January 2016

International Financial Reporting Standard®

IFRS 16 Leases



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International Financial Reporting Standard 16

Leases

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ISBN for this part: 978-1-911040-04-0; ISBN for set of three parts: 978-1-911040-03-3

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APPROVAL BY THE BOARD OF IFRS 16 *LEASES* ISSUED IN JANUARY 2016

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APPENDIX
Amendments to guidance on other Standards

International Financial Reporting Standard 16 *Leases* (IFRS 16) is set out in paragraphs 1–103 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. The Standard should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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Introduction

Overview

IN1 International Financial Reporting Standard 16 *Leases* (IFRS 16) 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. This information 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 entity.

IN2 IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier 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.

IN3 IFRS 16 supersedes:

(a) IAS 17 *Leases*;

(b) IFRIC 4 *Determining whether an Arrangement contains a Lease*;

(c) SIC-15 *Operating Leases—Incentives*; and

(d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Reasons for issuing IFRS 16

IN4 Leasing is an important activity for many entities. It is a means of gaining access to assets, of obtaining finance and of reducing an entity's exposure to the risks of asset ownership. The prevalence of leasing means that it is important that users of financial statements have a complete and understandable picture of an entity's leasing activities.

IN5 The previous accounting model for leases required lessees and lessors to classify their leases as either finance leases or operating leases and account for those two types of leases differently. That model was criticised for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognise assets and liabilities arising from operating leases.

IN6 Accordingly, the International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to develop a new approach to lease accounting that requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

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IN7 Both Boards decided that a lessee should be required to recognise assets and liabilities for all leases (with limited exceptions), and both Boards have defined leases in the same way. The Boards reached similar decisions regarding the measurement of lease liabilities, and how to account for leases that were formerly classified as finance leases. In addition, both Boards decided not to substantially change lessor accounting.

IN8 However, the Boards reached different decisions for leases that were formerly classified as operating leases with respect to the recognition of lease expenses and the reporting of lease-related cash flows. The IASB decided to adopt a single lessee accounting model whereby a lessee accounts for all leases in the same way. The FASB decided to adopt a dual lessee accounting model, classifying leases in a similar manner to the previous requirements in US Generally Accepted Accounting Principles (US GAAP) for distinguishing between operating leases and capital leases, and to account for those two types of leases differently.

IN9 IFRS 16 completes the IASB's project to improve the financial reporting of leases.

Main features

Lessee accounting

IN10 IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IN11 A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 *Statement of Cash Flows*.

IN12 Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

IN13 IFRS 16 contains disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing 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.

Lessor accounting

IN14 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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IN15 IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

International Financial Reporting Standard 16 *Leases*

Objective

1 **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. This information 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 an entity.**

2 An entity shall consider the terms and conditions of *contracts* and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

Scope

3 An entity shall apply this Standard to all leases, including leases of *right-of-use assets* in a *sublease*, except for:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

(b) leases of biological assets within the scope of IAS 41 *Agriculture* held by a lessee;

(c) service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements*;

(d) licences of intellectual property granted by a lessor within the scope of IFRS 15 *Revenue from Contracts with Customers*; and

(e) rights held by a lessee under licensing agreements within the scope of IAS 38 *Intangible Assets* for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

4 A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(e).

Recognition exemptions (paragraphs B3–B8)

5 A lessee may elect not to apply the requirements in paragraphs 22–49 to:

(a) *short-term leases*; and

(b) leases for which the *underlying asset* is of low value (as described in paragraphs B3–B8).

6 If a lessee elects not to apply the requirements in paragraphs 22–49 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the *lease payments* associated with those leases as an

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expense on either a straight-line basis over the *lease term* or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

7 If a lessee accounts for short-term leases applying paragraph 6, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:

(a) there is a *lease modification*; or

(b) there is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).

8 The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity's operations. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

Identifying a lease (paragraphs B9–B33)

9 At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs B9–B31 set out guidance on the assessment of whether a contract is, or contains, a lease.

10 A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).

11 An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating components of a contract

12 For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 15. Paragraphs B32–B33 set out guidance on separating components of a contract.

Lessee

13 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

14 The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximising the use of observable information.

15 As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in paragraph 4.3.3 of IFRS 9 *Financial Instruments*.

16 Unless the practical expedient in paragraph 15 is applied, a lessee shall account for non-lease components applying other applicable Standards.

Lessor

17 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 73–90 of IFRS 15.

Lease term (paragraphs B34–B41)

18 An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

(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.

19 In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in paragraphs B37–B40.

20 A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

(a) is within the control of the lessee; and

(b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (as described in paragraph B41).

21 An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

(a) the lessee exercises an option not previously included in the entity's determination of the lease term;

(b) the lessee does not exercise an option previously included in the entity's determination of the lease term;

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(c) an event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or

(d) an event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

Lessee

Recognition

22 At the *commencement date*, a lessee shall recognise a right-of-use asset and a lease liability.

Measurement

Initial measurement

Initial measurement of the right-of-use asset

23 At the commencement date, a lessee shall measure the right-of-use asset at cost.

24 The cost of the right-of-use asset shall comprise:

(a) the amount of the initial measurement of the lease liability, as described in paragraph 26;

(b) any lease payments made at or before the commencement date, less any *lease incentives* received;

(c) any *initial direct costs* incurred by the lessee; and

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

25 A lessee shall recognise the costs described in paragraph 24(d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IAS 2 *Inventories* to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for applying this Standard or IAS 2 are recognised and measured applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Initial measurement of the lease liability

26 At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the *interest rate implicit in the*

lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

27 At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) *fixed payments* (including in-substance fixed payments as described in paragraph B42), less any lease incentives receivable;

(b) *variable lease payments* that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 28);

(c) amounts expected to be payable by the lessee under *residual value guarantees*;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs B37–B40); and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

28 Variable lease payments that depend on an index or a rate described in paragraph 27(b) include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

Subsequent measurement

Subsequent measurement of the right-of-use asset

29 After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraphs 34 and 35.

Cost model

30 To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and

(b) adjusted for any remeasurement of the lease liability specified in paragraph 36(c).

31 A lessee shall apply the depreciation requirements in IAS 16 *Property, Plant and Equipment* in depreciating the right-of-use asset, subject to the requirements in paragraph 32.

32 If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the *useful life* of the underlying asset.

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Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the *useful life* of the right-of-use asset or the end of the lease term.

33 A lessee shall apply IAS 36 *Impairment of Assets* to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Other measurement models

34 If a lessee applies the fair value model in IAS 40 *Investment Property* to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in IAS 40.

35 If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Subsequent measurement of the lease liability

36 After the commencement date, a lessee shall measure the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 39–46, or to reflect revised in-substance fixed lease payments (see paragraph B42).

37 Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraph 26, or if applicable the revised discount rate described in paragraph 41, paragraph 43 or paragraph 45(c).

38 After the commencement date, a lessee shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

(a) interest on the lease liability; and

(b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of the lease liability

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the

measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

(a) there is a change in the lease term, as described in paragraphs 20–21. A lessee shall determine the revised lease payments on the basis of the revised lease term; or

(b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

41 In applying paragraph 40, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

42 A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

(a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

(b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

43 In applying paragraph 42, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

44 A lessee shall account for a lease modification as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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45 For a lease modification that is not accounted for as a separate lease, at the *effective date of the lease modification* a lessee shall:

(a) allocate the consideration in the modified contract applying paragraphs 13–16;

(b) determine the lease term of the modified lease applying paragraphs 18–19; and

(c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

46 For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

(a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.

(b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Presentation

47 A lessee shall either present in the statement of financial position, or disclose in the notes:

(a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

(i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

(ii) disclose which line items in the statement of financial position include those right-of-use assets.

(b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

48 The requirement in paragraph 47(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

49 In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of IAS 1 *Presentation of*

Financial Statements requires to be presented separately in the statement of profit or loss and other comprehensive income.

50 In the statement of cash flows, a lessee shall classify:

(a) cash payments for the principal portion of the lease liability within financing activities;

(b) cash payments for the interest portion of the lease liability applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid; and

(c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Disclosure

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.

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.

53 A lessee shall disclose the following amounts for the reporting period:

(a) depreciation charge for right-of-use assets by class of underlying asset;

(b) interest expense on lease liabilities;

(c) 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;

(d) 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);

(e) the expense relating to variable lease payments not included in the measurement of lease liabilities;

(f) income from subleasing right-of-use assets;

(g) total cash outflow for leases;

(h) additions to right-of-use assets;

(i) gains or losses arising from sale and leaseback transactions; and

(j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

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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.

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.

56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IAS 40. 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.

57 If a lessee measures right-of-use assets at revalued amounts applying IAS 16, the lessee shall disclose the information required by paragraph 77 of IAS 16 for those right-of-use assets.

58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.

59 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:

(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:

  (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).

60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.

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Lessor

Classification of leases (paragraphs B53–B58)

61 **A lessor shall classify each of its leases as either an *operating lease* or a *finance lease*.**

62 **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.**

63 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the *fair value* at the date the option becomes exercisable for it to be reasonably certain, at the *inception date*, that the option will be exercised;

(c) the lease term is for the major part of the *economic life* of the underlying asset even if title is not transferred;

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

64 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

65 The examples and indicators in paragraphs 63–64 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.

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66 Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Finance leases

Recognition and measurement

67 At the commencement date, a lessor shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the *net investment in the lease*.

