Staff Paper

Project	**IFRS Disclosure requirements**
Topic	**Disclosure of revenue recognition, leases and general**

Introduction

1. A response to the disclosures proposed in many projects is if they represent an appropriate balance between providing information that is:

   (a) relevant to users for making investment and lending decisions; and

   (b) that can be prepared and audited at a reasonable cost.

   However, it is not always clear if respondents think that the existing disclosure requirements appropriately balance the benefits to users and the costs to preparers.

2. In that context, the purpose of this meeting is to get input from GPF members and CMAC members on the relative costs and benefits of:

   (a) the draft disclosure requirements relating to revenue from contracts with customers and possible disclosure requirements for leases; and

   (b) the existing disclosure requirements for revenue and leases.

   The staff would also like to exchange broader views on disclosure requirements in the current IFRSs.

3. This session will be organised as a break-out where each group will discuss one of three topics:

   (a) disclosures relating to revenue from contracts with customers;

(b) disclosures relating to lease contracts; and

(c) general disclosures.

4. More details about each of the break-out discussions are provided in the following subsections.

5. During the break-out session, members will be split into three groups, each including users and preparers. Each group will have at least one Board member and one staff member at hand to answer queries. A copy of the IFRS Bound Volume (Red) will be provided.

Break-out session 1: *Revenue from Contracts with Customers*

6. In May 2011, the IASB and FASB redeliberated the disclosure proposals in the exposure draft *Revenue from Contracts with Customers* (ED).

7. The boards noted that, although respondents to the ED generally agreed with the disclosure objectives proposed, most respondents (mainly preparers, auditors and some professional bodies and standard-setters) stated that the disclosures specified in the ED would result in an increase in disclosure that may not be justified on cost-benefit grounds. Concerns were that the disclosures would be costly to prepare and that some of the information might be misconstrued (eg the relevance of the maturity analysis disclosure as a predictor of future revenues) or that the proposed requirements might yield boilerplate disclosure. Some of the responses suggested that each of the proposed disclosures have merit individually, but that the overall package of disclosures could be viewed as excessive. In contrast, users were generally supportive of the proposed disclosure package because they considered existing revenue disclosures to be insufficient.

8. The staff highlighted that some of the concerns raised about excessive disclosure may have arisen because the information required to be disclosed is not useful, possibly because it is immaterial. Consequently, at that meeting, the boards also emphasized that an entity would not need to disclose

information that is immaterial (which is consistent with existing requirements in IFRSs and US GAAP on materiality). However, the boards noted that, because the revenue standard would apply to entities operating in a wide array of industries, the standard needs to specify those revenue disclosures that might be relevant for some entities or industries but not others. Consequently, the long list of disclosures in the ED should not necessarily be considered an indicator of disclosure overload. That assessment should be made only after considering the application of those disclosures to particular types of entities or industries.

Summary of the draft revenue disclosures

9. The boards tentatively decided to retain the disclosure requirements that were proposed in the ED with the following amendments and clarifications on disclosures:

   (a) Disaggregation of revenue:

      (i) The revenue standard should not prescribe the specific categories into which an entity should disaggregate revenue. Instead, the standard should provide a clear disaggregation principle and examples of categories that may be appropriate.

      (ii) An entity should disaggregate revenue in the statement of comprehensive income or in the notes to the financial statements.

      (iii) An entity would not be required to also disaggregate the impairment loss allowance (for customers' credit risk that is presented adjacent to revenue).

   (b) Reconciliation of contract assets and contract liabilities:

      (i) The boards clarified that an entity should include additional line items in the reconciliation of contract assets and contract liabilities if those additional reconciling items would be needed for understanding the change in the balance of a contract asset or contract liability. The boards also tentatively decided that an entity does not need to include specified line items in the reconciliation if those reconciling items would not be useful for explaining a material change in that contract asset or contract liability balance.

(c) Disclosure of remaining performance obligations:

(i) An entity should disclose the amount of the transaction price that is allocated to remaining performance obligations for contracts that have both of the following attributes:

- an original expected contract duration of more than one year; and
- terms and conditions that result in the entity, in practice, being required to apply each step of the revenue model (specifically, to determine the transaction price and to allocate that transaction price to the separate performance obligations) in order to recognise revenue. An entity would not be required to provide this disclosure if, in practice, the entity would not need to specifically apply those steps of the revenue model to recognise revenue (eg for some 'time and materials' contracts).

(ii) An entity should explain when it expects those amounts to be recognised as revenue, either on a quantitative basis in time bands that would be most appropriate for the duration of the contract or by using a mixture of quantitative and qualitative information.

