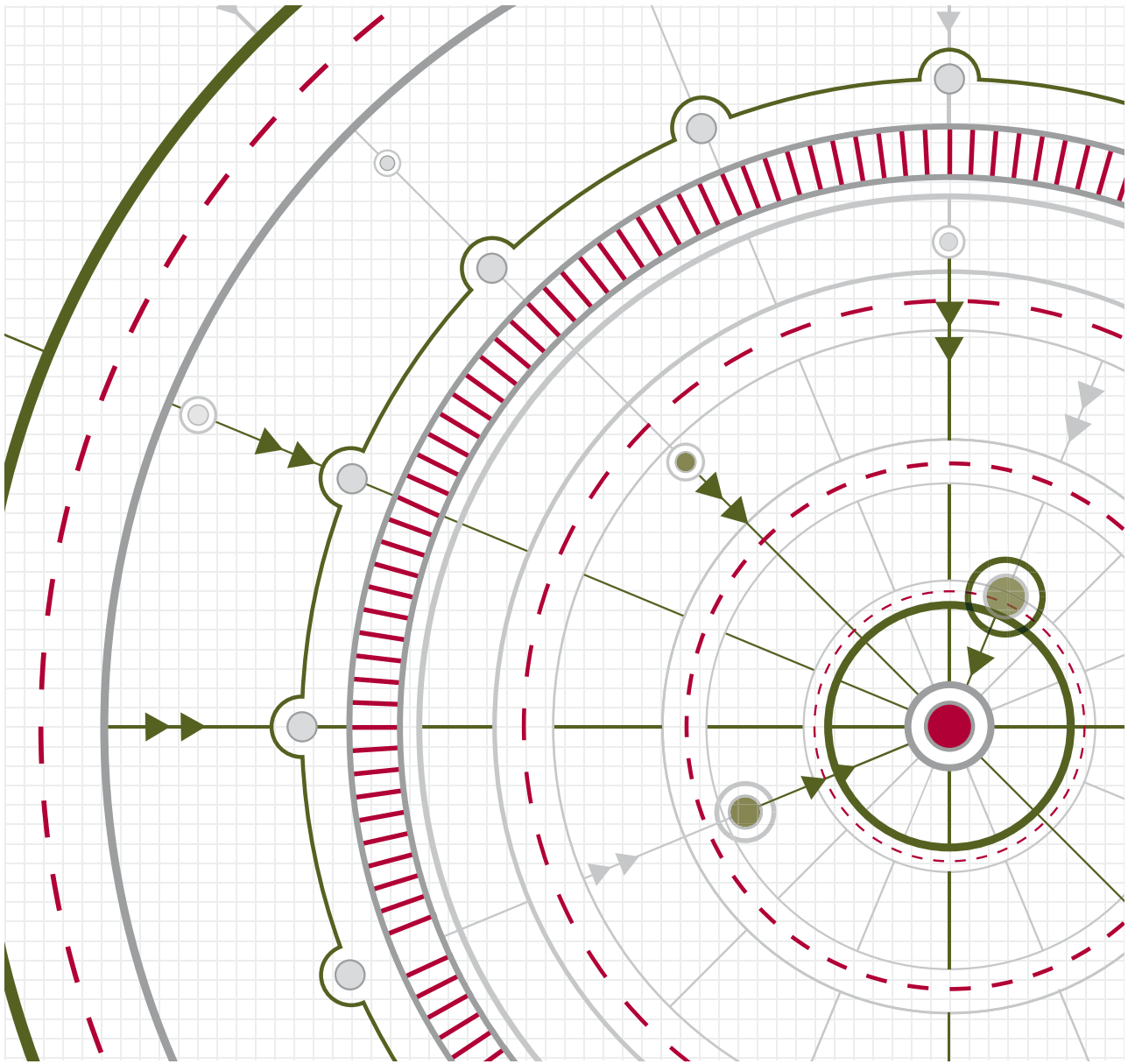


Monday 26 September 2016  
The Grange City Hotel (London, UK)

