include the lease liability recognised under AASB 16 in its adjusted liabilities. The asymmetrical treatment of right-of-use assets and lease liabilities may have impacted an entity's ability to meet its AFS financial requirement.

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