10. The boards tentatively decided that an entity should also disclose:

(a) A reconciliation of the carrying amount of an asset arising from the costs to acquire or fulfil a contract with a customer, by major classification (eg acquisition costs, pre-contract costs and setup costs).

(b) A description of the method used to determine the amortisation for the period.

11. Appendix A to this paper includes the revised proposed disclosures for the revenue standard and corresponding similar disclosure requirements in current IFRSs that would be replaced.

Discussion questions break-out session 1
For each disclosure requirement presented in Appendix A, the break-out group should: (a) identify the costs and benefits of the revised proposed disclosure requirement; (b) identify the costs and benefits of the corresponding disclosure requirement in existing standards; (c) compare those disclosures and discuss whether the revised proposed disclosure requirement should improve financial reporting as it relates to revenue; and (d) suggest possible enhancements that could be made to the revised proposed disclosure requirements.

Break-out session 2: *Leases*

12. The boards have not redeliberated disclosures in the leases project. The possible disclosure requirements prepared for this session are based on some of the views we have received and also reflect the changes in the boards' decisions on recognition and measurement as compared to the proposals in the exposure draft *Leases* (ED).

13. The table on next page summarises the main changes from the ED, based on the boards' tentative decisions to date:

Issues	Effect of redeliberations
Options to extend – the longest possible lease term that is more likely than not to occur	Include if significant economic incentive to extend lease term
Purchase options – exclude from the leases standard	Include if significant economic incentive to exercise
Variable lease payments – include using expected outcome technique	Include index– or rate–based Include in–substance fixed lease payments structured as variable lease payments Exclude payments based on usage or performance

14. Appendix B contains possible disclosure requirements, with references to existing requirements and proposals in the ED and possible staff recommendations. Appendix B also contains an illustration of how those disclosure requirements might be applied in a lessee's financial statements.

15. The possible requirements and illustration in Appendix B only address disclosures for lessees, as the boards have not yet finalised the decisions about the lessor accounting model. For ease of reference, Appendix C contains the full disclosure requirements proposed in the ED.

16. As the boards have yet to redeliberate disclosure requirements for leases, your input during the session will help us to finalise the staff's recommendations to the boards regarding disclosures.

Discussion questions break-out session 2

For the possible lease disclosure requirements and illustration of those requirements presented in Appendix B, the break-out group should:

(a) identify and discuss the costs and benefits of the possible disclosure requirements;

(b) suggest any enhancements that could be made to the possible disclosure requirements; and/or

(c) identify additional disclosures that would provide useful information to the users of financial statements.

Break-out session 3: Disclosures in general

1. Many comment letters on the revenue recognition and leases project and views received in various outreach meetings expressed a desire for a broader approach on disclosures in upcoming projects, such as the development of a disclosure framework.

2. There have been ongoing activities regarding disclosures and how to improve them in financial reports. For example, such work has been carried out by the Financial Accounting Standards Board (FASB), European Financial Reporting Advisory Group (EFRAG) and International Public Sector Accounting Standards Board (IPSASB). Several publications have been released regarding the debate about useful disclosures. For example, the Financial Reporting Council (FRC) in the UK published a document '*Cutting Clutter*' to address disclosure issues, such as boilerplate disclosures, and suggestions about how to overcome those issues.

3. The objective of the break-out session is to have a general debate on current IFRS disclosure requirements and potential improvements, rather than discussing those projects and publications as mentioned above.

4. In this context, the boards would be interested to get views from both preparers and users on which disclosures they think are least useful in current requirements. For example, preparers may think there are some disclosures that are required today but provide less useful information. Users may agree or they may think that these disclosures are more useful than perceived by the preparers

Discussion questions break-out session 3

Can you provide examples of disclosure requirements in current IFRSs:

(a) that are considered to be relatively less useful; or

(b) that should be reviewed to improve the communication between preparers and users?

Please prepare at least three examples to discuss during the debrief.

