Project **Leases**

Topic **Disclosures for lessees**

## Purpose of paper

1. In developing the Leases discussion paper, the boards did not develop preliminary views on disclosure requirements.
2. Because of the cross-cutting nature of leases, a lessee must comply with the disclosure requirements in many standards and topics. Therefore, this paper focuses on:
   (a) the disclosure requirements for lessees about their leasing activities that are not already required by existing literature; and
   (b) other relevant disclosures required by other topics and standards that need to be addressed.
3. Appendix A presents a draft on how the disclosure requirements proposed in this paper would look in a draft standard style.
4. Appendix B lists the full set of disclosures by a lessee about its leasing activities (both those proposed in this paper and those already required in existing literature). We will decide whether and how to incorporate these disclosures either as a cross-reference to existing requirements, or by specifying them in the leases standard/requirement when we draft it. If the boards think that there are additional requirements that users would find critical to understand a lessee's activities, please let the staff know before the board meeting.

## Approach to disclosures

5. Our over-arching principle on disclosures is to ensure that the information in the notes complements the information presented in the financial statements to achieve the objective of financial reporting – to provide useful information for users to make decisions, eg to predict future cash flows.

6. In developing the disclosure requirements for lessees we first considered the relevance of current lease disclosure requirements and applicable standards on intangible assets and financial liabilities. Our approach was then to identify disclosures that are additional to the current requirements.

7. Appendices C1-C3 compare the proposed disclosure requirements in this paper to existing disclosure requirements in Topic 840 *Leases* of the *FASB Accounting Standards Codification*™ and IAS 17 *Leases* and IFRS 7 *Financial Instruments: Disclosures*. (IAS 17 specifies that a lessee has to comply with the disclosure requirements in IFRS 7.) These appendices also explain why some disclosures have not been carried forward in the proposed leases requirement.

## Structure of paper

8. In structuring our analysis, we have followed the *Investors Technical Advisory Committee* (ITAC) Disclosure Framework as a guideline, which is similar to how the boards have developed disclosures in recent projects. This paper is structured as follows:

   (a) General

      (i) Disclosure principles

      (ii) Nature of leasing arrangements

      (iii) Short-term leases

      (iv) Sale and leaseback transactions

      (v) Fair value disclosures.

   (b) Composition: roll-forward (reconciliation)

(c) Assumptions and estimates:

(i) Significant judgements

(ii) Risks: liquidity risks and market risks.

## General

***General: Disclosure principles***

9. IAS 17 and Topic 840 do not have clear disclosure principles for lease transactions.

10. We propose developing a disclosure principle to meet the needs of users (as requested by the ITAC) and to provide a basis for developing more specific disclosure requirements. This principle is similar to those in other joint projects concurrently being developed, eg revenue recognition and fair value measurement.

11. A proposed disclosure principle is:

**An entity shall disclose the quantitative and qualitative financial information that:**

(a) **identifies and explains the amounts recognised in its financial statements arising from lease contracts; and**

(b) **enables users to evaluate the nature and extent of risks arising from lease contracts and the way in which the entity manages those risks.**

| Recommendation and Question 1 |
|---|
| We propose the following disclosure principle:<br><br>An entity shall disclose the quantitative and qualitative financial information that:<br><br>a) identifies and explains the amounts recognised in its financial statements arising from lease contracts; and<br><br>b) enables users to evaluate the nature and extent of risks arising from lease contracts and the way in which the entity manages those risks. |

| Do you agree? |
|---|

***General: Nature of leasing arrangements***

12. Currently both ASC paragraph 840-10-50-2 and IAS 17 require a lessee to provide a general description of its leasing activities. ASC paragraph 840-10-50-2 prescribes:

> A general description of the lessee's leasing arrangements including, but not limited to, the following:
>
> a. The basis on which contingent rental payments are determined.
>
> b. The existence and terms of renewal or purchase options and escalation clauses.
>
> c. Restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

13. Requiring a general description of a lessee's leasing arrangement is useful because it provides users with a basic understanding of the lessee's leasing arrangements. Therefore, we recommend carrying forward this requirement, but with modifications based on the new leases model.