Initial measurement

68 The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

69 Initial direct costs, other than those incurred by manufacturer or dealer lessors, are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

Initial measurement of the lease payments included in the net investment in the lease

70 At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

(a) fixed payments (including in-substance fixed payments as described in paragraph B42), less any lease incentives payable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) 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;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph B37); and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Manufacturer or dealer lessors

71 At the commencement date, a manufacturer or dealer lessor shall recognise the following for each of its finance leases:

(a) revenue being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest;

(b) the cost of sale being the cost, or carrying amount if different, of the underlying asset less the present value of the *unguaranteed residual value*; and

(c) selling profit or loss (being the difference between revenue and the cost of sale) in accordance with its policy for outright sales to which IFRS 15 applies. A manufacturer or dealer lessor shall recognise selling profit or loss on a finance lease at the commencement date, regardless of whether the lessor transfers the underlying asset as described in IFRS 15.

72 Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to profit or loss equivalent to the profit or loss resulting from an outright sale of the underlying asset, at normal selling prices, reflecting any applicable volume or trade discounts.

73 Manufacturer or dealer lessors sometimes quote artificially low rates of interest in order to attract customers. The use of such a rate would result in a lessor recognising an excessive portion of the total income from the transaction at the commencement date. If artificially low rates of interest are quoted, a manufacturer or dealer lessor shall restrict selling profit to that which would apply if a market rate of interest were charged.

74 A manufacturer or dealer lessor shall recognise as an expense costs incurred in connection with obtaining a finance lease at the commencement date because they are mainly related to earning the manufacturer or dealer's selling profit. Costs incurred by manufacturer or dealer lessors in connection with obtaining a finance lease are excluded from the definition of initial direct costs and, thus, are excluded from the net investment in the lease.

Subsequent measurement

75 A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

76 A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the *gross investment in the lease* to reduce both the principal and the *unearned finance income*.

77 A lessor shall apply the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual

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value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

78 A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* shall account for the asset in accordance with that Standard.

Lease modifications

79 A lessor shall account for a modification to a finance lease as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

80 For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

(i) account for the lease modification as a new lease from the effective date of the modification; and

(ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the lessor shall apply the requirements of IFRS 9.

Operating leases

Recognition and measurement

81 A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

82 A lessor shall recognise costs, including depreciation, incurred in earning the lease income as an expense.

83 A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease income.

84 The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor's normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with IAS 16 and IAS 38.

85 A lessor shall apply IAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

86 A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

Lease modifications

87 A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Presentation

88 A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.

Disclosure

89 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.

90 A lessor shall disclose the following amounts for the reporting period:

(a) for finance leases:

  (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.

91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.

92 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:

(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

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may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance leases

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.

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

95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of IAS 16. In applying the disclosure requirements in IAS 16, 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 IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

96 A lessor shall apply the disclosure requirements in IAS 36, IAS 38, IAS 40 and IAS 41 for assets subject to operating leases.

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.

Sale and leaseback transactions

98 If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 99–103.

Assessing whether the transfer of the asset is a sale

99 An entity shall apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the asset is a sale

100 If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset:

(a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

(b) the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

101 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms shall be accounted for as a prepayment of lease payments; and

(b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

102 The entity shall measure any potential adjustment required by paragraph 101 on the basis of the more readily determinable of:

(a) the difference between the fair value of the consideration for the sale and the fair value of the asset; and

(b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

103 If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset:

(a) the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IFRS 9.

(b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying IFRS 9.

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Appendix A
Defined terms

This appendix is an integral part of the Standard.

commencement date of the lease (commencement date) The date on which a **lessor** makes an **underlying asset** available for use by a **lessee**.

economic life Either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.

effective date of the modification The date when both parties agree to a **lease modification**.

fair value For the purpose of applying the **lessor** accounting requirements in this Standard, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

finance lease A **lease** that transfers substantially all the risks and rewards incidental to ownership of an **underlying asset**.

fixed payments Payments made by a **lessee** to a **lessor** for the right to use an **underlying asset** during the **lease term**, excluding **variable lease payments**.

gross investment in the lease The sum of:

(a) the **lease payments** receivable by a **lessor** under a **finance lease**; and

(b) any **unguaranteed residual value** accruing to the lessor.

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.

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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 Payments made by a **lessee** to a **lessor** relating to the right to use an **underlying asset** during the **lease term**, comprising the following:

(a) **fixed payments** (including in-substance fixed payments), less any **lease incentives**;

(b) **variable lease payments** that depend on an index or a rate;

(c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(d) payments of penalties for terminating the **lease**, if the lease term reflects the lessee exercising an option to terminate the lease.

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.

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.

lease term The non-cancellable period for which a **lessee** has the right to use an **underlying asset**, together with both:

(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 An entity that obtains the right to use an **underlying asset** for a period of time in exchange for consideration.

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.

lessor An entity that provides the right to use an **underlying asset** for a period of time in exchange for consideration.

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net investment in the lease — The **gross investment in the lease** discounted at the **interest rate implicit in the lease**.

operating lease — A **lease** that does not transfer substantially all the risks and rewards incidental to ownership of an **underlying asset**.

optional lease payments — Payments to be made by a **lessee** to a **lessor** for the right to use an **underlying asset** during periods covered by an option to extend or terminate a **lease** that are not included in the **lease term**.

period of use — The total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

residual value guarantee — A guarantee made to a **lessor** by a party unrelated to the lessor that the value (or part of the value) of an **underlying asset** at the end of a **lease** will be at least a specified amount.

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.

sublease — A transaction for which an **underlying asset** is re-leased by a **lessee** ('intermediate lessor') to a third party, and the **lease** ('head lease') between the head lessor and lessee remains in effect.

underlying asset — An asset that is the subject of a **lease**, for which the right to use that asset has been provided by a **lessor** to a **lessee**.

unearned finance income — The difference between:

(a) the **gross investment in the lease**; and

(b) the **net investment in the lease**.

unguaranteed residual value — That portion of the residual value of the **underlying asset**, the realisation of which by a **lessor** is not assured or is guaranteed solely by a party related to the lessor.

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.

Terms defined in other Standards and used in this Standard with the same meaning

contract — An agreement between two or more parties that creates enforceable rights and obligations.

useful life — The period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from an asset by an entity.

Appendix B
Application guidance

This appendix is an integral part of the Standard. It describes the application of paragraphs 1–103 and has the same authority as the other parts of the Standard.

Portfolio application

B1 This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

Combination of contracts

B2 In applying this Standard, an entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

(a) the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together;

(b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or

(c) the rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component as described in paragraph B32.

Recognition exemption: leases for which the underlying asset is of low value (paragraphs 5–8)

B3 Except as specified in paragraph B7, this Standard permits a lessee to apply paragraph 6 to account for leases for which the underlying asset is of low value. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased.

B4 The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 6 regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value.

B5 An underlying asset can be of low value only if:

(a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

(b) the underlying asset is not highly dependent on, or highly interrelated with, other assets.

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B6 A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.

B7 If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

B8 Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

Identifying a lease (paragraphs 9–11)

B9 To assess whether a contract conveys the right to control the use of an identified asset (see paragraphs B13–B20) for a period of time, an entity shall assess whether, throughout the *period of use*, the customer has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset (as described in paragraphs B21–B23); and

(b) the right to direct the use of the identified asset (as described in paragraphs B24–B30).

B10 If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

B11 A contract to receive goods or services may be entered into by a joint arrangement, or on behalf of a joint arrangement, as defined in IFRS 11 *Joint Arrangements*. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use.

B12 An entity shall assess whether a contract contains a lease for each potential separate lease component. Refer to paragraph B32 for guidance on separate lease components.

Identified asset

B13 An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive substitution rights

B14 Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:

(a) the supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and

(b) the supplier would benefit economically from the exercise of its right to substitute the asset (ie the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset).

B15 If the supplier has a right or an obligation to substitute the asset only on or after either a particular date or the occurrence of a specified event, the supplier's substitution right is not substantive because the supplier does not have the practical ability to substitute alternative assets throughout the period of use.

B16 An entity's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract and shall exclude consideration of future events that, at inception of the contract, are not considered likely to occur. Examples of future events that, at inception of the contract, would not be considered likely to occur and, thus, should be excluded from the evaluation include:

(a) an agreement by a future customer to pay an above market rate for use of the asset;

(b) the introduction of new technology that is not substantially developed at inception of the contract;

(c) a substantial difference between the customer's use of the asset, or the performance of the asset, and the use or performance considered likely at inception of the contract; and

(d) a substantial difference between the market price of the asset during the period of use, and the market price considered likely at inception of the contract.

B17 If the asset is located at the customer's premises or elsewhere, the costs associated with substitution are generally higher than when located at the supplier's premises and, therefore, are more likely to exceed the benefits associated with substituting the asset.

B18 The supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset.

B19 If the customer cannot readily determine whether the supplier has a substantive substitution right, the customer shall presume that any substitution right is not substantive.

Portions of assets

B20 A capacity portion of an asset is an identified asset if it is physically distinct (for example, a floor of a building). A capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fibre optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

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Right to obtain economic benefits from use

B21 To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.