Appendix A: revenue recognition—disclosures

Statement of financial position

	Year ended 31/12/20X1
Intangible assets	X
Property, plant and equipment	X
Contract assets	X
Inventories	X
Trade and other receivables	X
Cash	X
	X
Borrowings	(X)
Payment received in advance from customer	(X)
Trade and other payables	(X)
Provisions	(X)
Liability for onerous performance obligations from contracts with customers	(X)
	(X)
Equity	(X)
	(X)

Statement of profit or loss and other comprehensive income

	Year ended 31/12/20X1
Revenue from contracts with customers	X
Impairment loss for contracts with customers	(X)
	X
Cost of sales	(X)
	X
Finance cost	(X)
Other expense	(X)
Profit before taxation	***X***
Tax expense	(X)
Profit	***X***
Total comprehensive income	***X***

Disaggregation

Current IFRSs		Proposed requirements
IAS 18.35b	An entity shall disclose: (a) […] (b) the amount of each significant category of revenue recognised during the period …	An entity shall disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors. To meet the objective in paragraph 69, an entity may use more than one type of category to disaggregate revenue.
IAS 11.39a	An entity shall disclose: (a) the amount of contract revenue recognised as revenue in the period; (b) […]	Other IFRSs (for example, IFRS 8 *Operating Segments*) require an entity to present and disclose information related to revenue. The entity need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS. However, an entity shall present and disclose the additional information in accordance with this [draft] IFRS in a way that shows how it relates to information required by that other IFRS.

IFRS 8.23, 23(a)	An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss: (a) revenues from external customers; […]
IFRS 8.33(a),(b)	An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive: (a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries. (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

Illustrative example of revenue disaggregation

	Year ended 31/12/20X1
Revenue from sale of goods	X
Revenue from service	X
Revenue from construction	X
Total revenue	***X***

	Year ended 31/12/20X1
Computer equipment	
- retail sales	X
- internet sales	X
Software — Games	
- retail sales	X
- internet sales	X
IT service	X
Construction	X
Revenue from external customers	***X***

	Year ended 31/12/20X1
Land A	X
Land B	X
Land C	X
Other	X
Revenue from external customers	***X***

Contract assets and contract liabilities

Current IFRS

IAS 11.40 An entity shall disclose each of the following for contracts in progress at the end of the reporting period:

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) to date;
(b) the amount of advances received; and
(c) the amount of retentions.

(a) .

IAS 11.42 An entity shall present:

(a) the gross amount due from customers for contract work as an asset; and
(b) the gross amount due to customers for contract work as a liability

Illustrative example of IAS 11.39

	31/12/20X1
Contracts in progress at the end of the reporting period	
Construction costs incurred plus recognised profits less recognised losses to date	X
Less: progress billings	(X)
	X
Recognised and included in the consolidated financial statements as amounts due:	
- from customers under construction contracts	X
- to customers under construction contracts	(X)
	X

Proposed requirements

An entity shall disclose in tabular format a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities. The reconciliation shall disclose each of the following, if applicable:

(a) the amount(s) recognised in the statement of comprehensive income arising from:
   (i) revenue from performance obligations satisfied during the reporting period;
   (ii) revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods;
   (iii) interest income and expense; and
   (iv) the effect of changes in foreign exchange rates;
(b) cash received;
(c) amounts transferred to receivables;
(d) non-cash consideration received;
(e) contracts acquired in business combinations and contracts disposed; and
(f) additional line items needed to understand the change in the contract assets and contract liabilities.

An entity shall reconcile the opening and closing aggregate balance of contract assets and contract liabilities to the amounts recognised presented in the statement of financial position.

Illustrative example of reconciliation from opening to closing balance of contract assets and contract liabilities

Contract assets	X
Contract liabilities	
- Payment received in advance from customer	(X)
Contract assets and contract liabilities year ended 31/12/20X0	***X***
Revenue from performance obligations satisfied during the reporting period	X
Revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods	X
Cash received	(X)
Amounts transferred to receivables	(X)
Contract assets and contract liabilities year ended 31/12/20X1	***X***
Contract assets	X
Contract liabilities	
- Payment received in advance from customer	(X)

Assets arising from costs incurred to acquire and fulfil contracts with customers

Current IFRSs

IAS 2.36

The financial statements shall disclose:

- (a) the accounting policies adopted in measuring inventories, including the cost formula used;
- [..]
- (d) the amount of inventories recognised as an expense during the period;
- (e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;
- (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;
- […]

IAS 38.118

An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

[…]

- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;
  - (ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
  - (iii) increases or decreases during the period resulting from revaluations under paragraphs 75, 85 and 86 and from impairment losses recognised or reversed in other comprehensive income in accordance with IAS 36 (if any);
  - (iv) impairment losses recognised in profit or loss during the period in accordance with IAS 36 (if any);
  - (v) impairment losses reversed in profit or loss during the period in accordance with IAS 36 (if any);
  - (vi) any amortisation recognised during the period;
  - (vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
  - (viii) other changes in the carrying amount during the period.