14. The proposed disclosure requirement is:

A lessee shall disclose information that explains that the nature of its leasing activities. This may include information on:

(a) the basis and terms on which contingent rentals are determined;

(b) the existence, and the terms, of renewal, termination and purchase options that were recognised as part of the right-of-use asset, and also those that were not included;

(c) the existence, and the terms, of residual value guarantees; and

(d) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

| Recommendation and Question 2 |
| --- |
| We recommend that a lessee should be required to provide a general description of the lessee's leasing activities.<br><br>Do you agree? |

### *General: Short-term leases*

15. The boards have previously agreed to allow an entity to apply a simplified form of lease accounting for short-term leases. For entities that apply this model, we suggest additional disclosures on:

    (a) the fact that this exemption is being used, so that users will know if and when an entity applies the simplified form; and

    (b) the amount in the financial statements for those leases that were accounted for using the simplified model, because:

        (i) a user will know how much of the lessee's activities are long-term to assesses timing of future cash flows; and

        (ii) it is consistent with the proposals in Financial Statement Presentation project to disaggregate similar assets/liabilities that are measured on different bases.

| Recommendation and Question 3 |
| --- |
| We recommend that if the lessee applies a simplified form of lease accounting for short-term leases instead of the proposed new model, that fact should be disclosed. That lessee shall also disclose the amounts recognised in the financial statements that were accounted for using the simplified model.<br><br>Do you agree? |

### *General: Sale and leaseback transactions*

16. Paragraph 840-10-50-1 requires the lessee (seller in a sale and leaseback transaction) to disclose a description of the terms of the sale and leaseback transaction, including future commitments, obligations, and provisions, or

circumstances that require or result in the seller-lessee's continuing involvement.

17. There is no such requirement in IAS 17.

18. Because sale and leaseback transactions can cause a significant change in the capital structure of the entity and could give rise to significant non-recurring gains and losses, we recommend that if an entity enters into a sale and leaseback transaction, that entity shall disclose:

    (a) that it entered into a sale and leaseback transaction;

    (b) material terms and conditions related to that transaction. Often these transactions include restrictions on the underlying asset and such information is relevant to users; and

    (c) any gains or losses arising from those transactions separately from other types of sales of assets because the nature of these gains/losses is different from generic disposals/sale of assets.

| **Recommendation and Question 4** |
|---|
| We recommend that if a lessee enters into a sale and leaseback transaction, it shall disclose:<br>a) that fact;<br>b) material terms and conditions relating to that transaction; and<br>c) any gains or losses arising from those transactions separately from other gains or losses on disposal or sale of assets.<br>Do you agree? |

***General: fair value disclosures***

19. The lessee's obligation to pay rentals is a financial liability. IFRS 7 requires the disclosure of the fair value of each class of financial liability in a way that permits it to be compared with its carrying amount (if measured other than at fair value). In addition, the entity would have to disclose the methods, valuation techniques and assumptions used in determining the fair value.

20. Requiring lessees to disclose the fair values of their obligation to pay rentals is useful because:

    (a) it permits comparisons of financial instruments with similar economic characteristics; and

    (b) it indicates the effects of an entity's decisions to incur, maintain or discharge its financial liabilities.

21. Currently, under IFRS 7, a finance lessee is required to disclose the fair value of its obligations to pay. We think that determining the fair value of a finance lease liability is much easier than determining the fair value of an obligation to pay rentals in the new model that will incorporate options, contingencies and residual value guarantees.

22. Consequently, we do not recommend, for cost-benefit reasons, that a lessee should be required to disclose the fair value of its obligation to pay rentals. The boards have tentatively decided that the lessee's obligation to pay rentals will be measured at amortised cost, partly because it is simpler and less costly for preparers. Requiring an entity to calculate the fair value of the obligation to pay rentals at each reporting date for the purposes of disclosures would reintroduce the cost and complexity that the boards were trying to avoid.