B22 When assessing the right to obtain substantially all of the economic benefits from use of an asset, an entity shall consider the economic benefits that result from use of the asset within the defined scope of a customer's right to use the asset (see paragraph B30). For example:

(a) if a contract limits the use of a motor vehicle to only one particular territory during the period of use, an entity shall consider only the economic benefits from use of the motor vehicle within that territory, and not beyond.

(b) if a contract specifies that a customer can drive a motor vehicle only up to a particular number of miles during the period of use, an entity shall consider only the economic benefits from use of the motor vehicle for the permitted mileage, and not beyond.

B23 If a contract requires a customer to pay the supplier or another party a portion of the cash flows derived from use of an asset as consideration, those cash flows paid as consideration shall be considered to be part of the economic benefits that the customer obtains from use of the asset. For example, if the customer is required to pay the supplier a percentage of sales from use of retail space as consideration for that use, that requirement does not prevent the customer from having the right to obtain substantially all of the economic benefits from use of the retail space. This is because the cash flows arising from those sales are considered to be economic benefits that the customer obtains from use of the retail space, a portion of which it then pays to the supplier as consideration for the right to use that space.

Right to direct the use

B24 A customer has the right to direct the use of an identified asset throughout the period of use only if either:

(a) the customer has the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs B25–B30); or

(b) the relevant decisions about how and for what purpose the asset is used are predetermined and:

(i) the customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the supplier having the right to change those operating instructions; or

(ii) the customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

How and for what purpose the asset is used

B25 A customer has the right to direct how and for what purpose the asset is used if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use. Decision-making rights are relevant when they affect the economic benefits to be derived from use. The decision-making rights that are most relevant are likely to be different for different contracts, depending on the nature of the asset and the terms and conditions of the contract.

B26 Examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used, within the defined scope of the customer's right of use, include:

(a) rights to change the type of output that is produced by the asset (for example, to decide whether to use a shipping container to transport goods or for storage, or to decide upon the mix of products sold from retail space);

(b) rights to change when the output is produced (for example, to decide when an item of machinery or a power plant will be used);

(c) rights to change where the output is produced (for example, to decide upon the destination of a truck or a ship, or to decide where an item of equipment is used); and

(d) rights to change whether the output is produced, and the quantity of that output (for example, to decide whether to produce energy from a power plant and how much energy to produce from that power plant).

B27 Examples of decision-making rights that do not grant the right to change how and for what purpose the asset is used include rights that are limited to operating or maintaining the asset. Such rights can be held by the customer or the supplier. Although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and are often dependent on the decisions about how and for what purpose the asset is used. However, rights to operate an asset may grant the customer the right to direct the use of the asset if the relevant decisions about how and for what purpose the asset is used are predetermined (see paragraph B24(b)(i)).

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Decisions determined during and before the period of use

B28 The relevant decisions about how and for what purpose the asset is used can be predetermined in a number of ways. For example, the relevant decisions can be predetermined by the design of the asset or by contractual restrictions on the use of the asset.

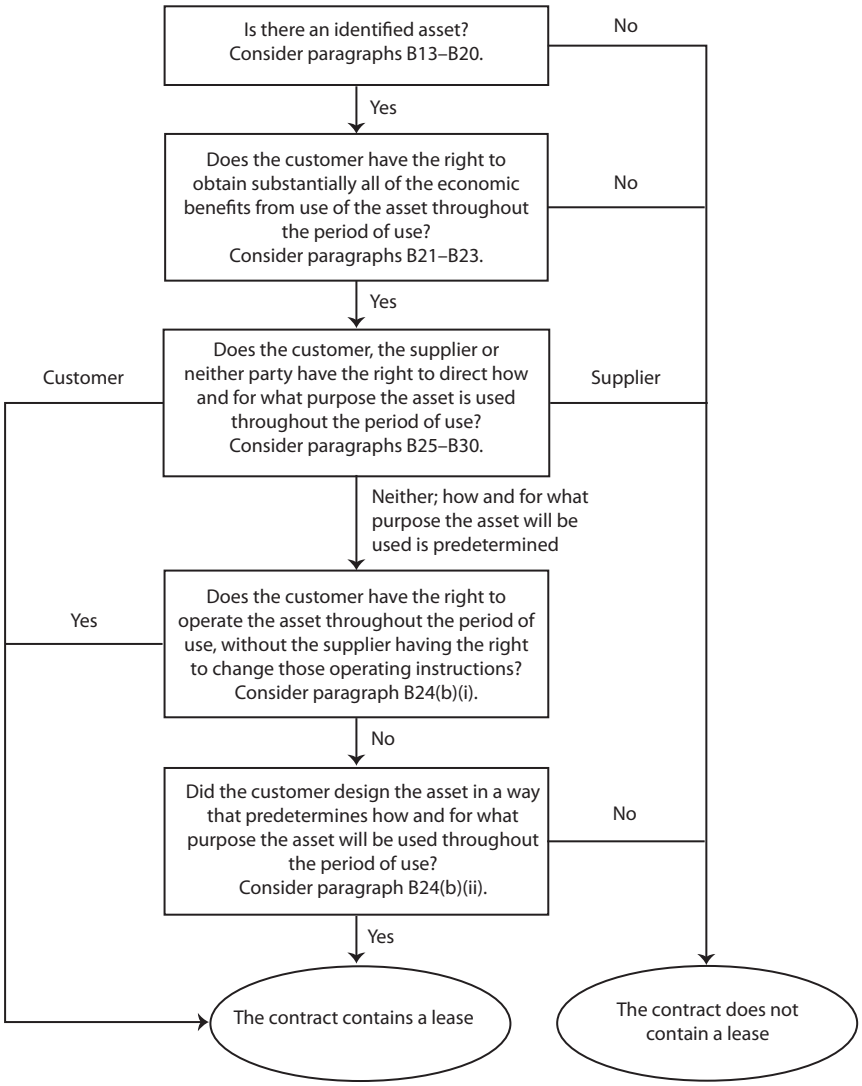
B29 In assessing whether a customer has the right to direct the use of an asset, an entity shall consider only rights to make decisions about the use of the asset during the period of use, unless the customer designed the asset (or specific aspects of the asset) as described in paragraph B24(b)(ii). Consequently, unless the conditions in paragraph B24(b)(ii) exist, an entity shall not consider decisions that are predetermined before the period of use. For example, if a customer is able only to specify the output of an asset before the period of use, the customer does not have the right to direct the use of that asset. The ability to specify the output in a contract before the period of use, without any other decision-making rights relating to the use of the asset, gives a customer the same rights as any customer that purchases goods or services.

Protective rights

B30 A contract may include terms and conditions designed to protect the supplier's interest in the asset or other assets, to protect its personnel, or to ensure the supplier's compliance with laws or regulations. These are examples of protective rights. For example, a contract may (i) specify the maximum amount of use of an asset or limit where or when the customer can use the asset, (ii) require a customer to follow particular operating practices, or (iii) require a customer to inform the supplier of changes in how an asset will be used. Protective rights typically define the scope of the customer's right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset.

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B31 The following flowchart may assist entities in making the assessment of whether a contract is, or contains, a lease.



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Separating components of a contract (paragraphs 12–17)

B32 The right to use an underlying asset is a separate lease component if both:

(a) the lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee. Readily available resources are goods or services that are sold or leased separately (by the lessor or other suppliers) or resources that the lessee has already obtained (from the lessor or from other transactions or events); and

(b) the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. For example, the fact that a lessee could decide not to lease the underlying asset without significantly affecting its rights to use other underlying assets in the contract might indicate that the underlying asset is not highly dependent on, or highly interrelated with, those other underlying assets.

B33 A contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks, or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

Lease term (paragraphs 18–21)

B34 In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

B35 If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

B36 The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

B37 At the commencement date, an entity assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include, but are not limited to:

(a) contractual terms and conditions for the optional periods compared with market rates, such as:

(i) the amount of payments for the lease in any optional period;

(ii) the amount of any variable payments for the lease or other contingent payments, such as payments resulting from termination penalties and residual value guarantees; and

(iii) the terms and conditions of any options that are exercisable after initial optional periods (for example, a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).

(b) significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(c) costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;

(d) the importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives; and

(e) conditionality associated with exercising the option (ie when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist.

B38 An option to extend or terminate a lease may be combined with one or more other contractual features (for example, a residual value guarantee) such that the lessee guarantees the lessor a minimum or fixed cash return that is substantially the same regardless of whether the option is exercised. In such cases, and notwithstanding the guidance on in-substance fixed payments in paragraph B42, an entity shall assume that the lessee is reasonably certain to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

B39 The shorter the non-cancellable period of a lease, the more likely a lessee is to exercise an option to extend the lease or not to exercise an option to terminate the lease. This is because the costs associated with obtaining a replacement asset are likely to be proportionately higher the shorter the non-cancellable period.

B40 A lessee's past practice regarding the period over which it has typically used particular types of assets (whether leased or owned), and its economic reasons for doing so, may provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option. For example, if a lessee has typically used particular types of assets for a particular period of time or if the lessee has a practice of frequently exercising options on leases of particular types of underlying assets, the lessee shall consider the

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economic reasons for that past practice in assessing whether it is reasonably certain to exercise an option on leases of those assets.

