

January 2016

Project Summary and Feedback Statement

# IFRS 16 *Leases*

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# At a glance

The International Accounting Standards Board (IASB) issued IFRS 16 *Leases* in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor').

IFRS 16 is effective from 1 January 2019. A company<sup>1</sup> can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 *Revenue from Contracts with Customers*.

IFRS 16 completes the IASB's project to improve the financial reporting of leases.

IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related Interpretations.

## Lessees

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

## Lessors

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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<sup>1</sup> In this document the term 'company' refers to any entity that prepares financial statements applying IFRS.

# The need for change

## Previous lessee accounting

IAS 17 focused on identifying when a lease is economically similar to purchasing the asset being leased (the ‘underlying asset’).

When a lease was determined to be economically similar to purchasing the underlying asset, the lease was classified as a finance lease and reported on a company’s balance sheet.

All other leases were classified as operating leases and not reported on a company’s balance sheet (they were ‘off balance sheet leases’).

Off balance sheet leases were accounted for similarly to service contracts, with the company reporting a rental expense in the income statement (typically the same amount in each period of the lease—a so called straight-line lease expense).

## Enhancing disclosures is not enough

In 2005, the US Securities and Exchange Commission (SEC) expressed concerns about the lack of transparency of information about lease obligations, reiterating concerns already expressed by investors and others.

Responding to those concerns, the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a project to improve the accounting for leases.

The IASB and the FASB agreed that a customer (lessee) leasing assets obtains an asset and typically also a liability at the start of a lease. However, applying previous lease accounting requirements, most leasing transactions were not reported on a company’s balance sheet; so these assets and liabilities were not recognised.

Listed companies using IFRS or US GAAP disclosed almost US\$3 trillion of off balance sheet lease commitments in 2014.

The significance of the missing information varied by industry and region and between companies. However, for many companies, the effect on reported assets and financial leverage was substantial.

### Long-term liabilities of heaviest users of off balance sheet leases<sup>2</sup> understated by:

|     |                      |
|-----|----------------------|
| 27% | Africa / Middle East |
| 32% | Asia / Pacific       |
| 26% | Europe               |
| 45% | Latin America        |
| 22% | North America        |

The absence of information about leases on the balance sheet meant that investors and analysts did not have a complete picture of the financial position of a company, and were unable to properly compare companies that borrow to buy assets with those that lease assets, without making adjustments.

<sup>2</sup> Based on a sample of 1,022 listed companies reporting under IFRS or US GAAP. These companies each have estimated off balance sheet leases of more than US\$300 million, calculated on a discounted basis. The percentages represent estimated off balance sheet leases (discounted) compared to long-term liabilities reported on the balance sheet, by region.

# An overview of IFRS 16—what will change?

## What is a lease?

IFRS 16 defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The requirements relating to the definition of a lease in IFRS 16 have been changed somewhat from those in IAS 17 in response to feedback received. However, those changes are not expected to affect conclusions about whether contracts contain a lease for the vast majority of contracts (ie a lease applying IAS 17 is generally expected to be a lease applying IFRS 16).

## Does IFRS 16 apply to service contracts?

No. IFRS 16 does not change the accounting for services. Although leases and services are often combined in a single contract, amounts related to services are not required to be reported on the balance sheet. IFRS 16 is required to be applied only to leases, or lease components of a contract.

## What changes in a company's balance sheet?

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios).

|   | IAS 17         |                            | IFRS 16           |
|---|----------------|----------------------------|-------------------|
|   | Finance leases | Operating leases           | All leases        |
| <b>Assets</b>                                 | → 🏠            | ---                        | → 🛩️ 🚗 🚆<br>🏠 🏠 🏠 |
| <b>Liabilities</b>                            | \$\$           | ---                        | \$\$\$\$\$\$\$    |
| <b>Off balance sheet rights / obligations</b> | ---            | 🚗 🚆<br>→ 🏠 🏠<br>\$\$\$\$\$ | ---               |

## Are there any exemptions?

Yes. IFRS 16 does not require a company to recognise assets and liabilities for (a) short-term leases (ie leases of 12 months or less) and (b) leases of low-value assets (for example, a lease of a personal computer).