23. Moreover, in US GAAP there is currently no requirement to disclose the fair value of the obligations arising from a lease contract.

| **Recommendation and Question 5** |
| --- |
| We recommend that a lessee does not have to disclose the fair value of its obligation to pay rentals. Do you agree? |

## Composition

### *Composition: roll-forward (reconciliation)*

24. We recommend requiring a reconciliation between the opening and closing balances of the right-of-use asset and the obligation to pay rentals during the year. This is because::

    (a) it provides information about what has caused the changes in the carrying amount of the right-of-use asset and obligation to pay rentals during the year. Furthermore, the ITAC disclosure framework recommends that each major account or line item should provide information on what is included (eg an item breakdown and netting – such as loans net of provisions) and a roll-forward when appropriate (including amounts attributed to increases or decreases arising from changes in estimates); and

    (b) users are provided with consistent disclosures for all intangible assets and property, plant and equipment.

25. A reconciliation or roll-forward could look like the following example. Some parts of the reconciliation below are already required by other standards/topics (eg IAS *Accounting Policies, Changes in Accounting Estimates and Errors* and Topic 250 *Accounting Changes and Error Corrections* require separate disclosures of any changes in estimates):

| | Right-of-use assets CU[1] | Obligation to pay rentals CU |
|---|---|---|
| Balance at 1 January 20X0 | XXXX | (XXXX) |
| Changes in estimates[2] from: | | |
| options | XX | (XX) |
| contingent rentals | XX | XX |
| residual value guarantees | XX | (XX) |
| | XXX | (XXX) |
| Revaluations (for IFRSs) | XX | - |
| New rights-of-use/(obligations) | XXX | (XXX) |
| | XXXX | XXXX |
| Impairment[3] | (XXX) | - |
| Accumulated amortisation at 1 January 20X0 | (XXX) | - |
| Amortisation during the year | (XX) | - |
| Accumulated amortisation at 31 December 20X0 | (XXX) | |
| Disposals of rights-of-use/ (obligations) | (XXXX) | XXXX |
| Repayments of obligations | - | XXX |
| **Balance at 31 December 20X0** | **XXXX** | **(XXXX)** |

**Recommendation and Question 6**

We recommend that the lessee provides a reconciliation between opening and closing balances for the right-of-use assets and obligation to pay rentals.

Do you agree?

[1] CU = currency units
[2] This is a required disclosure in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and Topic 250 *Accounting Changes and Error Corrections*.
[3] This is a required disclosure in IAS 36 *Impairment of Assets* and Sub-topic 360-10-45 *Property, Plant and Equipment – Other presentation matters - Impairment or Disposal of Long-Lived Assets*.

## Assumptions and estimates

### *Assumptions and estimates: significant judgements*

26. In the new leases model, a lessee will have to exercise judgement to faithfully represent its leasing transactions such as in:

    (a) determining the term of the lease;

    (b) determining whether purchase options will be exercised;

    (c) estimating contingent rentals (using the expected outcome technique);

    (d) determining the incremental borrowing rate; and

    (e) determining the amortisation method for right-of-use assets.

27. We recommend that the lessee should provide narrative description of those judgements, because:

    (a) a user would need to assess and evaluate those judgements to better understand the amounts disclosed.

    (b) it would improve the relevance and completeness of (and therefore more faithfully represent) the information provided on its leasing activities.

    (c) it is consistent with the requirements in IAS 1 *Presentation of Financial Statements* or Topic 275 *Risks and Uncertainties*, where an entity is required to provide information about key assumptions and major sources of uncertainties.

28. Next, what level of detail or form of disclosures do the boards want to prescribe? Do the boards want:

    (a) a general disclosure requirement where an entity determines which significant assumptions or estimations it made during the year?

    (b) to specify disclosure of particular transactions that require more estimations? For this option, we suggest specifying disclosure of assumptions related to the amortisation method, contingent rentals, residual value guarantees and purchase, termination and renewal options and the discount rate in the lease.