B41 Paragraph 20 specifies that, after the commencement date, a lessee reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. Examples of significant events or changes in circumstances include:

(a) significant leasehold improvements not anticipated at the commencement date that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(b) a significant modification to, or customisation of, the underlying asset that was not anticipated at the commencement date;

(c) the inception of a sublease of the underlying asset for a period beyond the end of the previously determined lease term; and

(d) a business decision of the lessee that is directly relevant to exercising, or not exercising, an option (for example, a decision to extend the lease of a complementary asset, to dispose of an alternative asset or to dispose of a business unit within which the right-of-use asset is employed).

In-substance fixed lease payments (paragraphs 27(a), 36(c) and 70(a))

B42 Lease payments include any in-substance fixed lease payments. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

(a) payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:

  (i) payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or

  (ii) payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved.

(b) there is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity shall consider the realistic set of payments to be lease payments.

(c) there is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity shall consider the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

Lessee involvement with the underlying asset before the commencement date

Costs of the lessee relating to the construction or design of the underlying asset

B43 An entity may negotiate a lease before the underlying asset is available for use by the lessee. For some leases, the underlying asset may need to be constructed or redesigned for use by the lessee. Depending on the terms and conditions of the contract, a lessee may be required to make payments relating to the construction or design of the asset.

B44 If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as IAS 16. Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

Legal title to the underlying asset

B45 A lessee may obtain legal title to an underlying asset before that legal title is transferred to the lessor and the asset is leased to the lessee. Obtaining legal title does not in itself determine how to account for the transaction.

B46 If the lessee controls (or obtains control of) the underlying asset before that asset is transferred to the lessor, the transaction is a sale and leaseback transaction that is accounted for applying paragraphs 98–103.

B47 However, if the lessee does not obtain control of the underlying asset before the asset is transferred to the lessor, the transaction is not a sale and leaseback transaction. For example, this may be the case if a manufacturer, a lessor and a lessee negotiate a transaction for the purchase of an asset from the manufacturer by the lessor, which is in turn leased to the lessee. The lessee may obtain legal title to the underlying asset before legal title transfers to the lessor. In this case, if the lessee obtains legal title to the underlying asset but does not obtain control of the asset before it is transferred to the lessor, the transaction is not accounted for as a sale and leaseback transaction, but as a lease.

Lessee disclosures (paragraph 59)

B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider:

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(a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:

(i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.

(ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.

(iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.

(iv) exposure to other risks arising from leases.

(v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.

(b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.

B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

(a) the lessee's reasons for using variable lease payments and the prevalence of those payments;

(b) the relative magnitude of variable lease payments to fixed payments;

(c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and

(d) other operational and financial effects of variable lease payments.

B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

(a) the lessee's reasons for using extension options or termination options and the prevalence of those options;

(b) the relative magnitude of *optional lease payments* to lease payments;

(c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and

(d) other operational and financial effects of those options.

B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

(a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;

(b) the magnitude of a lessee's exposure to residual value risk;

(c) the nature of underlying assets for which those guarantees are provided; and

(d) other operational and financial effects of those guarantees.

B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:

(a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;

(b) key terms and conditions of individual sale and leaseback transactions;

(c) payments not included in the measurement of lease liabilities; and

(d) the cash flow effect of sale and leaseback transactions in the reporting period.

Lessor lease classification (paragraphs 61–66)

B53 The classification of leases for lessors in this Standard is based on the extent to which the lease transfers the risks and rewards incidental to ownership of an underlying asset. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the underlying asset's economic life and of gain from appreciation in value or realisation of a residual value.

B54 A lease contract may include terms and conditions to adjust the lease payments for particular changes that occur between the inception date and the commencement date (such as a change in the lessor's cost of the underlying asset or a change in the lessor's cost of financing the lease). In that case, for the purposes of classifying the lease, the effect of any such changes shall be deemed to have taken place at the inception date.

B55 When a lease includes both land and buildings elements, a lessor shall assess the classification of each element as a finance lease or an operating lease separately applying paragraphs 62–66 and B53–B54. In determining whether the land element is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

B56 Whenever necessary in order to classify and account for a lease of land and buildings, a lessor shall allocate lease payments (including any lump-sum

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upfront payments) between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception date. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

B57 For a lease of land and buildings in which the amount for the land element is immaterial to the lease, a lessor may treat the land and buildings as a single unit for the purpose of lease classification and classify it as a finance lease or an operating lease applying paragraphs 62–66 and B53–B54. In such a case, a lessor shall regard the economic life of the buildings as the economic life of the entire underlying asset.

Sublease classification

B58 In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

(a) if the head lease is a short-term lease that the entity, as a lessee, has accounted for applying paragraph 6, the sublease shall be classified as an operating lease.

(b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

Appendix C
Effective date and transition

This appendix is an integral part of the Standard and has the same authority as the other parts of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of this Standard. If an entity applies this Standard earlier, it shall disclose that fact.

Transition

C2 For the purposes of the requirements in paragraphs C1–C19, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

Definition of a lease

C3 As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

(a) to apply this Standard to contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The entity shall apply the transition requirements in paragraphs C5–C18 to those leases.

(b) not to apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

C4 If an entity chooses the practical expedient in paragraph C3, it shall disclose that fact and apply the practical expedient to all of its contracts. As a result, the entity shall apply the requirements in paragraphs 9–11 only to contracts entered into (or changed) on or after the date of initial application.

Lessees

C5 A lessee shall apply this Standard to its leases either:

(a) retrospectively to each prior reporting period presented applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraphs C7–C13.

C6 A lessee shall apply the election described in paragraph C5 consistently to all of its leases in which it is a lessee.

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C7 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases previously classified as operating leases

C8 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall:

(a) recognise a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

(c) apply IAS 36 *Impairment of Assets* to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph C10(b).

C9 Notwithstanding the requirements in paragraph C8, for leases previously classified as operating leases applying IAS 17, a lessee:

(a) is not required to make any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs B3–B8) that will be accounted for applying paragraph 6. The lessee shall account for those leases applying this Standard from the date of initial application.

(b) is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value model in IAS 40 *Investment Property*. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IAS 40 and this Standard from the date of initial application.

(c) shall measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases applying IAS 17 and that will be accounted for as investment property using the fair value model in IAS 40 from the date of initial application.

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The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying IAS 40 and this Standard from the date of initial application.

C10 A lessee may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C5(b) to leases previously classified as operating leases applying IAS 17. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

(a) a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) a lessee may rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

(c) a lessee may elect not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall:

(i) account for those leases in the same way as short-term leases as described in paragraph 6; and

(ii) include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

(d) a lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

(e) a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as finance leases

C11 If a lessee elects to apply this Standard in accordance with paragraph C5(b), for leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this Standard from the date of initial application.

Disclosure

C12 If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall disclose information about initial application required by

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paragraph 28 of IAS 8, except for the information specified in paragraph 28(f) of IAS 8. Instead of the information specified in paragraph 28(f) of IAS 8, the lessee shall disclose:

(a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and

(b) an explanation of any difference between:

(i) operating lease commitments disclosed applying IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and

(ii) lease liabilities recognised in the statement of financial position at the date of initial application.

C13 If a lessee uses one or more of the specified practical expedients in paragraph C10, it shall disclose that fact.

Lessors

C14 Except as described in paragraph C15, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying this Standard from the date of initial application.

C15 An intermediate lessor shall:

(a) reassess subleases that were classified as operating leases applying IAS 17 and are ongoing at the date of initial application, to determine whether each sublease should be classified as an operating lease or a finance lease applying this Standard. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.

(b) for subleases that were classified as operating leases applying IAS 17 but finance leases applying this Standard, account for the sublease as a new finance lease entered into at the date of initial application.

Sale and leaseback transactions before the date of initial application

C16 An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale.

C17 If a sale and leaseback transaction was accounted for as a sale and a finance lease applying IAS 17, the seller-lessee shall:

(a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application; and

(b) continue to amortise any gain on sale over the lease term.

C18 If a sale and leaseback transaction was accounted for as a sale and operating lease applying IAS 17, the seller-lessee shall:

(a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; and

(b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

Amounts previously recognised in respect of business combinations

C19 If a lessee previously recognised an asset or a liability applying IFRS 3 *Business Combinations* relating to favourable or unfavourable terms of an operating lease acquired as part of a business combination, the lessee shall derecognise that asset or liability and adjust the carrying amount of the right-of-use asset by a corresponding amount at the date of initial application.

References to IFRS 9

C20 If an entity applies this Standard but does not yet apply IFRS 9 *Financial Instruments*, any reference in this Standard to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Withdrawal of other Standards

C21 This Standard supersedes the following Standards and Interpretations:

(a) IAS 17 *Leases*;

(b) IFRIC 4 *Determining whether an Arrangement contains a Lease*;

(c) SIC-15 *Operating Leases—Incentives*; and

(d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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Appendix D
Amendments to other Standards

This appendix sets out the amendments to other Standards that are a consequence of the IASB issuing this Standard. An entity shall apply the amendments for annual periods beginning on or after 1 January 2019. If an entity applies this Standard for an earlier period, it shall also apply these amendments for that earlier period.

An entity is not permitted to apply IFRS 16 before applying IFRS 15 Revenue from Contracts with Customers *(see paragraph C1).*

Consequently, for Standards that were effective on 1 January 2016, the amendments in this appendix are presented based on the text of those Standards that was effective on 1 January 2016, as amended by IFRS 15. The text of those Standards in this appendix does not include any other amendments that were not effective at 1 January 2016.