Conference documentation: IFRS 16 *Leases*

# 2016 World Standard-Setters Conference





# **World Standard-Setters Conference**

Monday 26 and Tuesday 27 September 2016

**Education session:**

*IFRS 16 Leases*

**Patrina Buchanan**

*Associate Director*

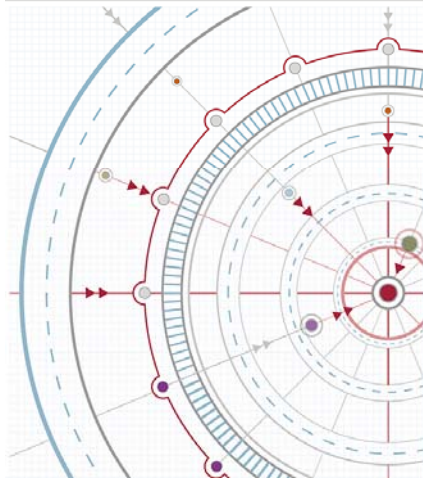
**IASB**

**Kathryn Donkersley**

*Senior Technical Manager*

**IASB**





## IFRS 16 Leases: Overview

Patrina Buchanan, Associate Director, IASB  
Kathryn Donkersley, Senior Technical Manager, IASB

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## New Leases Standard

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- **IFRS 16 Leases** published in January 2016

- replaces **IAS 17** and related interpretations
- changes **lessee accounting** substantially
- little change for **lessors**

- Effective date **1 January 2019**

- early application permitted (only with application of IFRS 15 *Revenue from Contracts with Customers*)



## Lessee—what will change?

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- All leases on-balance sheet<sup>1</sup>
- Depreciation and interest presented separately in income statement

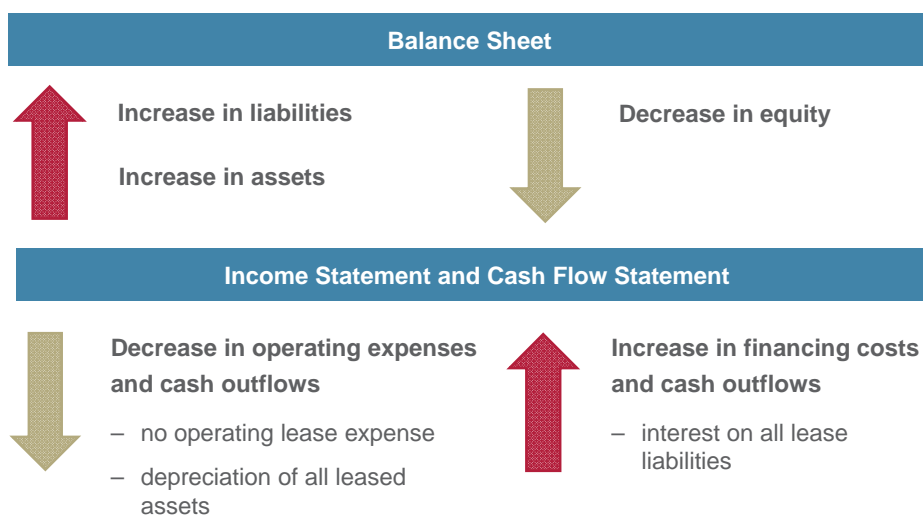
	IAS 17		IFRS 16		IAS 17		IFRS 16
	Finance leases	Operating leases	All leases		Finance leases	Operating leases	All leases
<b>Assets</b>	→ 🏠	---	→ → 🚗 🚚	Revenue	x	x	x
<b>Liabilities</b>	\$\$	---	\$\$\$\$\$\$	Operating costs (excl. depreciation and amortisation)	---	Single expense	---
<b>Off balance sheet rights / obligations</b>	---	→ 🚗 🚚	---	EBITDA			↑↑
		→ 🏠		Depreciation and amortisation	Depreciation	---	Depreciation
		\$\$\$\$\$		Operating profit			↑
				Finance costs	Interest	---	Interest
				Profit before tax			↔

<sup>1</sup> With the exception of short-term leases and leases of low-value assets



## Lessee—what will change?

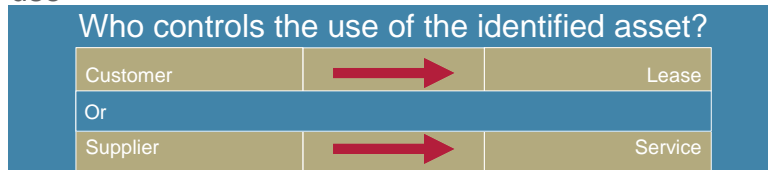
4



## Definition of a lease

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- **Similar** to previous definition, changed **requirements on control**
- Control = **directing the use** and **obtaining the benefits** from use

