



IFRS 16 LEASES

FACT SHEET

This fact sheet is based on existing requirements as at 16 January 2017 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 16 is applicable for annual reporting periods commencing on or after 1 January 2019.

OBJECTIVE

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions.

SCOPE

IFRS 16 applies to all leases for both the lessee and lessor, except the following exclusions:

SCOPE EXCLUSION	STANDARD TO APPLY
Leases to explore for or use materials, oil, natural gas and similar non-regenerative resources	None specified. Depending on the circumstances 'IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> ' or 'IAS 38 <i>Intangible assets</i> ' might apply
Leases of biological assets in scope of IAS 41 held by a lessee	IAS 41 ' <i>Agriculture</i> '
Service concession arrangements in scope of IFRIC 12	IFRIC 12 ' <i>Service Concession Arrangements</i> '
Licences of intellectual property granted by a lessor in scope of IFRS 15	IFRS 15 ' <i>Revenue from Contracts with Customers</i> '
Rights held under licensing agreements in scope of IAS 38 for items such as motion picture films, video recordings, plays, manuscripts, patent and copyrights*	IAS 38 ' <i>Intangible Assets</i> '

*for leases of other types of intangible asset a lessee is permitted to apply IFRS 16 but not required to do so

DEFINITION OF A LEASE

IFRS 16 largely retains the definition of a lease in IAS 17 but changes the requirements and guidance on how to apply the definition. This refinement was considered necessary as the changes to 'off-balance sheet' operating leases for lessee accounting created a greater need for distinguishing a lease from a service contract.

AASB 16 defines a lease as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration".

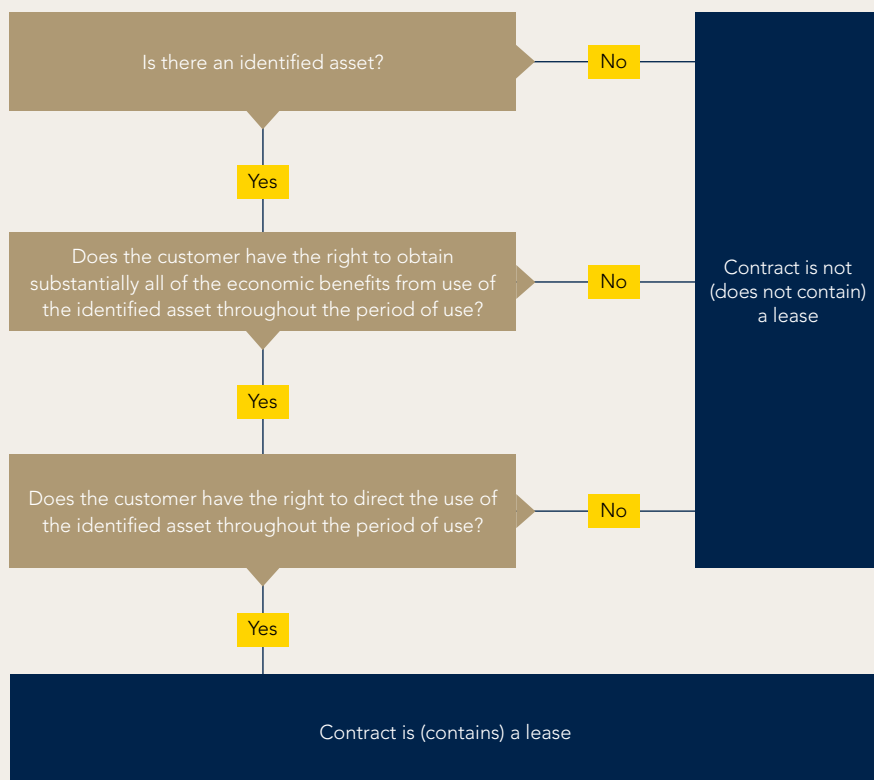
A contract can be (or contain) a lease only if the underlying asset is 'identified'. Having the right to control the use of the identified asset for a period of time requires having the right to:

- obtain substantially all of the economic benefits from use of the identified asset; and
- direct the use of the identified asset;

throughout the period of use.

Applying the new definition therefore involves three key evaluations. These are summarised in the flowchart below.

Flowchart: the three key evaluations



THE NEW LESSEE ACCOUNTING APPROACH

Subject to the optional accounting simplifications discussed below, a lessee is required to recognise its leases on the balance sheet. This involves recognising:

- a 'right-of-use' asset and
- a lease liability.

The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is 'reasonably certain'. The initial measurement of the right-of-use asset is based on the lease liability, with adjustments for any prepaid rents, lease incentives received and initial direct costs incurred.

In subsequent periods, the lease liability is accounted for similarly to a financial liability using the effective interest method. The right-of-use asset is accounted for similarly to a purchased asset and depreciated or amortised.

OPTIONAL ACCOUNTING SIMPLIFICATIONS

IFRS 16 provides important reliefs or exemptions for:

- short-term leases (a lease is short-term if it has a lease term of 12 months or less at the commencement date. However, a lease cannot qualify if it contains a purchase option. The use of this exemption is an accounting policy choice that must be made consistently for each class of underlying asset); and
- low-value asset leases (the assessment of value is based on the absolute value of each leased asset when new and therefore requires judgement. In the Basis for Conclusions which accompanies the Standard, however, the IASB notes that they had in mind leases of assets with a value when new of around US\$5,000 or less. Accordingly, leases of assets such as low value IT equipment, office equipment and furniture would typically qualify, while vehicle leases would not. The use of this exemption is an accounting policy choice that can be made on a lease-by-lease basis).