### What does IFRS 16 mean for a company's income statement?

For companies with material off balance leases, IFRS 16 changes the nature of expenses related to those leases. IFRS 16 replaces the typical straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for lease assets (included within operating costs) and an interest expense on lease liabilities (included within finance costs). This change aligns the lease expense treatment for all leases. Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This results in a reducing total expense as an individual lease matures. The difference in the expense profile between IFRS 16 and IAS 17 is expected to be insignificant for many companies holding a portfolio of leases that start and end in different reporting periods.

|   | IAS 17         |                  | IFRS 16      |
|---|----------------|------------------|--------------|
|   | Finance leases | Operating leases | All leases   |
| Revenue   | x              | x                | x            |
| Operating costs (excluding depreciation and amortisation) | ---            | Single expense   | ---          |
| <b>EBITDA</b>   |                |                  | ↑↑           |
| Depreciation and amortisation                             | Depreciation   | ---              | Depreciation |
| <b>Operating profit</b>                                   |                |                  | ↑            |
| Finance costs   | Interest       | ---              | Interest     |
| <b>Profit before tax</b>                                  |                |                  | ↔            |

### Are there any implications for cash flows?

Changes in accounting requirements do not change amount of cash transferred between the parties to a lease.

Consequently, IFRS 16 will not have any effect on the total amount of cash flows reported. However, IFRS 16 is expected to have an effect on the presentation of cash flows related to former off balance sheet leases.

IFRS 16 is expected to reduce operating cash outflows, with a corresponding increase in financing cash outflows, compared to the amounts reported applying IAS 17. This is because, applying IAS 17, companies presented cash outflows on former off balance sheet leases as operating activities. In contrast, applying IFRS 16, principal repayments on all lease liabilities are included within financing activities. Interest payments can also be included within financing activities applying IFRS.

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# A thorough and measured approach

Off balance sheet lease financing numbers are substantial. IFRS 16 will significantly improve the transparency of information about those off balance sheet leases.

The IASB realised that such a big change in accounting, which will affect many companies, requires careful analysis. Consequently, the IASB spent considerable time ensuring that it understood and carefully considered the views of stakeholders.

As a result, the IASB proceeded cautiously with the project, going well beyond its already extensive due process requirements. It has sought feedback at each stage of the project and considered that feedback when revising the proposed requirements.

Particular efforts have been made to undertake outreach activities that enabled a broad range of views to be heard.

Since 2009, the IASB has undertaken three public consultations on its proposals and held hundreds of meetings, round tables and other outreach activities. This included extensive discussions with preparers (both lessors and lessees) and users of financial statements, regulators, standard-setters and accounting firms worldwide. In addition, the IASB and the FASB established a joint Lease Accounting Working Group to obtain access to additional practical experience and expertise.<sup>3</sup>

## Extensive consultation

- 2009 Discussion Paper
- 2010 Exposure Draft
- 2013 Revised Exposure Draft
- More than 1,700 comment letters received and analysed
- Meetings with the IASB's advisory bodies
- Hundreds of outreach meetings with investors, analysts, preparers, regulators, standard-setters, accounting firms and others. The meetings and workshops with preparers included 40 fieldwork meetings discussing the costs of implementation in detail.
- 15 public round tables<sup>4</sup>

<sup>3</sup> The working group comprised individuals from a variety of backgrounds—preparers and users of financial statements, auditors, subject-matter experts, and others.

<sup>4</sup> The IASB and the FASB conducted those meetings with stakeholders jointly.

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# Feedback Statement

The IASB received significant feedback from comment letters and outreach activities on the three due process documents published over the course of the project—a Discussion Paper (published in 2009), an Exposure Draft (published in 2010) and a Revised Exposure Draft (published in 2013).

The feedback demonstrated that many support the main change introduced by IFRS 16—a customer using an asset through a lease recognises assets and liabilities arising from that lease. There was also support to define a lease on the basis of whether a customer controls the use of an asset for a period of time, and to measure lease assets and lease liabilities on a present value basis. These features of IFRS 16 have remained largely unchanged throughout the project. In contrast, feedback received on some other aspects of the project has been mixed. Over the course of the project, many stakeholders expressed concerns about the cost and complexity of applying a new *Leases* Standard. The IASB has taken actions to address those concerns.