29. An analysis of these options is below:

| Option | Advantages | Disadvantages |
|---|---|---|
| General disclosure requirement | • More flexible, because circumstances change from entity to entity<br>• Preparers could provide more information on most of its transactions relating to users | • Potential for boiler-plate disclosures particularly when an entity has many leases<br>• Less guidance for lessees on what is a 'significant' assumption |
| Specific disclosure requirements | • Provides users with specific items that are more relevant for users' attention | • Some material information could be lost, because many preparers tend to view these specific disclosures as no more than a list of things to comply with |

30. We recommend option (b) - to specify disclosure of a lessee's assumptions and estimates about the amortisation method used, options, contingent rentals, contingent value guarantees and the discount rate used when determining the right-of-use asset and obligation to pay rentals because it provide users with more information about those transactions that that require more estimation.

**Recommendation and Question 7**

We recommend that the lessee provide a narrative disclosure on its assumptions and estimates on:

a) the amortisation method used;

b) options;

| |
|---|
| c) contingent rentals;<br><br>d) residual value guarantees; and<br><br>e) the discount rate used in the lease,<br><br>when determining its right-of-use assets and obligation to pay rentals.<br><br>Do you agree? |

***Assumptions and estimates: risks***

*Liquidity risks*

31. IAS 17 requires a finance lessee to disclose the total future minimum lease payments at the end of the reporting period and their present value for each of the following periods:

    (a) not later than one year

    (b) later than one year and not later than five years

    (c) later than five years.

32. However US GAAP (paragraph 840-30-50-1b) requires that disclosure to be made for each of the five succeeding fiscal years.

33. In addition, IFRS 7 and Topic 470 *Debt* also require an entity to disclose a maturity analysis for financial liabilities that shows the remaining contractual maturities, which is a type of disclosure on liquidity risk. IFRS 7 allows an entity to use its judgement to determine an appropriate number of time bands but paragraph 470-10-50-1 requires an entity to disclose the aggregate amount of maturities for each of the five years following the date of the latest balance sheet presented.

34. We recommend carrying forward the disclosure requirement for a maturity analysis of the gross (undiscounted cash flows) obligation to pay rentals to show remaining i) contractual maturities and ii) other obligations including contingent rentals because it assists users to understand and evaluate the nature and extent of liquidity risks. The lessee would also have to reconcile that gross obligation

to pay rentals to the obligation to pay rentals presented in the financial statements.

35. We propose separate disclosures of remaining minimum contractual maturities and total obligation because it shows how much of the lessee's future obligations are committed and how much could be 'avoided'. For example, a lessee deems that it will lease a machine for 7 years. This is based on a 5-year contract and a 2-year option to renew. Consequently, it would disclose 5 years of obligations as contractual obligations, and 7 years of obligations as total obligations.

36. Assuming the boards agree that the lessee shall disclose a maturity analysis for the obligation to pay rentals, what level of detail do the boards want to specify this analysis? Shall it be: a) on a yearly basis (as required by US GAAP), b) something similar to IAS 17 or c) allow the entity to determine the appropriate number of time bands similar to IFRS 7?

37. If the boards were to allow the lessee to determine the appropriate time bands:

    (a) it will provide the flexibility to reflect the different leasing arrangements that it has. For example, an airline may have leased five aircrafts with different lease terms – eg some with options to extend and others with options to terminate earlier.

    (b) for IFRSs, it is consistent with the disclosures of other financial liabilities.

38. In the interest of convergence, we recommend specifying that the maturity analysis must be disclosed on an annual basis for the first five years, with a lump sum figure for the remaining amounts, because this would help improve comparability for leases. For IFRS constituents, we acknowledge that this would mean that the lessee's obligations would be presented differently from other financial liabilities, where the entity determines the appropriate time bands.

39. We rejected the disclosure requirements similar to IAS 17 because we think that a lessee would already need to prepare a projection for the subsequent five years irrespective of how it is presented in the notes. So if there were already doing that computation, it would make sense to also produce that information.

40. An example of the lessee's maturity analysis for the year ended 31 December 20X0 is below:

| | Contractual obligations CU | Total obligations CU |
|---|---|---|
| 20X0 | XX | XX |
| 20X1 | XX | XX |
| 20X2 | XX | XX |
| 20X3 | XX | XX |
| 20X4 | XX | XX |
| Thereafter | XX | XX |
| Total | XXX | XXX |

Contractual obligations are the minimum, non-cancellable, gross cash outflows that the lessee has contracted. Total obligations include options and contingent rentals that the lessee expects to be more likely than not to be exercised.