For Standards that were not effective on 1 January 2016, the amendments in this appendix are presented based on the text of the initial publication of that Standard, as amended by IFRS 15. The text of those Standards in this appendix does not include any other amendments that were not effective at 1 January 2016.

Amended paragraphs are shown with deleted text struck through and new text is underlined.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 30 is amended and paragraph 39AB is added.

Use of fair value as deemed cost

30 If an entity uses fair value in its opening IFRS statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property, ~~or~~ an intangible asset or a right-of-use asset (see paragraphs D5 and D7), the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS statement of financial position:

(a) ...

Effective date

...

39AB IFRS 16 *Leases*, issued in January 2016, amended paragraphs 30, C4, D1, D7, D8B and D9, deleted paragraph D9A and added paragraphs D9B–D9E. An entity shall apply those amendments when it applies IFRS 16.

Paragraph C4 is amended.

Exemptions for business combinations

...

C4 If a first-time adopter does not apply IFRS 3 retrospectively to a past business combination, this has the following consequences for that business combination:

(a) ...

(f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening IFRS statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that IFRSs would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised ~~finance~~ leases acquired in a past business combination in which the acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as ~~IAS 17~~ IFRS 16 *Leases* would require the acquiree to do in its IFRS statement of financial position. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to IFRSs, the acquirer shall recognise that contingent liability at that date unless IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under IFRS 3, that asset or liability remains in goodwill unless IFRSs would require its recognition in the financial statements of the acquiree.

(g) ...

In Appendix D, paragraphs D1, D7, D8B and D9 are amended. Paragraph D9A is deleted. Paragraphs D9B-D9E are added.

Exemptions from other IFRSs

...

D1 An entity may elect to use one or more of the following exemptions:

(a) ...

(d) leases (paragraphs D9 and ~~D9A~~ D9B–D9E);

...

Deemed cost

...

D7 The elections in paragraphs D5 and D6 are also available for:

(a) investment property, if an entity elects to use the cost model in IAS 40 *Investment Property*; ~~and~~

(aa) right-of-use assets (IFRS 16 *Leases*); and

(b) ...

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...

D8B Some entities hold items of property, plant and equipment, right-of-use assets or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with IFRSs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to IFRSs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to IFRSs, an entity shall test for impairment in accordance with IAS 36 each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate regulation if they are governed by a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator (as defined in IFRS 14 *Regulatory Deferral Accounts*).

Leases

D9 ~~A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.~~ A first-time adopter may assess whether a contract existing at the date of transition to IFRSs contains a lease by applying paragraphs 9–11 of IFRS 16 to those contracts on the basis of facts and circumstances existing at that date.

D9A [Deleted] ~~If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying IAS 17 *Leases* and IFRIC 4.~~

D9B When a first-time adopter that is a lessee recognises lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph D9D):

(a) measure a lease liability at the date of transition to IFRSs. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph D9E), discounted using the lessee's incremental borrowing rate (see paragraph D9E) at the date of transition to IFRSs.

(b) measure a right-of-use asset at the date of transition to IFRSs. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) its carrying amount as if IFRS 16 had been applied since the commencement date of the lease (see paragraph D9E), but discounted using the lessee's incremental borrowing rate at the date of transition to IFRSs; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to IFRSs.

(c) apply IAS 36 to right-of-use assets at the date of transition to IFRSs.

D9C Notwithstanding the requirements in paragraph D9B, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of transition to IFRSs for leases that meet the definition of investment property in IAS 40 and are measured using the fair value model in IAS 40 from the date of transition to IFRSs.

D9D A first-time adopter that is a lessee may do one or more of the following at the date of transition to IFRSs, applied on a lease-by-lease basis:

(a) apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

(b) elect not to apply the requirements in paragraph D9B to leases for which the lease term (see paragraph D9E) ends within 12 months of the date of transition to IFRSs. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with paragraph 6 of IFRS 16.

(c) elect not to apply the requirements in paragraph D9B to leases for which the underlying asset is of low value (as described in paragraphs B3-B8 of IFRS 16). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with paragraph 6 of IFRS 16.

(d) exclude initial direct costs (see paragraph D9E) from the measurement of the right-of-use asset at the date of transition to IFRSs.

(e) use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

D9E Lease payments, lessee, lessee's incremental borrowing rate, commencement date of the lease, initial direct costs and lease term are defined terms in IFRS 16 and are used in this Standard with the same meaning.

IFRS 3 *Business Combinations*

Paragraphs 14 and 17 are amended and paragraphs 28A and 28B and their related heading, and paragraph 64M, are added.

Recognition conditions

...

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14 Paragraphs ~~B28–B40~~ B31–B40 provide guidance on recognising ~~operating leases and~~ intangible assets. Paragraphs 22–28B specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the recognition principle and conditions.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

...

17 This IFRS provides two exceptions to the principle in paragraph 15:

(a) classification of a lease contract in which the acquiree is the lessor as either an operating lease or a finance lease in accordance with ~~IAS 17~~ IFRS 16 *Leases*; and

(b) ...

Leases in which the acquiree is the lessee

28A The acquirer shall recognise right-of-use assets and lease liabilities for leases identified in accordance with IFRS 16 in which the acquiree is the lessee. The acquirer is not required to recognise right-of-use assets and lease liabilities for:

(a) leases for which the lease term (as defined in IFRS 16) ends within 12 months of the acquisition date; or

(b) leases for which the underlying asset is of low value (as described in paragraphs B3–B8 of IFRS 16).

28B The acquirer shall measure the lease liability at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired lease were a new lease at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Effective date

...

64M IFRS 16, issued in January 2016, amended paragraphs 14, 17, B32 and B42, deleted paragraphs B28–B30 and their related heading and added paragraphs 28A–28B and their related heading. An entity shall apply those amendments when it applies IFRS 16.

In Appendix B, paragraphs B28–B30 and their related heading are deleted and paragraphs B32 and B42 are amended.

~~Operating leases~~

B28 [Deleted] ~~The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs B29 and B30.~~

B29 [Deleted] ~~The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer~~

~~shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph B42 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.~~

B30 [Deleted] ~~An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that situation, the acquirer shall recognise the associated identifiable intangible asset(s) in accordance with paragraph B31.~~

Intangible assets

...

B32 An intangible asset that meets the contractual-legal criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

(a) [deleted] ~~an acquiree leases a manufacturing facility under an operating lease that has terms that are favourable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favourable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease contract.~~

(b) ...

Assets subject to operating leases in which the acquiree is the lessor

B42 In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. ~~In other words, t~~The acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms ~~as paragraph B29 requires for leases in which the acquiree is the lessee~~.

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IFRS 4 *Insurance Contracts*

Paragraph 4, as amended by IFRS 15, is amended and paragraph 41I is added.

Scope

...

4 An entity shall not apply this IFRS to:

(a) ...

(c) contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item (for example, some licence fees, royalties, ~~contingent~~ variable lease payments and similar items), as well as a lessee's residual value guarantee embedded in a ~~finance~~ lease (see ~~IAS 17~~ IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers* and IAS 38 *Intangible Assets*).

(d) ...

Effective date and transition

...

41I IFRS 16, issued in January 2016, amended paragraph 4. An entity shall apply that amendment when it applies IFRS 16.

IFRS 7 *Financial Instruments: Disclosures*

Paragraph 29 is amended and paragraph 44CC is added.

Fair value

...

29 Disclosures of fair value are not required:

(a) ...

(b) for an investment in equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input), or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot otherwise be measured reliably; ~~or~~

(c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably; or

(d) for lease liabilities.

Effective date and transition

...

44CC IFRS 16 *Leases*, issued in January 2016, amended paragraphs 29 and B11D. An entity shall apply those amendments when it applies IFRS 16.

In Appendix B, paragraph B11D is amended.

Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

...

B11D The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows, for example:

(a) gross ~~finance~~ lease ~~obligations~~ liabilities (before deducting finance charges);

(b) ...

IFRS 9 *Financial Instruments*

Paragraph 2.1 and paragraph 5.5.15 are amended and paragraph 7.1.5 is added.

Chapter 2 Scope

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

(a) ...

(b) rights and obligations under leases to which ~~IAS 17~~ IFRS 16 *Leases* applies. However:

(i) finance lease receivables (ie net investments in finance leases) and operating lease receivables recognised by a lessor are subject to the derecognition and impairment requirements of this Standard;

(ii) ~~finance~~ lease ~~payables~~ liabilities recognised by a lessee are subject to the derecognition requirements in paragraph 3.3.1 of this Standard; and

(iii) derivatives that are embedded in leases are subject to the embedded derivatives requirements of this Standard.

(c) ...

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Simplified approach for trade receivables, contract assets and lease receivables

5.5.15 Despite paragraphs 5.5.3 and 5.5.5, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:

(a) ...

(b) lease receivables that result from transactions that are within the scope of ~~IAS 17~~ IFRS 16, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.

...

7.1 Effective date

...

7.1.5 IFRS 16, issued in January 2016, amended paragraphs 2.1, 5.5.15, B4.3.8, B5.5.34 and B5.5.46. An entity shall apply those amendments when it applies IFRS 16.