If these exemptions are used, the accounting is similar to operating lease accounting under the current Standard IAS 17 *Leases*. Lease payments are recognised as an expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

PRESENTATION

IFRS 16 requires lessees to either present right-of-use assets separately from other assets on the balance sheet or disclose separately in the notes. Likewise, lessees are required to either present lease liabilities separately from other liabilities on the balance sheet or disclose separately in the notes. In the income statement, lessees need to show interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. In the statement of cash flows, cash payments for the principal portion of the lease liability are presented within financing activities, cash payments for the interest portion are presented either within operating or financing activities (in accordance with IAS 7 *Statement of Cash Flows*).

LESSOR ACCOUNTING

IFRS 16's requirements for lessor accounting are similar to IAS 17's. In particular:

- the distinction between finance and operating leases is retained
- the definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17's
- the basic accounting mechanics are also similar, but with some different or more explicit guidance in a few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

DISCLOSURE

IFRS 16 requires different and more extensive disclosures, both quantitative and qualitative, about leasing activities than IAS 17. The objective of the disclosures is to provide information that enables users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

Refer Appendix 1 for a checklist to assist with IFRS 16 disclosure requirements.

EFFECTIVE DATE AND TRANSITION

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

In terms of transition, IFRS 16 broadly provides lessees with a choice between two methods:

- full retrospective approach – with restatement of comparative information in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- Cumulative catch-up approach – without restating comparatives. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. If a lessee chooses this method, a number of more specific transition requirements and optional reliefs also apply.

DEFINITIONS

Finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
Inception date of the lease (inception date)	The earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.
Initial direct costs	Incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease.
Interest rate implicit in the lease	The rate of interest that causes the present value of (a) the lease payments and (b) the unguaranteed residual value to equal the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.
Lease	A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
Lease incentives	Payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.
Lease modification	A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).
Lease payments	<p>Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:</p> <ol style="list-style-type: none"> fixed payments (including in-substance fixed payments), less any lease incentives; variable lease payments that depend on an index or a rate; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. <p>For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.</p> <p>For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.</p>

Lease term	The non-cancellable period for which a lessee has the right to use an underlying asset, together with both: <ol style="list-style-type: none"> a. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and b. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
Lessee's incremental borrowing rate	The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
Operating lease	A lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
Right-of-use asset	An asset that represents a lessee's right to use an underlying asset for the lease term.
Short-term lease	A lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.
Variable lease payments	The portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 16 *Leases*.

Notwithstanding the initial measurement requirements in paragraphs AASB 16.23–25, where the lessee is a not-for-profit entity and the lease has significantly below-market terms and conditions principally to enable the entity to further its objectives, the right-of-use asset is required to be initially measured at fair value in accordance with AASB 13 *Fair Value Measurement*. AASB 1058 *Income of Not-for-Profit Entities* addresses the recognition of related amounts.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the “Yes / No / N/A” column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for “No” answers.

CODE		YES / NO / N/A	EXPLANATION (If required)
LESSEE			
IFRS 16.51	The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.		
IFRS 16.52	A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.		
IFRS 16.53	A lessee shall disclose the following amounts for the reporting period: <ol style="list-style-type: none"> depreciation charge for right-of-use assets by class of underlying asset; interest expense on lease liabilities; the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less; the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c); the expense relating to variable lease payments not included in the measurement of lease liabilities; income from subleasing right-of-use assets; total cash outflow for leases; additions to right-of-use assets; gains or losses arising from sale and leaseback transactions; and the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset. 		
IFRS 16.54	A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.		

CODE		YES / NO / N/A	EXPLANATION (If required)
IFRS 16.55	A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.		
IFRS 16.56	If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in AASB 140. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.		
IFRS 16.57	If a lessee measures right-of-use assets at revalued amounts applying AASB 116, the lessee shall disclose the information required by paragraph 77 of AASB 116 for those right-of-use assets.		
IFRS 16.58	A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of AASB 7 <i>Financial Instruments: Disclosures</i> separately from the maturity analyses of other financial liabilities.		
IFRS 16.59	<p>In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess:</p> <ul style="list-style-type: none"> a. the nature of the lessee’s leasing activities; b. future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from: <ul style="list-style-type: none"> i. variable lease payments (as described in paragraph B49); ii. extension options and termination options (as described in paragraph B50); iii. residual value guarantees (as described in paragraph B51); and iv. leases not yet commenced to which the lessee is committed. c. restrictions or covenants imposed by leases; and d. sale and leaseback transactions (as described in paragraph B52). 		
IFRS 16.60	A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.		

CODE		YES / NO / N/A	EXPLANATION (If required)
LESSOR			
IFRS 16.89	<p>The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.</p>		
IFRS 16.90	<p>A lessor shall disclose the following amounts for the reporting period:</p> <ul style="list-style-type: none"> a. for finance leases: <ul style="list-style-type: none"> i. selling profit or loss; ii. finance income on the net investment in the lease; and iii. income relating to variable lease payments not included in the measurement of the net investment in the lease. b. for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate. 		
IFRS 16.91	<p>A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.</p>		
IFRS 16.92	<p>A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess:</p> <ul style="list-style-type: none"> a. the nature of the lessor's leasing activities; and b. how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits. 		

CODE		YES / NO / N/A	EXPLANATION (If required)
Finance leases			
IFRS 16.93	A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.		
IFRS 16.94	A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.		
Operating leases			
IFRS 16.95	For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of AASB 116. In applying the disclosure requirements in AASB 116, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by AASB 116 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.		
IFRS 16.96	A lessor shall apply the disclosure requirements in AASB 136, AASB 138, AASB 140 and AASB 141 for assets subject to operating leases.		
IFRS 16.97	A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.		

OTHER MATTERS

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