Proposed requirements

An entity shall disclose a reconciliation from the opening to the closing balance of assets arising from the costs incurred to acquire or fulfil a contract with a customer, by major classes (for example, acquisition costs, pre-contract costs and setup costs). The reconciliation shall disclose each of the following, if applicable:

- (a) additions;
- (b) amortisation and depreciation;
- (c) impairment losses;
- (d) reversal of impairment losses; and
- (e) additional line items needed to understand the change in the reporting period.

An entity shall disclose a description of the method used to determine the amortisation method.

Performance obligations

Current IFRS	
IAS 18.35	An entity shall disclose: (a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; (b) […]
Proposed requirements	
	An entity shall disclose information about its performance obligations in contracts with customers, including a description of: (a) the goods or services the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (for example if the entity is acting as an agent); (b) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service); (c) the significant payment terms (for example, whether the consideration amount is variable and whether the contract has a material financing component); (d) obligations for returns, refunds and other similar obligations; and (e) types of warranties and related obligations.

Remaining performance obligations

Current IFRS	no related disclosure requirements
Proposed requirements[1]	
	The entity shall disclose qualitative and quantitative information about remaining performance obligations for contracts with an original expected duration of more than one year.

Illustrative example of remaining performance disclosure

	Year 20X2	Year 20X3	Year 20X4
Remaining performance obligations for contracts with originally expected duration of more than one year from construction	X	X	X

[1] In addition, the boards tentatively decided not to require an entity to provide the disclosure of remaining performance obligations if, in practice, the entity does not need to apply each step of the revenue recognition model (eg to determine the transaction price and to allocate the transaction price to the separate performance obligations) to recognise revenue.

Onerous performance obligations

Current IFRS

IAS 37.66 — If an entity has a contract that is onerous, the present obligation under the contract should be recognised and measured as a provision.

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
[…]

IAS 37.84 — For each class of provision, an entity shall disclose:

(a) the carrying amount at the beginning and end of the period;
(b) additional provisions made in the period, including increases to existing provisions;
(c) amounts used (ie incurred and charged against the provision) during the period;
(d) unused amounts reversed during the period; and
(e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

IAS 37.85 — An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and
(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Proposed requirements

An entity shall disclose the amount of any liability recognised for onerous performance obligations together with a description of:

(a) the nature and amount of the remaining performance obligations in the contract that are onerous and for which the liability has been recognised;
(b) why those performance obligations have become onerous; and
(c) when the entity expects to satisfy the liability.

An entity shall disclose in tabular format a reconciliation from the opening to the closing balance of the liability recognised for onerous performance obligations. The reconciliation shall disclose the amounts recognised in the statement of comprehensive income attributable to each of the following, if applicable:

(a) performance obligations that became onerous during the period;
(b) performance obligations that ceased to be onerous during the period;
(c) amount of the liability that was satisfied during the period;
(d) the time value of money;
(e) changes in the measurement of the liability that occurred during the reporting period; and
(f) additional line items needed to understand the change in the liability recognised for onerous performance obligations.

Significant judgement, methods and assumptions

Current IFRSs	
IAS 11.39 (b)-(c)	An entity shall disclose: (a) […] (b) the methods used to determine the contract revenue recognised in the period; and (c) the methods used to determine the stage of completion of contracts in progress.
IAS 18.35 (a)	An entity shall disclose: (a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; (b) […]
Proposed requirements	
	For performance obligations satisfied continuously, an entity shall disclose: (a) the methods (for example, output methods, input methods and methods based on the passage of time) used to recognise revenue; and (b) an explanation of why such methods are a faithful depiction of the transfer of goods or services. Determination of the transaction price and allocation of it to performance obligations. An entity shall disclose information about the methods, inputs and assumptions used: (a) to determine the transaction price; (b) to estimate stand-alone selling prices of promised goods or services; (c) to measure obligations for returns, refunds and other similar obligations; (d) to measure the amount of any liability recognised for onerous performance obligations (including information about the discount rate).

Appendix B—Sample lessee disclosure

Information about leases

Current IFRSs	Exposure draft
A general description of the lessee's significant leasing arrangements including, but not limited to, the following: (i) the basis on which contingent rent payable is determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing. For finance leases, contingent rents recognised as an expense in the period. For operating leases, separate contingent rents. -	73(a) the nature of its lease arrangements, including: (i) a general description of those lease arrangements; (ii) the basis and terms on which contingent rentals are determined; (iii) the existence and terms of options, including terms for renewal and termination; (iv) the existence and principal terms of any options for the lessee to purchase the underlying asset; (vi) the existence and terms of residual value guarantees; (vii) initial direct costs incurred during the reporting period and included in the measurement of the right-of-use asset or right to receive lease payments; and (viii) the restrictions imposed by lease arrangements, such as those relating to dividends, additional debt and further leasing.