**Recommendation and Question 8**

We recommend requiring that the lessee disclose:

a) a maturity analysis of the gross obligation to pay rentals showing the remaining minimum contractual maturities and total obligations. The lessee would also have to reconcile the total gross obligation to the total obligation to pay rentals presented in the financial statements.

b) a maturity analysis on an annual basis for the first five years and a lump sum figure for the remaining amounts.

Do you agree?

*Market risks*

41. A lessee could be exposed to market risks based on the terms of the lease. For example, a lease could be denominated in a foreign currency or the interest rates in the lease could be variable. (IFRS 7 defines market risk as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of

changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.)

42. IFRS 7 requires disclosures of an entity's market risks. Disclosing market risk information is done by presenting a sensitivity analysis for each type of market risk that the entity is exposed to and showing how profit or loss and equity would have been affected by changes in the relevant risk variable.

43. SEC Regulation S-K Item 305 *Quantitative and Qualitative Disclosures About Market Risk* requires SEC registrants to provide market risk disclosures similar to IFRS 7 as part of it's management discussion and analysis section. Section 825-10-50 *Financial Instruments – Overall-Disclosure* also encourages an entity to provide information about it market risks for all financial instruments.

44. Both GAAPs require or encourage an entity to provide similar information when disclosing market risks. Both discuss:

    (a) providing market risk information based on how the entity views, manages and adjusts its risks.

    (b) showing the profit or loss that could be affected by changes in the market prices.

45. Providing market risk information is important because it informs users on how those risks could affect the entity's cash flows. Therefore we recommend that a lessee discloses the market risks associated with its obligation to pay rentals.

| **Recommendation and Question 9** |
|---|
| We recommend that a lessee discloses information about its market risks associated with its obligation to pay rentals.<br><br>Do you agree? |

# Appendix A: Draft proposed disclosure section for lessee

***Disclosure principles***

***1.*** ***[Question 1] An entity shall disclose the quantitative and qualitative financial information that:***

***(a)*** ***identifies and explains the amounts recognised in its financial statements arising from lease contracts; and***

***(b)*** ***enables users to evaluate the nature and extent of risks arising from lease contracts and the way in which the entity manages those risks.***

2. If the specific disclosures required by this and other IFRSs and the guidance in the Accounting Standards Codification do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.

***Lessee***

3. [Question 2] A lessee shall disclose information that explains the nature of its leasing activities. This may include information on:

(a) the basis and terms on which contingent rentals are determined;

(b) the existence and terms of renewal, termination and purchase options that were recognised as part of the right-of-use asset and those that were not included;

(c) the existence and terms of residual value guarantees; and

(d) the restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

4. [Question 6] To provide information that explains the amounts in the financial statements, the lessee shall disclose a reconciliation between opening and

closing balances for each class[4] of right-of-use asset and obligation to pay rentals.

5. To explain the significant assumptions and risks arising from lease contracts, the lessee shall also make the following disclosures:

   (a) [Question 7] narrative disclosure of significant judgments, and changes in judgments relating to the amortisation methods, options, contingent rentals, residual value guarantees and the discount rate used when determining the right-of-use assets and obligation to pay rentals.

   (b) [Question 8] a maturity analysis of the obligation to pay rentals showing the undiscounted cash flows of the remaining contractual maturities and total obligations including contingent rentals on an annual basis for the first five years from the reporting date and a lump sum figure for all the remaining amounts. The lessee shall also reconcile that total gross obligation disclosed to the total obligation to pay rentals presented in the financial statements.

   (c) [Question 9] sensitivity analysis about the market risk of the obligation to pay rentals that is consistent with the way the lessee manages or adjusts its risks. The lessee shall include information how the profit or loss that would have been affected by changes in market risks that were reasonably possible at the reporting date and an explanation of the methods and assumptions used in preparing the sensitivity analysis.

