



# The IASB's new leases standard

The impact for lessees

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# IFRS 16: new requirements for accounting for leases

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The IASB has issued a new leasing standard, IFRS 16 *Leases*, which will replace the existing IFRS requirements on lease accounting. The IASB issued its standard as part of a joint project with the Financial Accounting Standards Board (FASB), however, the IASB and FASB made different decisions and differences between the new standards exist.

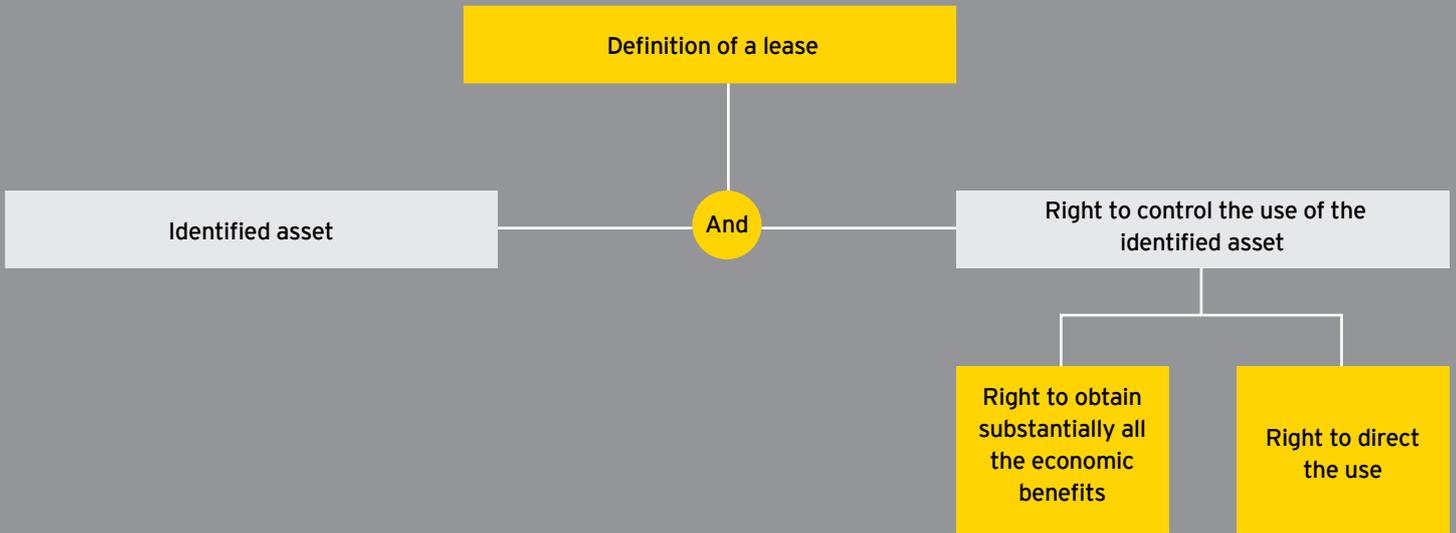
- ▶ IFRS 16 requires lessees to recognise most leases on their balance sheets.
- ▶ Lessees have a single accounting model for all leases, with certain exemptions.
- ▶ IFRS 16 requires the disclosure of new information about leases that hasn't previously been required.
- ▶ Processes and controls necessary to capture the type of financial and non-financial data needed to apply the standard may require enhancement.
- ▶ Implementing IFRS 16 will affect many activities across an organisation, including procurement, commercial, IT and finance functions.

- ▶ The new standard is effective for periods beginning on or after 1 January 2019 with limited early application permitted.
- ▶ Being proactive is important to support efficient and effective accounting and operational changes.

This brochure provides an overview of the new requirements for lessees, as well as our recommended approach for an effective transition in a way that mitigates disruption, cost and risk. EY can advise and support you in implementing the new standard, through the design of an effective road map to manage your organisation's IFRS 16 change journey.