The following pages outline the more significant matters raised and how the IASB responded:

- Recognition of assets and liabilities
- Lessee accounting model
- Recognition exemptions
- Definition of a lease
- Separating lease and service components
- Measurement
- Lessee disclosure
- Lessee transition to IFRS 16
- Lessor accounting
- Convergence between IFRS and US GAAP

# Feedback Statement

| Project proposals  | Feedback  | The IASB's response   |
|--|---|---|
| <p><b>Recognition of assets and liabilities</b></p> <p>The 2010 and 2013 Exposure Drafts proposed that a lessee would be required to report lease assets and lease liabilities on the balance sheet, initially measured at the present value of future lease payments.</p> | <p>There was general support for the recognition of lease assets and lease liabilities by lessees, particularly from users of financial statements, regulators, standard-setters and accounting firms.</p> <p>Some preparers questioned the benefit of reporting all leases on the balance sheet. Others suggested enhancing disclosures about leases in the notes to the financial statements, without changing the recognition and measurement requirements for leases in IAS 17.</p> | <p>The IASB confirmed its view that leases create rights and obligations that meet the definition of an asset and a liability for a lessee, and that the recognition of lease assets and lease liabilities by a lessee is expected to substantially improve the information provided to users of financial statements.</p> <p>IFRS 16 is expected to:</p> <ul style="list-style-type: none"> <li>(a) reduce the need (i) for investors and analysts to make adjustments to amounts reported by a lessee and (ii) for lessees to provide 'non-GAAP' information about leases;</li> <li>(b) improve comparability between companies that lease assets and companies that borrow to buy assets; and</li> <li>(c) create a more level playing field in providing transparent information about leases to all market participants.</li> </ul> <p>On the basis of feedback received, the IASB concluded that enhancing disclosures only would be insufficient to address identified deficiencies in the lessee accounting requirements in IAS 17. The Capital Markets Advisory Committee, an investor advisory body to the IASB, stated '<i>...while a disclosure-only solution might be acceptable to expert users of financial statements, it would not be helpful to the majority of investors who require financial statements to provide them with clear information from the outset.</i>'</p> |

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| Project proposals   | Feedback  | The IASB's response   |
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| <p><b>Lessee accounting model</b></p> <p>The IASB proposed a single lessee model in the 2009 Discussion Paper and 2010 Exposure Draft. Some agreed with that model, while others did not.</p> <p>In response to requests from some to better reflect economic differences between different leases, the IASB proposed a dual model in the 2013 Exposure Draft. That model distinguished between most real estate leases and leases of other assets, and in doing so attempted to identify real economic differences between leases. For most real estate leases (called Type B leases in the 2013 Exposure Draft), a company would recognise a single lease expense in the income statement, recognised on a straight-line basis. For other leases (called Type A leases in the 2013 Exposure Draft), a company would recognise depreciation of lease assets separately from interest on lease liabilities.</p> | <p>Throughout the project, stakeholders expressed differing views on the lessee accounting model—some view all leases as financing transactions; others view almost no leases as financing transactions; for others, the economics are different for different leases.</p> <p>The main feedback received on the 2013 Exposure Draft was that the dual model proposed was too complex—ie both the classification of leases and the accounting for Type B leases would be complex to apply.</p> <p>Some suggested reverting to a single model. Others suggested a dual model that retained the distinction between operating leases and finance leases in IAS 17.</p> <p>Most investors and analysts consulted expressed their view that leases create assets and <i>debt-like</i> liabilities for a lessee. Accordingly, information about interest on lease liabilities presented separately from depreciation of lease assets would be useful for their analyses. The single model provides this information.</p> <p>Some feedback received indicated that it would be difficult to understand why, for some leases (Type B leases), there would be: (a) no depreciation of lease assets reported on the balance sheet and; (b) no interest on lease liabilities (financial liabilities) reported on the balance sheet. Some questioned this accounting because a lessee would measure lease assets as a balancing figure.</p> | <p>The IASB concluded that all leases reported on the balance sheet should be accounted for in the same way. In reaching that conclusion, the IASB considered:</p> <p>(a) <i>the information needed by investors and analysts</i>—a model that separately presents depreciation and interest for all leases reported on the balance sheet provides information that is useful to the broadest range of investors and analysts. This is because most investors and analysts consulted view leases as creating assets and debt-like liabilities. The model is easy to understand—a lessee recognises lease assets and financial liabilities, and corresponding amounts of depreciation and interest.</p> <p>(b) <i>conceptual considerations</i>—all leases result in a lessee obtaining the right to use an asset and, if payments are made over time, also obtaining financing.</p> <p>(c) <i>operational cost and complexity</i>—the cost of accounting for leases applying IFRS 16 is expected to be broadly similar to a model that reports all leases on a lessee's balance sheet but retains the distinction between operating leases and finance leases in IAS 17. This is because the most significant costs for lessees arise from recognising leases in the balance sheet and measuring those leases on a present value basis which is common to both models. IFRS 16 no longer requires a lessee to classify leases as either operating leases or finance leases, which reduces complexity. In addition, a lessee depreciates lease assets in the same way as other fixed assets. Accordingly, a lessee can use existing fixed asset information systems to account for all lease assets.</p> |