6. [Question 3] If an entity applies the simplified form of lease accounting for leases that have a maximum possible lease term of less than 12 months, it shall disclose:

   (a) the fact that it applied the simplified form of lease accounting; and

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[4] We have included this as class of assets because both our presentation paper proposes to disclose based on nature of the underlying asset and because IAS 16 *Property, plant and equipment* and Topic 360 *Property, Plant and Equipment* require an entity to disclose its property, plant and equipment by classes of assets.

(b) the amount recognised in the financial statements that were accounted for using the simplified model.

7. [Question 4] If an entity enters into a sale and leaseback transaction, the lessee shall report that fact, and disclose any gains or losses separately from other gains or loss on disposal of assets. The entity shall also disclose material terms and conditions for that transaction.

# Appendix B
# Disclosure list by lessees about leasing information

This appendix lists the disclosures required of a lessee about its leasing activities – both 1) proposed in the staff paper and 2) required in existing literature.

| | **Information** | **Source** |
|---|---|---|
| | ***General information about lessee's leasing activities*** | |
| 1. | Disclosure principles | Staff recommendation in this paper (Q1) |
| 2. | Accounting policies and basis for selection | IAS 8, Topic 235 |
| 3. | Nature of leases, including<br>a) restrictions<br>b) terms and conditions fn options<br>c) information about contingent rentals<br>d) information about residual value guarantees | Staff recommendation (Q2) |
| 4. | Short-term leases:<br>a) disclose if using the simplified model<br>b) amounts that were accounted for using simplified model | Staff recommendation (Q3) |
| 5. | Sale and leaseback transaction<br>a) if it entered into a sale and leaseback transaction<br>b) material terms and conditions of transaction<br>c) gains/losses | Staff recommendation (Q4) |
| | | |

| | Information | Source |
|---|---|---|
| | ***Composition***[5] | |
| 6. | Reconciliation (roll-forward) of opening and closing balance by classes of assets<br>a) opening and closing balances<br>b) changes in estimates<br>c) revaluations and relevant disclosures when revaluing right-of-use asset (only for IFRS)<br>d) impairment<br>e) amortisation (including opening and closing balances)<br>f) New/disposed right-of-use assets or obligations<br>g) Classified as held for sale or included in a disposal group<br>h) net foreign exchange translation differences | Staff recommendation (Q6)<br>Class of assets: IAS 16, Topic 360<br>a) Staff recommendation<br>b) IAS 8, Topic 250<br>c) IAS 38<br>d) IAS 36, Topic 350<br>e) IAS 38, Topic 350 and staff recommendation<br>f) Staff recommendation<br>g) IFRS 5, Topic 360<br>h) IAS 21, Topic 830 |
| 7. | Circumstances that led to impairment (and for IFRSs, reversal of impairment)<br>Other disclosures required by IAS 36 or Topic 350 relevant to impairment | Topic 350, IAS 36 |
| | | |
| | ***Assumptions and uncertainties*** | |
| 8. | Narrative disclosures of judgements and specific disclosures on judgements related to:<br>a) contingent rentals<br>b) residual value guarantees<br>c) purchase and termination options<br>d) amortisation method<br>e) discount rate | Staff recommendation (Q7) |

[5] Note: This is not an exhaustive list on what could happen to right-of-use assets and obligation to pay rentals.

| | Information | Source |
|---|---|---|
| 9. | Disclosures about assumptions about major sources of estimations that have a significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within next financial year. Shall include details of: nature and carrying amount of assets and liabilities as at end of reporting period. | IAS 1, Topic 275 |
| 10. | Liquidity risks<br>Maturity analysis of obligation to pay rentals, showing remaining contractual maturities and total obligations on an annual basis for the next 5 years and a lump sum figure for the remaining amounts. | Staff recommendation (Q8) |
| 11. | Market risks<br>Information about:<br>a) how entity views, manages and adjusts market risks (eg currency risks) and<br>b) profit or loss affected by changes in market prices | Staff recommendation (Q9) |

