

**Lessons from IFRS 16 *Leases*  
transition relief *and* practical  
expedients**

***Joint MASB-AASB project***

Disclaimer:

These slides have been prepared by MASB and AASB staff for presentation at the 13<sup>th</sup> Annual AOSSG meeting in November 2021

Any views are individual MASB and/or AASB staff views and not necessarily those of the FRF, MASB, FRC or AASB

# What is being researched and why?

IFRS 16 includes a choice between two transition approaches, optional transition relief and practical expedients a lessee can choose to apply:

- On transition from IAS 17 to IFRS 16
- On an ongoing basis under IFRS 16

Stage 1: A review of the transition-year financial reports of the 80 largest listed companies (LLCs Malaysia: 30; Australia: 50)

Stage 2: Interviews with Malaysian and Australian financial statement preparers (not limited to the 80 LLCs), auditors and users to ascertain:

- Which practical expedients are applied
- Reasons for applying / not applying them
- Ideas for other possible practical expedients

Lessons learned about applying IFRS 16 transition relief and practical expedients might provide useful information on making practical expedients available in future IFRS

# Who have we interviewed?

MASB staff have (to date) interviewed:

- Preparers from Bursa-listed entities (11)
- Malaysian-based large firm auditors (7)
- Users of Bursa-listed entity financial statements (3)

AASB staff (to date) have interviewed:

- Preparers from ASX-listed entities (9)
- Australian-based large firm auditors (1)
- Users of ASX-listed entity financial statements (1)

Interviews were conducted throughout 2021 and covered the year of adoption and at least one subsequent year of IFRS 16 application

# Transition relief and practical expedients

- No need to reassess whether a contract is, or contains, a lease [¶C3]
- Full or partial retrospective application [¶C5]
- If partial:
  - Measure lease liabilities at PV of remaining lease payments discounted at IBR and choose to measure RoU assets as:
    - a. carrying amount from commencement discount at IBR; or
    - b. equal to lease liability adjusted for accruals [¶C8]
  - Single discount rate for similar leases [¶C10]
  - Rely on earlier assessment of whether onerous [¶C10]
  - Leases in last year treated as operating [¶C10]
  - Exclude initial direct costs (NA to option b) [¶C10]
  - Use hindsight (NA to option b) [¶C10]

# Ongoing practical expedients

- Available to all:
  - Short-term leases can be treated as operating [¶ 5&6]
  - Low-value leases can be treated as operating [¶ 5&6]
  - No separation of non-lease components [¶ 15]
  - Accounting for portfolios of leases [¶ B1]

# Transition: what we've found so far

- Most lessees applied partial retrospective approach for cost-benefit reasons (% was higher for Australia vs Malaysia)
- Some of those applying full retrospective approach used transition as an opportunity to 'improve' their records of leasing transactions (% was higher for Malaysia vs Australia)
- Partial retrospective para.8 expedients – most chose RoU assets = lease liability (Many applied the same option to all leases, but more applied the options differentially to different leases)
- Partial retrospective para.10 expedients were widely appreciated by preparers and selectively applied for cost-benefit reasons

# Transition: what we've found so far

- Partial retrospective para.10 expedients applied by LLCs

Single discount rate	Earlier onerous assessment	Leases in last year treated as operating	Exclude initial direct costs	Use hindsight
Two-thirds	Just over half	Almost all	Just over half	Two-thirds

- Preparers and auditors devoted considerable resources to analysing practical expedient choices
- Users generally unconcerned about partial retrospective transition numbers

# Ongoing: what we've found so far

- Universal application of short-term lease expedient on the basis there's no substantive impact on P/L
- Almost universal application of low-value lease expedient on the basis there's no substantive impact on P/L
- Mixed use of non-separation of non-lease components—usually based on the balance sheet impact – large % service components usually treated separately
- Accounting for portfolios of leases not widely used – generally regarded as difficult to justify – but use may grow over time
- Users did not seem perturbed by use of various expedients and consider disclosure of their use as adequate to overcome most concerns

# Other observations

- Both transitional and ongoing practical expedients are widely appreciated – saves large % of preparation and audit costs (relative to having no exceptions)
- Some advocate ‘core’ versus ‘non-core’ RoU asset distinction, with non-core = operating lease accounting
- Management reporting in many ‘asset heavy’ entities treat all leases as operating or still use IAS 17 accounting
- Some users concerned about cash flows being classified as ‘financing’ when they are considered ‘operating’ – cash flow and income statement classifications do not tally
- Some users want non-cancellable versus cancellable lease debt distinguished – they analyse ‘committed debt’ versus ‘lines of credit’