In Appendix B, paragraphs B4.3.8, B5.5.34 and B5.5.46 are amended.

Embedded derivatives (Section 4.3)

...

B4.3.8 The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

(a) ...

(f) An embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) ~~contingent rentals~~ variable lease payments based on related sales or (iii) ~~contingent rentals~~ variable lease payments based on variable interest rates.

(g) ...

Expected credit losses

...

B5.5.34 When measuring a loss allowance for a lease receivable, the cash flows used for determining the expected credit losses should be consistent with the cash flows used in measuring the lease receivable in accordance with ~~IAS 17~~ IFRS 16 *Leases*.

...

Time value of money

...

B5.5.46 Expected credit losses on lease receivables shall be discounted using the same discount rate used in the measurement of the lease receivable in accordance with ~~IAS 17~~ IFRS 16.

...

IFRS 13 *Fair Value Measurement*

Paragraph 6 is amended.

Scope

...

6 The measurement and disclosure requirements of this IFRS do not apply to the following:

(a) ...

(b) leasing transactions ~~within the scope of IAS 17~~ accounted for in accordance with IFRS 16 *Leases*; and

(c) ...

In Appendix C, paragraph C6 is added.

Effective date and transition

...

C6 IFRS 16 *Leases*, issued in January 2016, amended paragraph 6. An entity shall apply that amendment when it applies IFRS 16.

IFRS 15 *Revenue from Contracts with Customers*

Paragraphs 5 and 97 are amended.

Scope

5 An entity shall apply this Standard to all contracts with customers, except the following:

(a) lease contracts within the scope of ~~IAS 17~~ IFRS 16 *Leases*;

(b) ...

Costs to fulfil a contract

...

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97 Costs that relate directly to a contract (or a specific anticipated contract) include any of the following:

(a) ...

(c) allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools, ~~and~~ equipment and right-of-use assets used in fulfilling the contract);

(d) ...

In Appendix B, paragraphs B66 and B70 are amended.

A forward or a call option

B66 If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a customer does not obtain control of the asset because the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset even though the customer may have physical possession of the asset. Consequently, the entity shall account for the contract as either of the following:

(a) a lease in accordance with ~~IAS 17~~ IFRS 16 *Leases* if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset, unless the contract is part of a sale and leaseback transaction. If the contract is part of a sale and leaseback transaction, the entity shall continue to recognise the asset and shall recognise a financial liability for any consideration received from the customer. The entity shall account for the financial liability in accordance with IFRS 9; or

(b) ...

A put option

B70 If an entity has an obligation to repurchase the asset at the customer's request (a put option) at a price that is lower than the original selling price of the asset, the entity shall consider at contract inception whether the customer has a significant economic incentive to exercise that right. The customer's exercising of that right results in the customer effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the customer has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with ~~IAS 17~~ IFRS 16, unless the contract is part of a sale and leaseback transaction. If the contract is part of a sale and leaseback transaction, the entity shall continue to recognise the asset and shall recognise a financial liability for any consideration received from the customer. The entity shall account for the financial liability in accordance with IFRS 9.

...

In Appendix C, paragraph C1A is added.

Effective date

...

C1A IFRS 16 *Leases*, issued in January 2016, amended paragraphs 5, 97, B66 and B70. An entity shall apply those amendments when it applies IFRS 16.

IAS 1 *Presentation of Financial Statements*

Paragraph 123 is amended and paragraph 139Q is added.

Disclosure of accounting policies

...

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) ...

(b) when substantially all the significant risks and rewards of ownership of financial assets and, for lessors, ~~lease~~ assets subject to leases are transferred to other entities; and

(c) ...

Transition and effective date

...

139Q IFRS 16 *Leases*, issued in January 2016, amended paragraph 123. An entity shall apply that amendment when it applies IFRS 16.

IAS 2 *Inventories*

Paragraph 12 is amended and paragraph 40G is added.

Costs of conversion

12 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings, ~~and~~ equipment and right-of-use assets used in the production process, and the cost of factory management and administration. Variable production overheads are

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those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

...

Effective date

...

40G IFRS 16 *Leases*, issued in January 2016, amended paragraph 12. An entity shall apply that amendment when it applies IFRS 16.

IAS 7 *Statement of Cash Flows*

Paragraphs 17 and 44 are amended and paragraph 59 is added.

Financing activities

17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) ...

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a ~~finance~~ lease.

Non-cash transactions

...

44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a ~~finance~~ lease;

(b) ...

Effective date

...

59 IFRS 16 *Leases*, issued in January 2016, amended paragraphs 17 and 44. An entity shall apply those amendments when it applies IFRS 16.

IAS 12 *Income Taxes*

Paragraph 20 is amended for an entity that has not adopted IFRS 9 *Financial Instruments*.

Assets carried at fair value

20 IFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, ~~and~~ IAS 40 *Investment Property* and IFRS 16 *Leases*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

(a) ...

Paragraph 20 is amended for an entity that has adopted IFRS 9 *Financial Instruments*.

Assets carried at fair value

20 IFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 40 *Investment Property*, ~~and~~ IFRS 9 *Financial Instruments* and IFRS 16 *Leases*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

(a) ...

Paragraph 98G is added.

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Effective date

...

98G IFRS 16, issued in January 2016, amended paragraph 20. An entity shall apply that amendment when it applies IFRS 16.

IAS 16 *Property, Plant and Equipment*

Paragraphs 4 and 27 are deleted, paragraphs 5, 10, 44 and 68 are amended, paragraph 69, as amended by IFRS 15, is amended and paragraph 81L is added.

Scope

...

4 [Deleted] ~~Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IAS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.~~

5 An entity using the cost model for investment property in accordance with IAS 40 *Investment Property* shall use the cost model in this Standard for owned investment property.

Recognition

...

10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant and equipment, such as depreciation of right-of-use assets.

Measurement of cost

...

27 [Deleted] ~~The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IAS 17.~~

...

Depreciation

...

44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft~~, whether owned or subject to a finance lease~~. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

...

Derecognition

...

68 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless ~~IAS 17~~ IFRS 16 *Leases* requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

...

69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). The date of disposal of an item of property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15. ~~IAS 17~~ IFRS 16 applies to disposal by a sale and leaseback.

...

Effective date

...

81L IFRS 16, issued in January 2016, deleted paragraphs 4 and 27 and amended paragraphs 5, 10, 44 and 68–69. An entity shall apply those amendments when it applies IFRS 16.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Paragraph 16 is amended and paragraph 60K is added.

Monetary items

16 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; lease liabilities; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of

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units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services ~~(eg prepaid rent)~~; goodwill; intangible assets; inventories; property, plant and equipment; right-of-use assets; and provisions that are to be settled by the delivery of a non-monetary asset.

Effective date and transition

...

60K IFRS 16 *Leases*, issued in January 2016, amended paragraph 16. An entity shall apply that amendment when it applies IFRS 16.

IAS 23 *Borrowing Costs*

Paragraph 6 is amended and paragraph 29C is added.

Definitions

...

6 Borrowing costs may include:

(a) ...

(d) ~~finance charges~~ interest in respect of ~~finance~~ leases ~~s~~ liabilities recognised in accordance with ~~IAS 17~~ IFRS 16 *Leases*; and

(e) ...

Effective date

...

29C IFRS 16, issued in January 2016, amended paragraph 6. An entity shall apply that amendment when it applies IFRS 16.

IAS 32 *Financial Instruments: Presentation*

Paragraph 97S is added.

Effective date and transition

...

97S IFRS 16 *Leases*, issued in January 2016, amended paragraphs AG9 and AG10. An entity shall apply those amendments when it applies IFRS 16.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 5 is amended and paragraph 102 is added.

Scope

...

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

(a) ...

(c) leases (see ~~IAS 17~~ IFRS 16 *Leases*). However, ~~as IAS 17 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases~~ this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in IFRS 16. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 6 of IFRS 16 and that have become onerous;

(d) ...

Effective date

...

102 IFRS 16, issued in January 2016, amended paragraph 5. An entity shall apply that amendment when it applies IFRS 16.

IAS 38 *Intangible Assets*

Paragraphs 3, 6 and 113 are amended, paragraph 114, as amended by IFRS 15, is amended and paragraph 130L is added.

Scope

...

3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

(a) ...

(c) leases ~~that are within the scope of IAS 17~~ of intangible assets accounted for in accordance with IFRS 16 *Leases*.

(d) ...

6 ~~In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset~~

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~~held under a finance lease in accordance with this Standard.~~ Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights ~~are excluded from the scope of IAS 17 and~~ are within the scope of this Standard and are excluded from the scope of IFRS 16.

...

Retirements and disposals

...

113 **The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised (unless ~~IAS 17~~ IFRS 16 requires otherwise on a sale and leaseback.) Gains shall not be classified as revenue.**

114 The disposal of an intangible asset may occur in a variety of ways (eg by sale, by entering into a finance lease, or by donation). The date of disposal of an intangible asset is the date that the recipient obtains control of that asset in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15 *Revenue from Contracts with Customers*. ~~IAS 17~~ IFRS 16 applies to disposal by a sale and leaseback.

Transitional provisions and effective date

...