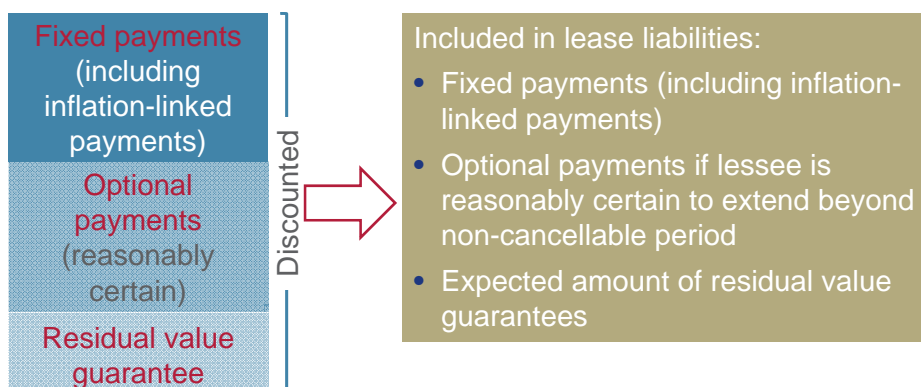


- **Separate services** provided with leases
  - Separate using available information (including estimates)
  - Option to not separate components



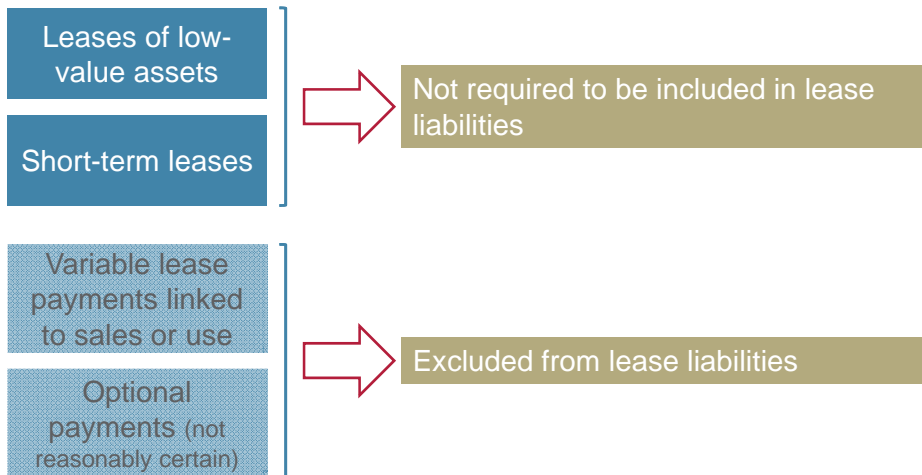
## Lessee Accounting Balance sheet: what's included?

6



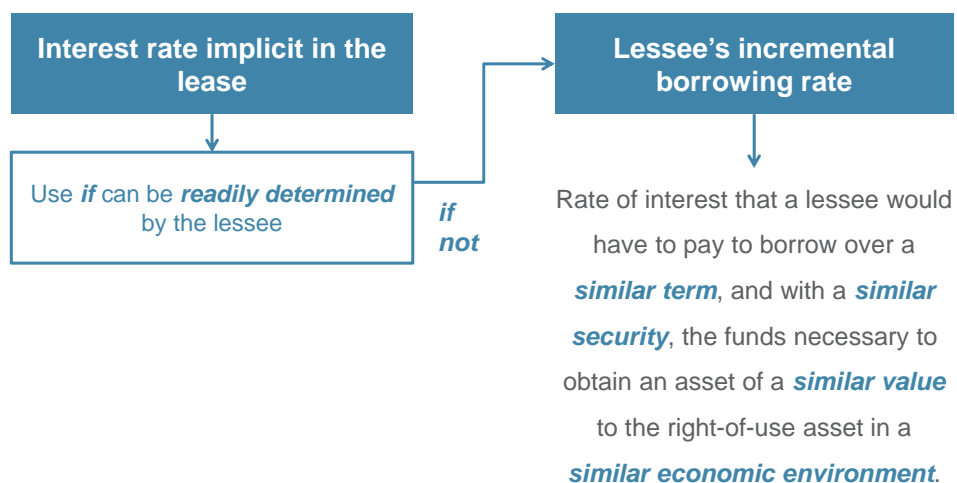
## Lessee Accounting Balance sheet: what's excluded?