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| Project proposals   | Feedback   | The IASB's response   |
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| <p><b>Recognition exemptions</b></p> <p>The 2010 Exposure Draft proposed that a lessee would recognise all leases in its balance sheet, but proposed a simplified measurement approach for leases with a maximum possible term of 12 months (namely that those leases would be measured on an undiscounted basis).</p> <p>The 2013 Exposure Draft proposed that a lessee would be permitted not to recognise assets and liabilities for leases with a maximum possible term of 12 months.</p> | <p>Many stakeholders expressed concerns about the costs of applying the requirements of IFRS 16 to leases that are large in number but low in value. They suggested that such an exercise would require a significant amount of effort with potentially little effect on reported information.</p> <p>Stakeholders generally supported an exemption for leases with a short term. However, many stakeholders thought that an exemption only for leases that have a maximum possible term of 12 months would provide limited cost relief for companies because, in their experience, a lease rarely has a maximum possible term of less than 12 months.</p> | <p>The IASB developed two recognition exemptions in a way that is expected to substantively reduce the costs of application without having any significant effect on the information provided by IFRS 16.</p> <p>The IASB decided to expand the short-term lease exemption to include leases for which it is not 'reasonably certain' that the term will be more than 12 months, considering the likelihood of exercise of extension options and termination options. Consequently, a lessee is not required to recognise assets and liabilities for leases with a lease term of 12 months or less.</p> <p>The IASB also developed an exemption for leases of low-value assets (for example, some personal computers). Accordingly, a lessee is not required to recognise assets and liabilities for leases for which the underlying asset is of low value.</p> |

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| Project proposals  | Feedback   | The IASB's response   |
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| <p><b>Definition of a lease</b></p> <p>The 2010 Exposure Draft proposed to retain the definition of a lease in IAS 17 and the accompanying application guidance in IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>, with only minor changes to the wording.</p> <p>In contrast, the 2013 Exposure Draft proposed to modify the guidance setting out how to apply the definition of a lease. The changes proposed mainly related to the concept of control used within the definition.</p> | <p>Stakeholders generally supported using the concept of control to distinguish between a lease and a service. Most stakeholders also supported the general approach proposed in the 2013 Exposure Draft. That approach retained the definition of a lease in IAS 17 but modified the application guidance on control to align it more closely with the guidance in the consolidation and revenue recognition Standards. The approach proposed in the 2013 Exposure Draft addressed the main criticism of the proposals in the 2010 Exposure Draft—ie many had been concerned that the proposals in the 2010 Exposure Draft would capture contracts that they viewed to be service contracts.</p> <p>Nonetheless, some stakeholders had concerns about the potential for inconsistent application. In particular, some thought that parts of the proposed guidance were unclear and could lead to different conclusions about whether similar contracts contain leases. Those stakeholders asked that the guidance be clarified to make it easier to understand the IASB's intentions, which would facilitate consistent application of the guidance.</p> <p>A number of stakeholders suggested alternative approaches regarding how to distinguish between a lease and a service.</p> | <p>The IASB took a number of steps to address the feedback on the proposed definition of a lease and has reached the same decisions as the FASB on this topic.</p> <p>The IASB confirmed the general approach to defining a lease that was proposed in the 2013 Exposure Draft (ie a definition based on control of the use of an identified asset). However, the IASB also made a number of clarifications to the accompanying guidance to make its intentions clear and to reduce the risk of inconsistent application. For example, the IASB clarified the guidance on substitution rights, and how a customer can control the use of an asset by directing its use. IFRS 16 also includes various examples to illustrate how to assess whether a contract contains a lease.</p> <p>The IASB considered alternative approaches suggested by some stakeholders, but decided not to adopt those approaches. The IASB concluded that those alternative approaches generally would have made the guidance on the definition more complicated and, more importantly, could have resulted in a company that has control over substantive rights to use assets not reporting those rights of use (and corresponding liabilities) on the balance sheet.</p> <p>For a more detailed description of the guidance proposed in the 2013 Exposure Draft, the feedback received and the IASB's response regarding the definition of a lease, please refer to the February 2015 Project Update <a href="#">Definition of a Lease</a>.</p> |