130L IFRS 16, issued in January 2016, amended paragraphs 3, 6, 113 and 114. An entity shall apply those amendments when it applies IFRS 16.

IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 2 is amended and paragraph 103V is added for an entity that has not adopted IFRS 9 *Financial Instruments*. IAS 39 is not amended for an entity that has adopted IFRS 9.

Scope

2 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **...**

(b) **rights and obligations under leases to which ~~IAS 17~~ IFRS 16 *Leases* applies. However:**

(i) **finance lease receivables (ie net investments in finance leases) and operating lease receivables recognised by a lessor are subject to the derecognition and impairment**

provisions of this Standard (see paragraphs 15–37, 58, 59, 63–65 and Appendix A paragraphs AG36–AG52 and AG84–AG93);

(ii) **~~finance~~ lease ~~payables~~ liabilities recognised by a lessee are subject to the derecognition provisions in paragraph 39 of this Standard ~~(see paragraphs 39–42 and Appendix A paragraphs AG57–AG63)~~; and**

(iii) **...**

Effective date and transition

...

103V IFRS 16, issued in January 2016, amended paragraphs 2 and AG33. An entity shall apply those amendments when it applies IFRS 16.

IAS 40 *Investment Property*

Given the extensive changes to IAS 40 *Investment Property*, the full text of this Standard with the proposed changes to it has been reproduced at the end of Appendix D.

IAS 41 *Agriculture*

Paragraph 2 is amended and paragraph 64 is added.

Scope

...

2 This Standard does not apply to:

(a) ...

(e) right-of-use assets arising from a lease of land related to agricultural activity (see IFRS 16 *Leases*).

...

Effective date and transition

...

64 IFRS 16, issued in January 2016, amended paragraph 2. An entity shall apply that amendment when it applies IFRS 16.

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

The References paragraph is amended.

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References

- IFRS 16 *Leases*
- IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- ...

Paragraph 2 is amended and paragraph 9B is added.

Scope

2 This Interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

(a) recognised as part of the cost of an item of property, plant and equipment in accordance with IAS 16 or as part of the cost of a right-of-use asset in accordance with IFRS 16; and

(b) ...

Effective date

...

9B IFRS 16, issued in January 2016, amended paragraph 2. An entity shall apply that amendment when it applies IFRS 16.

IFRIC 12 *Service Concession Arrangements*

The References paragraph is amended.

References

- ...
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- ...
- ~~IAS 17 *Leases*~~
- ...
- ~~IFRIC 4 *Determining whether an Arrangement contains a Lease*~~
- ...

Paragraph 28F is added.

Effective date

...

28F IFRS 16, issued in January 2016, amended paragraph AG8 and Appendix B. An entity shall apply those amendments when it applies IFRS 16.

In Appendix A, paragraph AG8 is amended.

Appendix A

Scope (paragraph 5)

...

AG8 The operator may have a right to use the separable infrastructure described in paragraph AG7(a), or the facilities used to provide ancillary unregulated services described in paragraph AG7(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it shall be accounted for in accordance with ~~IAS 17~~ IFRS 16.

SIC-29 *Service Concession Arrangements: Disclosures*

The References paragraph is amended.

References

- IFRS 16 *Leases*
- ...
- ~~IAS 17 *Leases* (as revised in 2003)~~
- ...

Paragraph 5 is amended.

Issue

...

5 Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing International Financial Reporting Standards (eg IAS 16 applies to acquisitions of items of property, plant and equipment, ~~IAS 17~~ IFRS 16 applies to leases of assets, and IAS 38 applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in International

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Financial Reporting Standards, unless the contracts are onerous, in which case IAS 37 applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

The Effective date paragraph is amended.

Effective date

...

An entity shall apply the amendment in paragraphs 6(e) and 6A for annual periods beginning on or after 1 January 2008. If an entity applies IFRIC 12 for an earlier period, the amendment shall be applied for that earlier period.

IFRS 16, issued in January 2016, amended paragraph 5. An entity shall apply that amendment when it applies IFRS 16.

SIC-32 *Intangible Assets—Web Site Costs*

The References paragraph is amended.

References

- ...
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- ...
- ~~IAS 17 *Leases* (as revised in 2003)~~
- ...

Paragraph 6, as amended by IFRS 15, is amended.

Issue

...

6 IAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 and IFRS 15) or leases ~~that fall within the scope of IAS 17~~ of intangible assets accounted for in accordance with IFRS 16. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity or that is accounted for in accordance with IFRS 16. ~~When a web site is leased under an operating lease, the lessor applies this Interpretation. When a web site is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset.~~

The Effective date paragraph is amended.

Effective date

...

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, amended the 'References' section and paragraph 6. An entity shall apply that amendment when it applies IFRS 15.

IFRS 16, issued in January 2016, amended paragraph 6. An entity shall apply that amendment when it applies IFRS 16.

IAS 40 *Investment Property*

Given the extensive changes to IAS 40 *Investment Property*, the full text of this Standard, as amended by IFRS 15, with the proposed changes to it has been reproduced. New text is underlined and deleted text is struck through.

International Accounting Standard 40 *Investment Property*

Objective

1 The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

2 This Standard shall be applied in the recognition, measurement and disclosure of investment property.

3 [Deleted] ~~Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in IAS 17 *Leases*, including:~~

~~(a) classification of leases as finance leases or operating leases;~~

~~(b) recognition of lease income from investment property (see also IFRS 15 *Revenue from Contracts with Customers*);~~

~~(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;~~

~~(d) measurement in a lessor's financial statements of its net investment in a finance lease;~~

~~(e) accounting for sale and leaseback transactions; and~~

~~(f) disclosure about finance leases and operating leases.~~

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4 This Standard does not apply to:

(a) biological assets related to agricultural activity (see IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment*); and

(b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Definitions

5 The following terms are used in this Standard with the meanings specified:

***Carrying amount* is the amount at which an asset is recognised in the statement of financial position.**

***Cost* is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, eg IFRS 2 *Share-based Payment*.**

***Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*).**

***Investment property* is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset ~~under a finance lease~~) to earn rentals or for capital appreciation or both, rather than for:**

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

***Owner-occupied property* is property held (by the owner or by the lessee as a right-of-use asset ~~under a finance lease~~) for use in the production or supply of goods or services or for administrative purposes.**

Classification of property as investment property or owner-occupied property

6 [Deleted] ~~**A *property interest* that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.**~~

7 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. IAS 16 applies to owned owner-occupied property and IFRS 16 applies to owner-occupied property held by a lessee as a right-of-use asset.

8 The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(c) a building owned by the entity (or a right-of-use asset relating to a building held by the entity ~~under a finance lease~~) and leased out under one or more operating leases.

(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see IAS 2 *Inventories*), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(b) [deleted]

(c) owner-occupied property (see IAS 16 and IFRS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [deleted]

(e) property that is leased to another entity under a finance lease.

10 Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold

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separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

11 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

12 In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.

13 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

14 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

14A Judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of IFRS 3 *Business Combinations*. Reference should be made to IFRS 3 to determine whether it is a business combination. The discussion in paragraphs 7–14 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a business combination as defined in IFRS 3. Determining whether a specific transaction meets the definition of a business combination as defined in IFRS 3 and includes an investment property as defined in this Standard requires the separate application of both Standards.

15 In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

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Recognition

16 **An owned ~~I~~investment property shall be recognised as an asset when, and only when:**

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably.

17 An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

18 Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

19 Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

19A An investment property held by a lessee as a right-of-use asset shall be recognised in accordance with IFRS 16.

Measurement at recognition

20 **An owned investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.**

21 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

22 [Deleted]

23 The cost of an investment property is not increased by:

(a) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),

(b) operating losses incurred before the investment property achieves the planned level of occupancy, or

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(c) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

24 If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

25 [Deleted] **~~The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.~~**

26 [Deleted] ~~Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on measuring the fair value of a property interest is set out for the fair value model in paragraphs 33–35, 40, 41, 48, 50 and 52 and in IFRS 13. That guidance is also relevant to the measurement of fair value when that value is used as cost for initial recognition purposes.~~

27 One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

28 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's

operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

29 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

29A An investment property held by a lessee as a right-of-use asset shall be measured initially at its cost in accordance with IFRS 16.

Measurement after recognition

Accounting policy

30 With the exceptions noted in paragraphs 32A ~~and 34~~, an entity shall choose as its accounting policy either the fair value model in paragraphs 33–55 or the cost model in paragraph 56 and shall apply that policy to all of its investment property.

31 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

32 This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

32A An entity may:

(a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and

(b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).

32B Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others

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held by the entity. Paragraph 32A does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

32C If an entity chooses different models for the two categories described in paragraph 32A, sales of investment property between pools of assets measured using different models shall be recognised at fair value and the cumulative change in fair value shall be recognised in profit or loss. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its deemed cost.

Fair value model

33 After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 53.

34 [Deleted] ~~**When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 6, paragraph 30 is not elective; the fair value model shall be applied.**~~

35 A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

36–39 [Deleted]

40 When measuring the fair value of investment property in accordance with IFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions.

40A When a lessee uses the fair value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property, at fair value.