7



## Lessee Accounting Discount Rate

8





## Lessee Accounting

### *Optional recognition exemptions*

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- **Short-term** leases
  - Leases with lease term <12 months
- **Low-value** asset leases
  - Leased assets in order of magnitude of <\$5,000
  - Examples: laptops, office furniture

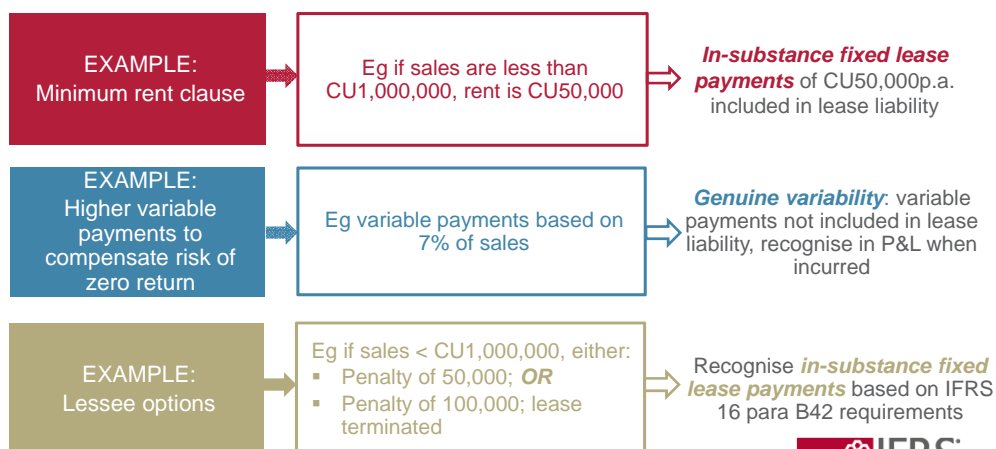
If exemption is taken, account for these leases similarly to operating leases in IAS 17



## Variable lease payments and in-substance fixed lease payments

10

Variable lease payments—how a lessor might cover its risk:



## Subleases, Sale and leaseback

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- Subleases—Intermediate lessor
  - Account for head lease and sublease as **two separate contracts**
  - Classify sublease with **reference to ROU asset** arising from head lease
- Sale and leaseback transactions
  - **Sale** must meet the **requirements in IFRS 15**
  - **Seller/lessee recognises only gain** related to rights transferred
  - Adjustment made for **off market terms**



## Lessee—disclosure

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### 1. Quantitative disclosures

- Breakdown of lease costs
  - Total lease cash flows
  - ROU assets by major class of leased asset
  - Additions to ROU assets
- 
- Maturity analysis of undiscounted commitments
    - as for other financial liabilities

Year Ended 31 December 2019	2019 CU'm
<b>Income Statement Disclosures:</b>	
Depreciation of ROU assets	X
Interest on lease liabilities	X
	X
Depreciation of ROU assets comprises:	
Property	X
Other classes of underlying asset	X
	X
Short term lease expense	X
Low-value asset lease expense	X
Variable lease expense	X
<b>Cash Flow Statement Disclosures:</b>	
Total cash outflow for leases	X
<b>Balance Sheet Disclosures:</b>	
Carrying amount of Property ROU assets	X
Carrying amount of other classes of ROU assets	X
Total ROU assets	X
Additions to ROU assets	X
Lease liabilities	X



## Lessee—disclosure

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### 2. Entity-specific information

Lessee to apply judgement about what is relevant

Examples:

#### Extension and termination options

For example....

- Why have them?
- Prevalence within lease portfolio
- Relative magnitude of optional payments vs committed payments
- Exercise of options not recognised on balance sheet

#### Variable lease payments

For example....

- Why have them?
- Prevalence within lease portfolio
- Relative magnitude of variable payments vs fixed payments

## Transition

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### Full retrospective approach

Applying IAS 8:

- Restate comparatives as if IFRS 16 always applied
- Provide line by line comparison disclosure

OR

### Cumulative catch-up approach

Do not restate comparative information

- Adjust opening retained earnings on transition
- Provide additional transition date disclosure

Optional practical expedients—for example:

- Leases ending within 12 months
- Simplified right-of-use asset measurement
- Onerous lease provisions

## Further information

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- Leases website  
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases>
- Effects analysis  
<http://go.ifrs.org/Leases/effects-analysis>
- Project summary and feedback statement  
<http://go.ifrs.org/Leases/project-summary>
- Register for email alerts  
<http://eifrs.ifrs.org/eifrs/Register>




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