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| Project proposals  | Feedback  | The IASB's response  |
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| <p><b>Separating lease and service components</b></p> <p>Contracts often contain both lease and service components (for example, a contract for the lease of a car that also includes servicing and maintenance of the car). The 2013 Exposure Draft proposed that, if there were observable standalone prices for the components, a lessee would separate lease components and service components of a contract and allocate payments to those separate components. The lessee would then apply the lease accounting requirements only to the lease components.</p> <p>If there were no observable standalone prices, a lessee would combine lease and service components and account for them as a single lease component.</p> | <p>Stakeholders generally supported the proposal to separate lease components and service components of a contract, and to apply the lease accounting requirements only to the lease components. However, many stakeholders disagreed that a lessee must have observable standalone prices for those components in order to account for them separately. Many suggested that a lessee should be allowed to use estimates if observable information is not available.</p> <p>In addition, some lessees requested that they be allowed to combine lease and service components, and account for the entire contract as a lease. For some contracts, in particular those with small service components, those lessees indicated that they would prefer to apply the lease accounting requirements to the entire contract for cost-benefit reasons.</p> | <p>IFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.</p> <p>To simplify separation, IFRS 16 allows a lessee to use estimates when allocating payments to lease components and service components of a contract, maximising the use of observable information. This aligns the separation requirements more closely with the requirements on allocating the transaction price in revenue contracts in IFRS 15.</p> <p>IFRS 16 also includes an option for a lessee to account for a lease component and related service components of a contract as a lease, instead of separating those components.</p> |

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| Project proposals   | Feedback   | The IASB's response  |
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| <p><b>Measurement</b></p> <p>The 2010 Exposure Draft proposed including all expected variable lease payments in the measurement of lease assets and lease liabilities, and including lease payments payable in optional renewal periods on a 'more likely than not' basis. Those expectations and the related measurement would be reassessed when changes to the amounts recognised were significant.</p> <p>The 2013 Exposure Draft simplified the measurement proposals, limiting the variable lease payments and optional lease payments included in the measurement of lease assets and lease liabilities. The 2013 Exposure Draft also proposed that a lessee should regularly reassess the measurement of variable lease payments and optional lease payments.</p> | <p>Many stakeholders disagreed with the proposals in the 2010 Exposure Draft regarding the inclusion of variable lease payments and optional lease payments in the measurement of lease assets and lease liabilities. Most of those stakeholders were concerned about the cost and complexity associated with determining the expected future variable and optional payments. In addition, some stakeholders thought that variable payments linked to future use or sales, and optional payments, did not meet the definition of a liability for the lessee.</p> <p>Stakeholders generally supported the measurement simplifications proposed in the 2013 Exposure Draft—ie the proposals to exclude variable payments linked to future use or sales from the measurement of lease assets and lease liabilities, and to include optional payments only when a lessee would have a significant economic incentive to extend a lease beyond the non-cancellable period. However, some stakeholders continued to be concerned about the costs associated with reassessment, and some questioned how to determine when a lessee would have a significant economic incentive—some suggested, as an alternative, retaining the 'reasonably certain' threshold in IAS 17.</p> | <p>The IASB simplified the measurement of lease assets and lease liabilities so that (a) inflation-linked payments are included in the measurement of lease assets and lease liabilities, whereas variable lease payments linked to future use or sales are not; and (b) optional lease payments are included only when the lessee is reasonably certain to extend the lease beyond the non-cancellable period. IFRS 16 also has a simplified measurement approach regarding inflation-linked payments that does not require a lessee to estimate future inflation.</p> <p>In addition, the IASB has simplified the reassessment requirements regarding variable lease payments and optional lease payments:</p> <ul style="list-style-type: none"> <li>(a) the measurement of inflation-linked payments is reassessed only when cash payments change; and</li> <li>(b) the measurement of optional payments is reassessed only on the occurrence of a significant event or significant circumstance that is within the control of the lessee and that affects the exercise of options.</li> </ul> |