# Appendix C1: *Comparison between the disclosure requirements in Topic 840 and proposed leases model*

| Para | Disclosure requirements in Topic 840 | Is this included in the new leases model? |
|---|---|---|
| 840-10-50-1 | The nature and extent of leasing transactions with related parties shall be disclosed. | Yes, for the FASB standard. There would not be any difference in practice in both GAAPs because IAS 24 *Related Party Disclosures* requires disclosures for all transactions between related parties. |
| 840-10-50-2 | The lessee shall disclose, in its financial statements or footnotes thereto, a general description of its leasing arrangements including, but not limited to, all of the following:<br>• The basis on which contingent rental payments are determined<br>• The existence and terms of renewal or purchase options and escalation clauses<br>• Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing. | Yes, but adapted to the new model. |
| 840-20-50-1 | For all operating leases, the lessee shall disclose rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals. | Not applicable as there will no operating leases. |
| 840-20-50-2<br>840-30-50-1b | For operating leases or capital leases:<br>a) Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years<br>b) The total of minimum rentals to be received in the future under noncancelable subleases as of the date | Re operating leases: not applicable.<br><br>Yes for a.<br>b) if an entity is both a lessor and a lessee, it will have to comply with the disclosure requirements for lessees and lessors. |

| Para | Disclosure requirements in Topic 840 | Is this included in the new leases model? |
|---|---|---|
| | of the latest balance sheet presented | Sublease issue would be dealt with when discussing lessor disclosures |
| 840-30-50-1c | The total of minimum sublease rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented. | To be discussed in lessor disclosure papers |
| 840-30-50-1d | Total contingent rentals actually incurred for each period for which an income statement is presented. | Not applicable |
| 840-30-45-1 | Assets recorded under capital leases and the accumulated amortization thereon shall be separately identified in the lessee's balance sheet or in footnotes thereto. | Yes |

# Appendix C2: *Comparison between the disclosure requirements in IAS 17 and in the proposed leases model*

| Para | Disclosure requirements in IAS 17 | Is this included in new leases model? |
|---|---|---|
| ***31, 35*** | ***Finance leases and operating lease***<br>***Lessee shall, in addition to meeting the requirements in IFRS 7 Financial Instruments: Disclosures, disclose*** | See Appendix C3 to review the comparison between IFRS 7 and the proposed leases model |
| 31a | For each class of asset, net carrying amount at the end of the reporting period | Yes |
| 35a, 31a | Reconciliation between total minimum lease payments and their present value. | No. Not necessary as the obligation to pay rentals presented in financial statements would be at present value. |
| 32, 35 | Disclose total future minimum lease payments at end of reporting period and their PV for each of the following periods:<br>i) not later than one year<br>ii) later than one year and not later than five years<br>iii) later than five years | Yes, only gross amounts of obligation to pay rentals and adapted to now include on an annual basis for the first five years from reporting period and thereafter. |
| 31c | Contingent rents recognised as expense in the period | Not applicable as contingent rents are now capitalised as part of the right-of-use asset |
| 31d, 35b | Total future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period. | To be discussed in lessor disclosure paper |
| 31e | General description of lessee's material leasing arrangements | Yes. |
| 32 | Requirements for disclosure in other IFRSs eg IAS 16, IAS 36, IAS 38, IAS 40, IAS 41 | To be dealt with as part of consequential amendments. |
| 35c | ***Operating Leases***<br>Lease and sublease payments recognised as expense in the period, with separate amounts for | Not applicable under right-of-use model |

| Para | Disclosure requirements in IAS 17 | Is this included in new leases model? |
|---|---|---|
| | minimum lease payments, contingent rents and sublease payments. | |

# Appendix C3 *Comparing the disclosure requirements in IFRS 7 on financial liabilities and new lessee model*

| | **IFRS 7** | **Does a lessee have to disclose this information in the model?** | **Staff remarks, where applicable** |
|---|---|---|---|
| | ***Statement of financial position*** | | |
| 1. | Para 8<br>Carrying amount of financial liabilities measured at amortised cost | Yes | |
| 2. | Paras 18 & 19 Defaults and breaches<br>Disclose relevant details of any defaults including interest, principal, carrying amount of loans payable and renegotiated terms | Not specifically required | The disclosure principle requires the lessee to identify and explain the amounts recognised in the financial statements. We think that if the lessee has defaults/breaches, this would be captured within this principle rather than needing a specific disclosure on this issue. |
| | ***Statement of financial performance*** | | |
| 3. | Para 20<br>• Disclose net gains/losses on loans, financial liabilities measured at amortised cost<br>• Total interest expense/income for financial liabilities not at fair value through profit/loss | Yes | See paper on presentation by lessee |