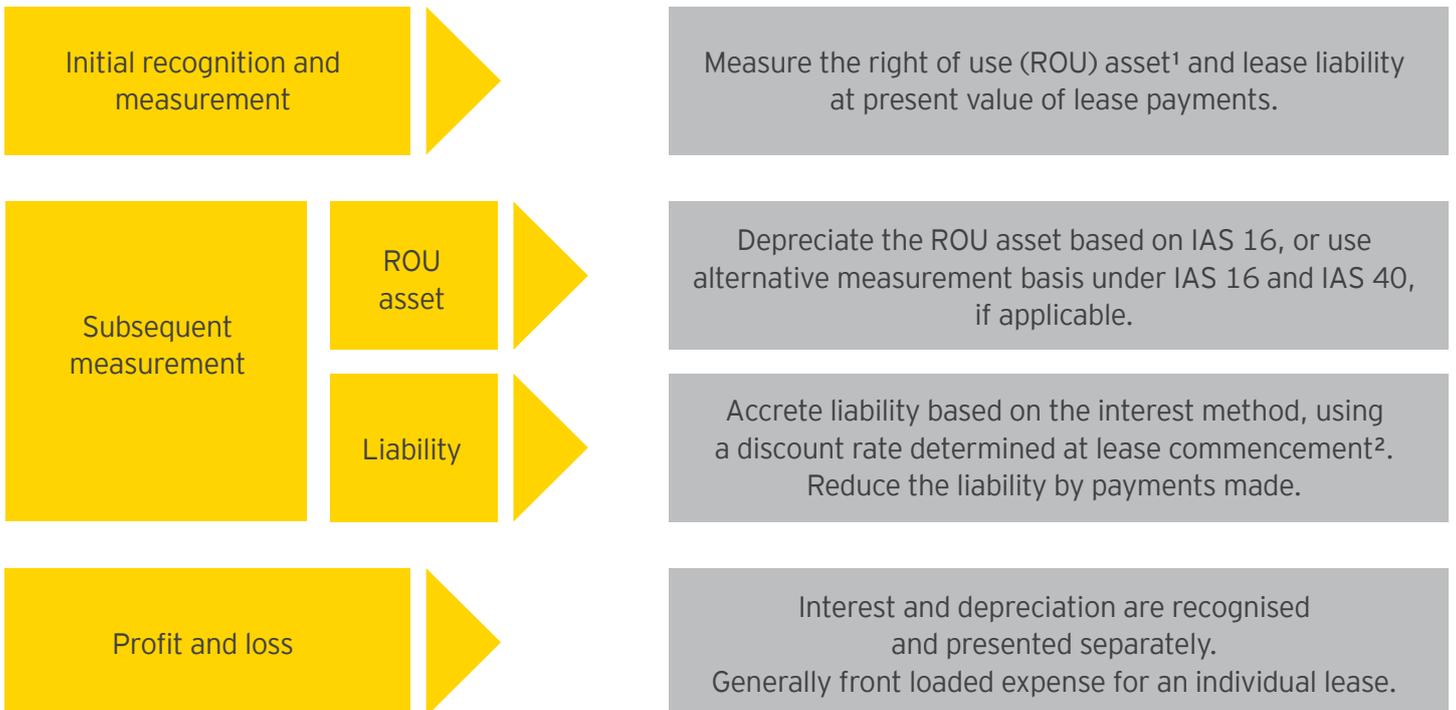
# IFRS 16: identifying a lease

Determining when a customer has the right to direct the use of an identified asset may require significant judgement, particularly for arrangements that include substantial services.



# IFRS 16: lessee accounting

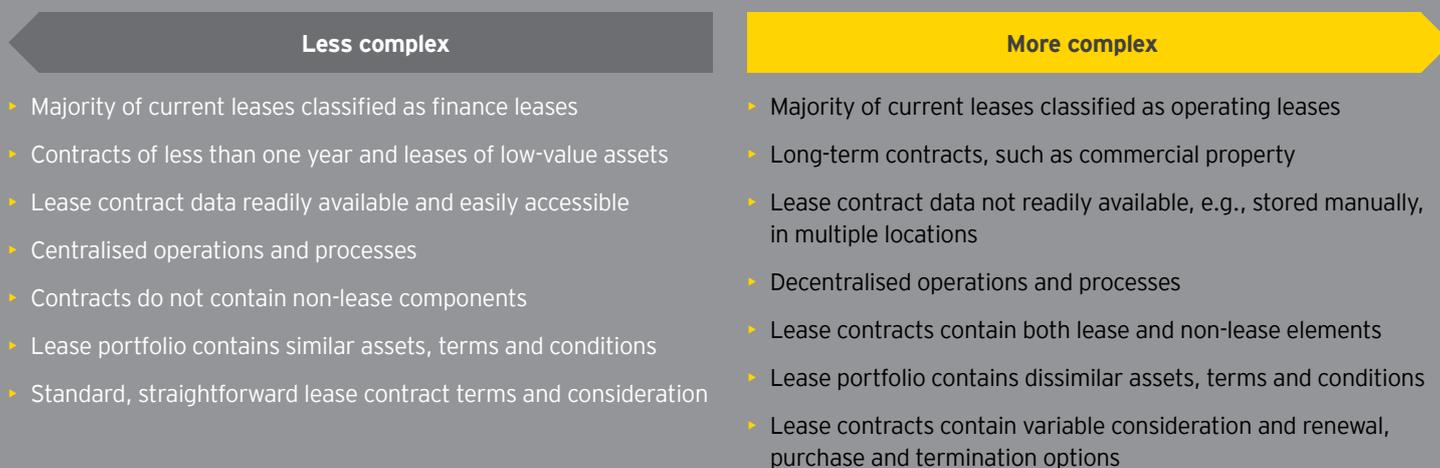
Lessees recognise most leases on balance sheet, with exemptions for leases of low-value assets and short-term leases.