Possible staff recommendation

The staff may recommend the removal of items (iv) and (vii) from the ED.
The staff may recommend the disclosure of expense related to contingent rentals during the period.

Illustration

XYZ Corp enters into the majority of its leases for the right to use buildings and equipment. XYZ Corp has a number of leases with contingent rental components. Those contingent components are based primarily on output related to the equipment leased. Expense during the year related to the contingent portions of lease agreements totalled CUXXX.

The majority of XYZ Corp's leases have terms that oblige XYZ Corp to pay a cancellation fee upon termination of the lease. For leases related to its buildings, many of the arrangements would require the entity to pay a number of subsequent months' worth of lease payments after notification of lease termination. A minority of these arrangements oblige the company to pay a set fee for cancellation. Equipment lease agreements primarily include cancellation fees that do not exceed 5 per cent of the total lease payments committed to at inception of the lease.

A number of equipment leases have residual value guarantees. Those residual value guarantees are dependent on both usage and the condition of the equipment. Amounts for residual guarantees that the entity expects to pay are included in the liability to make lease payments.
The company has restrictions in its leasing arrangements that prevent it from exceeding CUXX,XXX in total lease obligations during the duration of the lease.

Exposure draft

73.(v) information about assumptions and judgements relating to amortisation methods and changes to those assumptions and judgements.

Illustration

ROU assets are depreciated using straight-line depreciation.

Possible staff recommendation

The staff may recommend the disclosure of cash paid for interest related to leases and interest expense related to leases.

Illustration

Interest expense related to liabilities to make lease payments totals CUXX. Cash paid for interest related to leases for the period totals CUXX.

Reconciliation of opening and closing balances

Exposure draft	Possible staff recommendation
77. A lessee shall disclose a reconciliation of opening and closing balances of right-of-use assets and liabilities to make lease payments, disaggregated by class of underlying asset. The reconciliation shall show separately the total cash lease payments paid during the period.	The staff may recommend that the opening and closing balances of the liability to make lease payments should not be rolled forward. In addition, work between projects relating to cross-cutting disclosure led to the recommendation that the requirement should provide more prescriptive language as to what amounts are in the reconciliation, consistent with that in the project on revenue from contracts with customers.

Illustration

Right-of-use assets are included in amounts for property plant and equipment on the statement of financial position. The following is a reconciliation of the right-of-use assets currently held by XYZ Corp:

(Amounts in thousands)	**Equipment**	**Buildings**
December 31, 20X3	X,XXX	XX,XXX
Right-of-use assets added from new leases	X,XXX	X,XXX
Additions from assessment of residual value guarantee	XXX	
Amortisation of right-of-use assets	(X,XXX)	(XXX)
Revaluation of right-of-use asset (IASB)		XX
Impairment of right-of-use assets	(X)	
Foreign exchange adjustments	XX	XX
ROU assets added from business combinations	X	XX
December 31, 20X4	**XX,XXX**	**XX,XXX**

Maturities

Current IFRSs	Exposure draft
35. Lessees shall, in addition to meeting the requirements in IFRS 7 *Financial Instruments: Disclosures*, make the following disclosures for operating leases: (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods: (i) not later than one year; (ii) later than one year and not later than five years; and (iii) later than five years.	85. In place of the maturity analyses required by paragraph 39(a) and (b) of IFRS 7, a lessee shall disclose a maturity analysis of the liabilities to make lease payments showing the undiscounted cash flows on an annual basis for the first five years and a total of the amounts for the remaining years. The maturity analysis shall distinguish the minimum obligations specified in the lease (that is, excluding contingent rentals and expected payments under term option penalties and residual value guarantees) and the amounts recognised in the statement of financial position.

Possible staff recommendation

The staff may recommend another column for leases for which the entity is contractually obliged but the lease has not yet commenced. This would be an alternative requirement to 73(b)information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the entity.