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| Project proposals  | Feedback  | The IASB's response   |
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| <p><b>Lessee disclosure</b></p> <p>The 2013 Exposure Draft proposed an overall disclosure objective.</p> <p>To achieve that objective, a company would disclose qualitative and quantitative information about (a) its leases; (b) the significant judgements made in applying the lease accounting requirements; and (c) the amounts recognised in the financial statements relating to those leases (for example, a reconciliation of opening and closing balances of lease assets and lease liabilities; a maturity analysis of lease liabilities showing the amounts due for each of the first five years, and a total for the remaining years).</p> | <p>Many lessees had significant concerns about the costs of complying with the disclosures proposed.</p> <p>In contrast, many users of financial statements thought that the detailed disclosure requirements proposed would provide useful information.</p> <p>Both preparers and users of financial statements were concerned that lengthy detailed disclosure requirements could result in the use of 'boilerplate' statements rather than the provision of useful information.</p> <p>Some users of financial statements observed that the most useful information would often be different for different lease portfolios.</p> | <p>The IASB decided to change the disclosure requirements in a number of respects so that the information disclosed by a company reflects the significance and complexity of its leasing activities.</p> <p>IFRS 16 includes an overall disclosure objective, and requires a company to disclose:</p> <ul style="list-style-type: none"><li>(a) information about lease assets (by class of asset being leased), and expenses and cash flows related to leases;</li><li>(b) a maturity analysis of lease liabilities; and</li><li>(c) any additional company-specific information that is relevant to satisfying the disclosure objective, for example information about extension options and termination options, variable lease payments and sale and leaseback transactions. A company will apply judgement in determining whether and what additional information to provide. IFRS 16 also includes some examples illustrating the types of information that a company might provide, depending on its individual circumstances.</li></ul> |

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| Project proposals  | Feedback   | The IASB's response   |
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| <p><b>Lessee transition to IFRS 16</b></p> <p>The 2010 and 2013 Exposure Drafts made various proposals regarding transition to the new lease accounting requirements, which included some practical expedients and modifications to a full retrospective transition approach. Those proposals required the restatement of comparative information.</p> | <p>Feedback from preparers indicated that, although helpful, the practical expedients and modifications proposed would mitigate little of the implementation challenge of a full retrospective transition approach.</p> <p>In addition, although users of financial statements find the trend information from restated comparative periods useful, many also acknowledged that the costs of restating comparative information would be significant for many lessees and might not be justified in the light of the volume of leases that some lessees have.</p> | <p>The IASB decided to provide substantive transition relief for companies when first applying IFRS 16.</p> <p>The IASB confirmed that a company can choose to apply IFRS 16 applying a full retrospective approach or a modified retrospective approach. Applying the modified retrospective approach in IFRS 16, on transition a company:</p> <ul style="list-style-type: none"><li>(a) is not required to restate comparative information. Instead opening equity is adjusted.</li><li>(b) can choose, on a lease by lease basis, between two alternative methods of measuring lease assets. A company can either measure lease assets as if IFRS 16 had always been applied or at an amount based on the lease liability.</li><li>(c) is not required to recognise lease assets and lease liabilities for leases with a lease term ending within 12 months of the date of initially applying IFRS 16.</li></ul> <p>In addition, applying either transition approach, a company is not required to reassess whether existing contracts contain a lease based on the revised definition of a lease.</p> |

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| Project proposals   | Feedback  | The IASB's response   |
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| <p><b>Lessor accounting</b></p> <p>In response to feedback received on the 2009 Discussion Paper, the 2010 and 2013 Exposure Drafts included proposals to change the lessor accounting requirements in IAS 17.</p> <p>Those proposed changes were more symmetrical with the proposed lessee accounting model than the lessor accounting requirements in IAS 17 because the proposals would have required a lessor to recognise a lease receivable for all (or many) leases. The proposals were also intended to address concerns from some investors and analysts that they receive insufficient information about a lessor's risk exposure, in particular to residual value (asset) risk, when lessors applied IAS 17.</p> | <p>Feedback received, including feedback from many investors and analysts, indicated that the costs of changing lessor accounting would outweigh the benefit of doing so at this time. In particular, stakeholders observed that:</p> <ul style="list-style-type: none"><li>(a) the lessor accounting requirements in IAS 17 are well understood and, unlike lessee accounting, are not fundamentally flawed.</li><li>(b) most users of financial statements do not currently adjust lessors' financial statements for the effects of leases, indicating that the lessor accounting model in IAS 17 already provides users with the information that they need.</li></ul> <p>Although a 'nice to have', most stakeholders indicated that it was not essential to have symmetrical lessee and lessor accounting models.</p> <p>Some stakeholders also acknowledged that their views on lessor accounting had changed over the course of the project—they had originally suggested that the IASB should address lessor accounting at the same time as lessee accounting. However, in response to the 2013 Exposure Draft, they suggested that changes should not be made to lessor accounting for cost-benefit reasons.</p> | <p>The IASB decided to substantially carry forward the lessor accounting requirements in IAS 17.</p> <p>Nonetheless, to address concerns about the lack of information about a lessor's risk exposure, the IASB decided to require a lessor to disclose additional information about its leasing activities, and in particular about its exposure to residual value risk. For example, IFRS 16 requires a lessor to disclose information about (a) assets subject to operating leases separately from owned assets held and used for other purposes by the lessor and (b) how it manages its exposure to residual value risk.</p> |