41 ~~Paragraph 25~~ IFRS 16 specifies the basis for initial recognition of the cost of ~~an interest in a leased property~~ an investment property held by a lessee as a right-of-use asset. Paragraph 33 requires the ~~interest in the leased property~~ investment property held by a lessee as a right-of-use asset to be remeasured, if necessary, to fair value if the entity chooses the fair value model. ~~In a lease negotiated~~ When lease payments are at market rates, the fair value of ~~an interest in a leased property~~ an investment property held by a lessee as a right-of-use asset at acquisition, net of all expected lease payments (including those relating to recognised lease liabilities), should be zero. ~~This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognised at fair value or at the present value of minimum lease payments, in accordance with paragraph 20 of IAS 17.~~ Thus, remeasuring a ~~leased~~ right-of-use asset from cost in accordance with ~~paragraph 25~~ IFRS 16 to fair value in accordance with paragraph 33 (taking into account the requirements in paragraph 50) should not give rise to any initial gain or loss, unless fair value is

measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

42–47 [Deleted]

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 53).

49 [Deleted]

50 In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

(a) equipment such as lifts or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant and equipment.

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental income relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.

(c) the fair value of investment property excludes prepaid or accrued operating lease income, because the entity recognises it as a separate liability or asset.

(d) the fair value of investment property held by a lessee as a right-of-use asset ~~under a lease~~ reflects expected cash flows (including ~~contingent rent that is~~ variable lease payments that are expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognised lease liability, to arrive at the carrying amount of the investment property using the fair value model.

51 [Deleted]

52 In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognise a liability and, if so, how to measure it.

Inability to measure fair value reliably

53 There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an

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investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the cost model in IAS 16 for owned investment property or in accordance with IFRS 16 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply IAS 16 or IFRS 16 until disposal of the investment property.

53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the property shall be accounted for using the cost model in accordance with IAS 16 for owned assets or IFRS 16 for investment property held by a lessee as a right-of-use asset.

53B The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.

54 In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to measure an investment property using the cost model in accordance with IAS 16 or IFRS 16, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

55 If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

Cost model

56 ~~**After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with IAS 16's requirements for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5** *Non-current Assets Held for Sale and Discontinued Operations*. **Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with IFRS 5.**~~

After initial recognition, an entity that chooses the cost model shall measure investment property:

(a) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);

(b) in accordance with IFRS 16 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with IFRS 5; and

(c) in accordance with the requirements in IAS 16 for the cost model in all other cases.

Transfers

57 **Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:**

(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

(b) commencement of development with a view to sale, for a transfer from investment property to inventories;

(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

(e) [deleted]

58 Paragraph 57(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

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59 Paragraphs 60–65 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

60 For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16, IFRS 16 or IAS 2 shall be its fair value at the date of change in use.

61 If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IAS 16 for owned property and IFRS 16 for property held by a lessee as a right-of-use asset up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IAS 16 or IFRS 16 and its fair value in the same way as a revaluation in accordance with IAS 16.

62 Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property (or the right-of-use asset) and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IAS 16 or IFRS 16 and its fair value in the same way as a revaluation in accordance with IAS 16. In other words:

(a) any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.

(b) any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.

(ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

63 For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

64 The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

65 When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

Disposals

66 An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

67 The disposal of an investment property may be achieved by sale or by entering into a finance lease. The date of disposal for investment property that is sold is the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15. ~~IAS 17~~ IFRS 16 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

68 If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

69 Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless ~~IAS 17~~ IFRS 16 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

70 The amount of consideration to be included in the gain or loss arising from the derecognition of an investment property is determined in accordance with the requirements for determining the transaction price in paragraphs 47–72 of IFRS 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in the transaction price in IFRS 15.

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71 An entity applies IAS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

72 Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.

73 Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of investment property are recognised in accordance with IAS 36;

(b) retirements or disposals of investment property are recognised in accordance with paragraphs 66–71 of this Standard;

(c) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and

(d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20–29 of this Standard.

Disclosure

Fair value model and cost model

74 The disclosures below apply in addition to those in ~~IAS 17~~ IFRS 16. In accordance with ~~IAS 17~~ IFRS 16, the owner of an investment property provides lessors' disclosures about leases into which it has entered. ~~An entity~~ A lessee that holds an investment property as a right-of-use asset ~~under a finance or operating lease~~ provides lessees' disclosures as required by IFRS 16 ~~for finance leases~~ and lessors' disclosures as required by IFRS 16 for any operating leases into which it has entered.

75 An entity shall disclose:

(a) whether it applies the fair value model or the cost model.

(b) [deleted] ~~**if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.**~~

(c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

(d) [deleted]

(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in

the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(f) the amounts recognised in profit or loss for:

(i) rental income from investment property;

(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period;

(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; and

(iv) the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Fair value model

76 In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

(a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;

(b) additions resulting from acquisitions through business combinations;

(c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;

(d) net gains or losses from fair value adjustments;

(e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(f) transfers to and from inventories and owner-occupied property; and

(g) other changes.

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77 **When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease ~~obligations~~ liabilities that have been added back, and any other significant adjustments.**

78 **In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in IAS 16 or in accordance with IFRS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:**

(a) a description of the investment property;

(b) an explanation of why fair value cannot be measured reliably;

(c) if possible, the range of estimates within which fair value is highly likely to lie; and

(d) on disposal of investment property not carried at fair value:

(i) the fact that the entity has disposed of investment property not carried at fair value;

(ii) the carrying amount of that investment property at the time of sale; and

(iii) the amount of gain or loss recognised.

Cost model

79 **In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:**

(a) the depreciation methods used;

(b) the useful lives or the depreciation rates used;

(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

(i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;

(ii) additions resulting from acquisitions through business combinations;

(iii) **assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;**

(iv) **depreciation;**

(v) **the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36;**

(vi) **the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(vii) **transfers to and from inventories and owner-occupied property; and**

(viii) **other changes.**

(e) **the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:**

(i) **a description of the investment property;**

(ii) **an explanation of why fair value cannot be measured reliably; and**

(iii) **if possible, the range of estimates within which fair value is highly likely to lie.**

Transitional provisions

Fair value model

80 **An entity that has previously applied IAS 40 (2000) and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made. In addition:**

(a) **if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods (measured on a basis that satisfies the definition of fair value in IFRS 13), the entity is encouraged, but not required:**

(i) **to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly; and**

(ii) **to restate comparative information for those periods; and**

(b) **if the entity has not previously disclosed publicly the information described in (a), it shall not restate comparative information and shall disclose that fact.**

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81 This Standard requires a treatment different from that required by IAS 8. IAS 8 requires comparative information to be restated unless such restatement is impracticable.

82 When an entity first applies this Standard, the adjustment to the opening balance of retained earnings includes the reclassification of any amount held in revaluation surplus for investment property.

Cost model

83 IAS 8 applies to any change in accounting policies that is made when an entity first applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

84 The requirements of paragraphs 27–29 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

Business Combinations

84A *Annual Improvements Cycle 2011–2013* issued in December 2013 added paragraph 14A and a heading before paragraph 6. An entity shall apply that amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts that amendment. Consequently, accounting for acquisitions of investment property in prior periods shall not be adjusted. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date if, and only if, information needed to apply the amendment to those earlier transactions is available to the entity.

IFRS 16

84B An entity applying IFRS 16, and its related amendments to this Standard, for the first time shall apply the transition requirements in Appendix C of IFRS 16 to its investment property held as a right-of-use asset.

Effective date

85 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

85A IAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraph 62. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

85B Paragraphs 8, 9, 48, 53, 54 and 57 were amended, paragraph 22 was deleted and paragraphs 53A and 53B were added by *Improvements to IFRSs* issued in May 2008.

An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009. An entity is permitted to apply the amendments to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were measured at those dates. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the amendments to paragraphs 5 and 81E of IAS 16 *Property, Plant and Equipment*.

85C IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 5, amended paragraphs 26, 29, 32, 40, 48, 53, 53B, 78–80 and 85B and deleted paragraphs 36–39, 42–47, 49, 51 and 75(d). An entity shall apply those amendments when it applies IFRS 13.

85D *Annual Improvements Cycle 2011–2013* issued in December 2013 added headings before paragraph 6 and after paragraph 84 and added paragraphs 14A and 84A. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

85E IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, amended paragraphs 3(b), 9, 67 and 70. An entity shall apply those amendments when it applies IFRS 15.

85F IFRS 16, issued in January 2016, amended the scope of IAS 40 by defining investment property to include both owned investment property and property held by a lessee as a right-of-use asset. IFRS 16 amended paragraphs 5, 7, 8, 9, 16, 20, 30, 41, 50, 53, 53A, 54, 56, 60, 61, 62, 67, 69, 74, 75, 77 and 78, added paragraphs 19A, 29A, 40A and 84B and its related heading and deleted paragraphs 3, 6, 25, 26 and 34. An entity shall apply those amendments when it applies IFRS 16.

Withdrawal of IAS 40 (2000)

86 This Standard supersedes IAS 40 *Investment Property* (issued in 2000).

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Approval by the Board of IFRS 16 *Leases* issued in January 2016

IFRS 16 *Leases* was approved for issue by thirteen of the fourteen members of the International Accounting Standards Board. Mr Zhang dissented. His dissenting opinion is set out after the Basis for Conclusions.

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SET ISBN 978-1-911040-03-3



STANDARD ISBN 978-1-911040-04-0

International Accounting Standards Board® (IASB®)
The IASB is the independent standard-setting body of the IFRS Foundation®

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