Illustration

Future lease payments for XYZ Corp are as follows:

(Amounts in thousands) **fiscal fear**	**Expected minimum lease payments**	**Expected lease payments for leases not commenced**	**Total Contractual Lease Payments**
20X5	X,XXX	XX	X,XXX
20X6	X,XXX	XX	X,XXX
20X7	X,XXX	XX	X,XXX
20X8	X,XXX	XX	X,XXX
20X9	XXX	XX	X,XXX
Thereafter	X,XXX	XXX	X,XXX
Total future lease payments	**XX,XXX**	**XXX**	**XX,XXX**
Less imputed interest at rates ranging from 3.0% to 12.6%	(X,XXX)		
Present value of recognised lease payments	XX,XXX		

Judgements and assumptions

Exposure Draft

83. An entity shall disclose information about significant assumptions and judgements and any changes in assumptions and judgements relating to renewal options, contingent rentals, term option penalties, residual value guarantees and the discount rate used when determining the present value of lease payments.

Illustration

Future lease payments assume the exercise of all options to extend the lease terms on leases for buildings that the company has a significant economic incentive to remain in. Leases for equipment do not include the exercise of any options to extend lease terms, because management does not identify a significant economic incentive to do so at this time.

Discount rates used in determining the present value of future lease payments are generally the incremental borrowing rates based on the circumstances and economic environment at the time of lease inception. A minority of leases are discounted using the rate that the lessor is charging through the lease agreement.

Short-term leases

Possible staff recommendation

The staff may recommend the requirement that short term lease expense be disclosed as well as a qualitative discussion of expectations for short-term leases in the coming year.

Illustration

XYZ Corp. had CUXX,XXX in short-term lease expense during the period. The Company is not aware of any current commitments under short term lease arrangements nor does it anticipate any changes in its short-term lease activity that would result in significantly different expense or cash flows related to short-term leases in the coming year.

Appendix C—Lease disclosure requirements proposed in the exposure draft

5. Below is an extract from the *Leases* ED setting out proposed disclosure requirements for lease contracts. The lessor disclosures are removed as they are not discussed during the session.

Disclosure

70 An entity shall disclose quantitative and qualitative financial information that:

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

(b) **describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows.**

71 An entity shall consider the level of detail necessary to satisfy the disclosure requirements in paragraphs 73–86 and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

72 If the disclosures required by this and other IFRSs do not meet the objectives in paragraph 70, an entity shall disclose the additional information necessary to meet the objectives.

Information that identifies and explains the amounts in the financial statements

73 An entity shall disclose:

(a) the nature of its lease arrangements, including:

(i) a general description of those lease arrangements.

(ii) the basis and terms on which contingent rentals are determined.

(iii) the existence and terms of options, including for renewal and termination. A lessee shall provide narrative disclosure about the options that were recognised as part of the right-of-use asset and those that were not.

(iv) the existence and principal terms of any options for the lessee to purchase the underlying asset.

(v) information about assumptions and judgements relating to amortisation methods and changes to those assumptions and judgements.

(vi) the existence and terms of residual value guarantees.

(vii) initial direct costs incurred during the reporting period and included in the measurement of the right-of-use asset or right to receive lease payments.

(viii) the restrictions imposed by lease arrangements, such as those relating to dividends, additional debt and further leasing.

(b) information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the entity.

75 An entity that accounts for short-term leases in accordance with paragraphs 64 and 65 shall disclose that fact and, for lessees, the amount recognised in the statement of financial position for such short-term leases.

76 A lessee that enters into a sale and leaseback transaction shall disclose that fact, disclose the terms and conditions for that transaction and identify any gains or losses arising from such transactions separately from gains or losses on other disposals of assets.

77 A lessee shall disclose a reconciliation of opening and closing balances of right-of-use assets and liabilities to make lease payments, disaggregated by class of underlying asset. The reconciliation shall show separately the total cash lease payments paid during the period.

Information about the amount, timing and uncertainty of cash flows arising from leases

83 An entity shall disclose information about significant assumptions and judgements and any changes in assumptions and judgements relating to renewal options, contingent rentals, term option penalties, residual value guarantees and the discount rate used when determining the present value of lease payments.

84 Except as described in paragraphs 85 and 86, an entity shall disclose information relating to risks arising from a lease required by paragraphs 31–42 of IFRS 7 *Financial Instruments: Disclosures*.

85 In place of the maturity analyses required by paragraph 39(a) and (b) of IFRS 7, a lessee shall disclose a maturity analysis of the liabilities to make lease payments showing the undiscounted cash flows on an annual basis for the first five years and a total of the amounts for the remaining years. The maturity analysis shall distinguish the minimum obligations specified in the lease (ie excluding contingent rentals and expected payments under term option penalties and residual value guarantees) and the amounts recognised in the statement of financial position.