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| Project proposals  | Feedback   | The IASB's response   |
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| <p><b>Convergence between IFRS and US GAAP</b></p> <p>Convergence has been a priority for both the IASB and the FASB throughout the leases project. The IASB and the FASB have:</p> <ul style="list-style-type: none"> <li>(a) deliberated the project jointly;</li> <li>(b) published joint proposals for public consultation (the 2009 Discussion Paper, and the 2010 and 2013 Exposure Drafts); and</li> <li>(c) performed outreach on the project largely on a joint basis.</li> </ul> | <p>Many stakeholders agreed with the IASB and the FASB that convergence was important for the leases project. This was because different lease accounting requirements in IFRS and US GAAP could introduce costs for:</p> <ul style="list-style-type: none"> <li>(a) investors and analysts in understanding and interpreting those differences; and</li> <li>(b) companies that report using both IFRS and US GAAP.</li> </ul> <p>However, some of those stakeholders expressed the view that, although convergence was important, it should not be at all costs. Their preference for fully converged lease accounting requirements was subject to it being what they viewed as a high quality solution.</p> <p>Stakeholders had concerns about the dual accounting model proposed in the 2013 Exposure Draft, including the lack of coherency across the primary financial statements for Type B leases (refer to feedback received on the lessee accounting model on page 9 of this document).</p> | <p>The IASB and the FASB reached the same conclusions on many areas of lease accounting. Most importantly, both the IASB and the FASB:</p> <ul style="list-style-type: none"> <li>(a) require a lessee to recognise assets and liabilities for its leases, initially measured in the same way;</li> <li>(b) have the same requirements and application guidance relating to the definition of a lease; and</li> <li>(c) have substantially carried forward previous lessor accounting requirements.</li> </ul> <p>However, there are a few areas for which the IASB and the FASB have not reached the same conclusions. Most notably, because the FASB decided to retain a dual accounting model, different conclusions were reached for former off balance sheet leases with respect to the recognition of lease-related expenses and the reporting of lease-related cash flows. The FASB also decided to require a lessee to report former on and off balance sheet leases in separate line items on the balance sheet, whereas a lessee using IFRS is permitted to make this distinction (or a more relevant one) if considered relevant. The practical effects of these differences are often not expected to be significant in the financial statements of many lessees. These effects are discussed in detail in Section 8—<i>Effects of differences between IFRS and US GAAP</i> of the Effects Analysis on IFRS 16.</p> <p>The IASB reached different conclusions from the FASB only after carefully evaluating the implications of doing so and when, in its view, its conclusions represented a higher-quality solution. The reasons for the IASB's conclusions on the lessee accounting model are discussed in the <i>Lessee accounting model</i> feedback section on page 9 of this document.</p> |

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# Important information

This Project Summary and Feedback Statement has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views within this document are those of the staff who prepared this document and are not the views or the opinions of the IASB and should not be considered authoritative in any way. The content of this Project Summary and Feedback Statement does not constitute any advice.

Official pronouncements of the IASB are available in electronic format to eIFRS subscribers. Publications are available for ordering from our website at [www.ifrs.org](http://www.ifrs.org).

## **Further information**

The Basis for Conclusions on IFRS 16 analyses the considerations of the IASB when developing IFRS 16 including comprehensive analysis of the feedback received on the proposals that preceded the Standard and how the IASB responded to that feedback.

The Effects Analysis on IFRS 16 describes the likely costs and benefits of IFRS 16.

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# Notes



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