

STAFF PAPER

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REG IASB Meeting

Project	Leases		
Paper topic	Disclosure requirements for leases within the scope of IFRS 5		
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Introduction

1. This paper discusses a sweep issue that has arisen as a result of comments received from board members on review of a draft of the new *Leases* Standard. The sweep issue relates to the disclosure requirements for leases that are part of a disposal group that is held for sale or a discontinued operation, as defined and accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This paper describes those leases as “leases within the scope of IFRS 5”.

Background

2. Paragraph 5B of IFRS 5 states that:
 - 5B This IFRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs require:
 - (a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
 - (b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement

requirements of IFRS 5 and such disclosures are not already provided in the other notes to the financial statements.

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3. Consequently, the disclosure requirements in the new *Leases* Standard will not apply to leases that are within the scope of IFRS 5, unless such a requirement is specifically included in the new *Leases* Standard. In the light of questions received from board members, the staff think that the IASB should consider whether it agrees with this outcome.

Staff analysis and recommendation

4. The staff recommend that a lessee should not be required to provide any additional disclosures in respect of leases that are within the scope of IFRS 5, beyond the disclosures required in that Standard. In other words, we recommend that the new *Leases* Standard does not include any disclosure requirements in respect of these leases.
5. We are making this recommendation for the following reasons:
 - (a) amounts recognised on the balance sheet associated with a lease that is within the scope of IFRS 5 are measured at the lower of their carrying amount and fair value less costs to sell. Consequently, if measured at fair value less costs to sell, some of the disclosure requirements in the new *Leases* Standard would cease to be meaningful. This is because those requirements specifically provide information relating to the cost-based measurement of right-of-use assets and lease liabilities in the new *Leases* Standard. Examples of such disclosures include the disclosure of depreciation expense, interest expense, additions to right of use assets and the carrying amount of right-of-use assets. We note that IFRS 5 includes a requirement to disclose separately the major classes of assets and liabilities classified as held for sale, which would include right-of-use assets and lease liabilities if those amounts were a major part of a disposal group held for sale. We think that these disclosure requirements provide adequate information about the assets and liabilities relating to leases that are to be disposed of within 12 months.

- (b) other disclosure requirements in the new *Leases* Standard are intended to provide information about potential risk exposure related to leases. Examples of such disclosures include the disclosure of expenses related to leases for which assets and liabilities are not recognised on the balance sheet and additional information for leases with extension options and variable lease payments. If a lease is within the scope of IFRS 5, it is generally expected to be disposed of within 12 months of the date that it is classified as held for sale. Consequently, we do not think that the information about potential future exposure that is required by IFRS 16 is as relevant for these leases as it is for those that are not within the scope of IFRS 5. That is because the requirements in IFRS 16 are written with leases in mind that are expected to be held by an entity throughout the lease term. We also note that IFRS 5 requires disclosure of the facts and circumstances of the sale or expected disposal of items within the scope of that Standard, and the expected manner and timing of that sale or disposal. We think that this requirement provides adequate information about future risk exposure relating to leases within the scope of IFRS 5.
- (c) we think that the maturity analysis of future lease payments that is required by the new *Leases* Standard will be of limited relevance for leases within the scope of IFRS 5. This main objective of this disclosure is to provide information about the liquidity risk associated with leases. However, information about any lease payments that are due after 12 months is unlikely to be relevant for a lease that is within the scope of IFRS 5. We think that more relevant information about future cash flows and liquidity risk is provided by the IFRS 5 requirement to disclose information about the expected sale or disposal.
- (d) finally, the recommended approach is consistent with the requirements for other non-current assets that are captured by the scope of IFRS 5, including property, plant and equipment and intangible assets.
6. The staff have also considered the disclosure requirements in other Standards that are specific to items within the scope of IFRS 5. We note that non-current asset Standards (such as IAS 16 *Property, Plant and Equipment*) generally include a

disclosure requirement for any amounts classified in accordance with IFRS 5 during a reporting period to be included within the relevant non-current asset reconciliation. Consistently with the IASB's decision to not require such a reconciliation for right-of-use assets, the staff think that this disclosure should not be required with respect to leases.

Question

Does the IASB agree with the staff recommendation that a lessee should not be required to provide any additional disclosures with respect to leases within the scope of IFRS 5, beyond the disclosure requirements in that Standard?