| | **IFRS 7** | **Does a lessee have to disclose this information in the model?** | **Staff remarks, where applicable** |
|---|---|---|---|
| | (FVTPL)<br>• Fee income/expense (other than amounts included in determining the effective interest rate) arising from financial liabilities that are not FVTPL | | |
| | ***Other disclosures: fair value*** | | |
| 4. | Paras 25-30<br>25. Except as set out in paragraph 29, for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.<br>27. An entity shall disclose for each class of financial instruments the methods and when a valuation technique is used, the assumptions applied in determining FV for each class of financial liability.<br>29. Disclosures of FV are not required:<br>a) when carrying amount is a reasonable approximation of FV | No | See staff paper to see reasons why not a required disclosure. |

| | **IFRS 7** | **Does a lessee have to disclose this information in the model?** | **Staff remarks, where applicable** |
|---|---|---|---|
| | b) derivatives linked to investments to equity instruments that do not have a quoted market price in an active market that are measured at cost because FV cannot be measured reliably<br>c) contract containing a discretionary participation feature (described in IFRS 4) if FV of that feature cannot be measured reliably. | | |
| | ***Nature and extent of risks arising from financial instruments*** | | |
| 5. | Para 31<br>An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. | Yes | |
| 6. | Para 33 Qualitative disclosures<br>For each type of risk (credit, liquidity, market), an entity shall disclose: (a) the exposure to risks and how they arise, (b) how it manages those risks and methods used to measure the risks and | Yes (but not for credit risk) | |

| | **IFRS 7** | **Does a lessee have to disclose this information in the model?** | **Staff remarks, where applicable** |
|---|---|---|---|
| | changes from previous period. | | |
| 7. | Paras 34-35 Quantitative disclosures<br>Summary quantitative data about its exposure to each type of risk and concentrations of risks if not apparent | | See following paragraphs |
| 8. | Para 36 Quantitative discl. on credit risk<br>Disclose:<br>• Amount that best represents max exposure to credit risk at end of reporting period without taking into account collateral held or other credit enhancements<br>• Description of collateral held as security and other credit enhancements | No, not applicable | |
| 9. | Para 39 Liquidity risk<br>Disclose:<br>• Maturity analysis for non-derivative financial liabilities (including financial guarantee contracts) that show remaining contractual maturities | Yes for the first bullet point. | The 2nd bullet point requires an entity to disclose how an entity manages liquidity risk for all contracted financial liabilities. Such a disclosure may include whether an entity has committed borrowing facilities, has diverse funding sources, has internal control processes.<br>We think that most entities will manage their |

| | IFRS 7 | Does a lessee have to disclose this information in the model? | Staff remarks, where applicable |
|---|---|---|---|
| | • Description of how entity manages liquidity risk | | financial liabilities as a whole rather than a specific 'leasing obligations'. Therefore, we do not propose this specific disclosure for lessee's obligations to pay. |
| 10. | Para 40 Market risk<br>a) If an entity prepares sensitivity analysis eg value-at risk that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks) and chooses to disclose that analysis, it shall disclose:<br>• explanation of method used and main parameters and assumptions<br>• explanations of objective of method used and limitations that may result information not fully reflecting fair value of liabilities involved.<br>b) If entity does not prepare sensitivity analysis as described in a, entity shall disclose<br>• sensitivity analysis for each type of market risk which entity is exposed to at end of reporting period showing how profit/loss and | Yes | |

| | **IFRS 7** | **Does a lessee have to disclose this information in the model?** | **Staff remarks, where applicable** |
|---|---|---|---|
| | equity would have been affected by changes in relevant risk variables<br>• methods & assumptions used<br>• changes in those methods/assumptions from previous years and why | | |