1. Initial measurement of the ROU asset would also include the lessee's initial direct costs; prepayments made to the lessor, less lease incentives received from the lessor, if any; and restoration, removal and dismantling costs.  
2. As long as a reassessment and a change in the discount rate have not occurred.

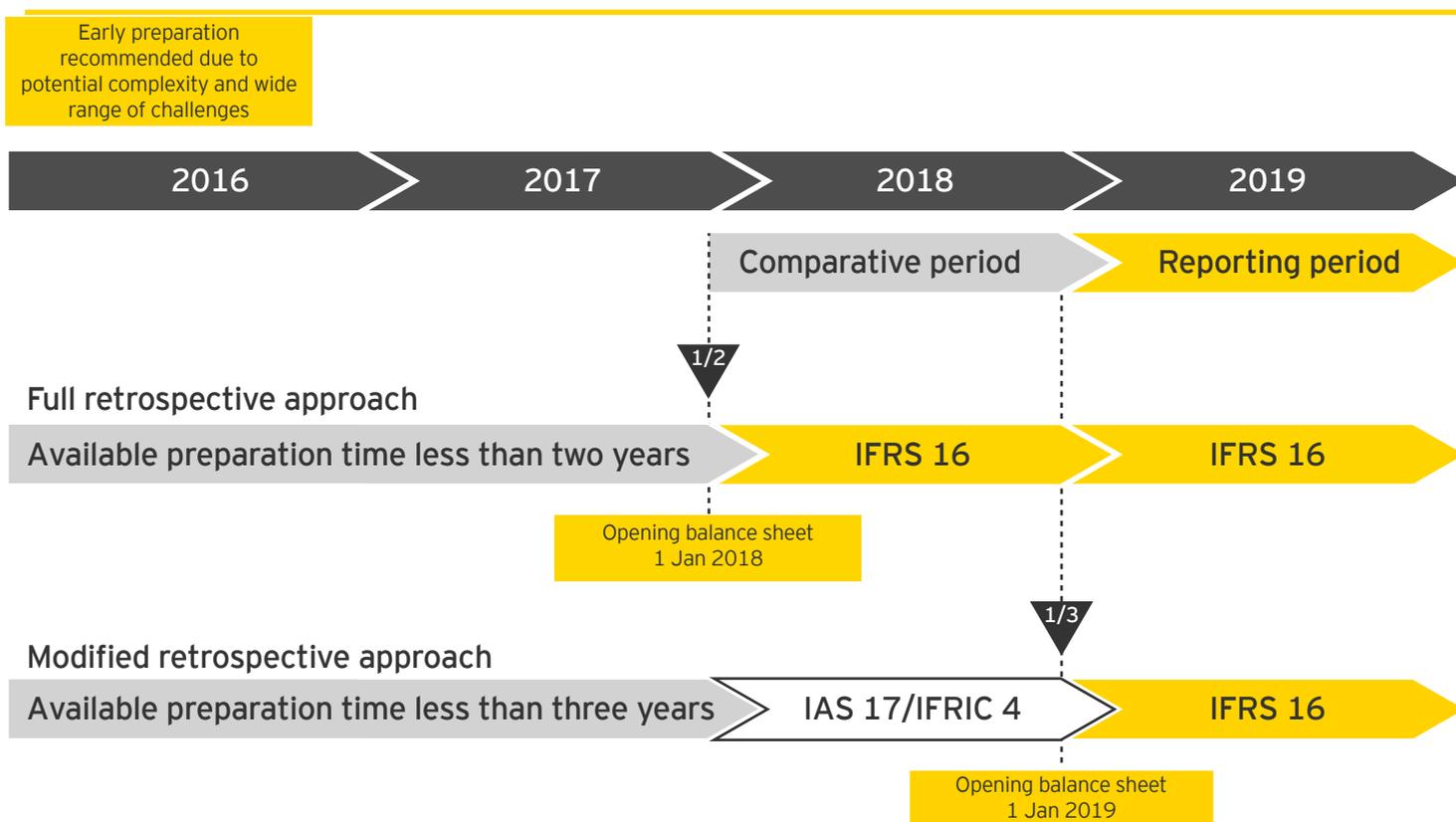
# IFRS 16: factors affecting complexity

The new standard will affect lessees across many industry sectors. The scale of impact is typically driven by the volume of operating leases and whether they contain multiple components such as lease and non-lease components.



## IFRS 16: initial application for lessees

Early preparation will be key to a successful implementation of the new standard.



- There is no requirement to reassess on transition whether a contract contains a lease.
- Assumes one comparative period. Some jurisdictions or regulatory environments may require more than one comparative period.
- Several practical expedients are available when applying the modified retrospective approach, including a transition exemption for existing operating leases ending within 12 months.



# IFRS 16: scope of business impact

The new standard is more than just an accounting change. There are multiple commercial and operational factors to consider.



# IFRS 16: implementation approach

Adoption with minimum disruption. A successful step-by-step approach.

Before getting started with the full execution, you may benefit from a:

1

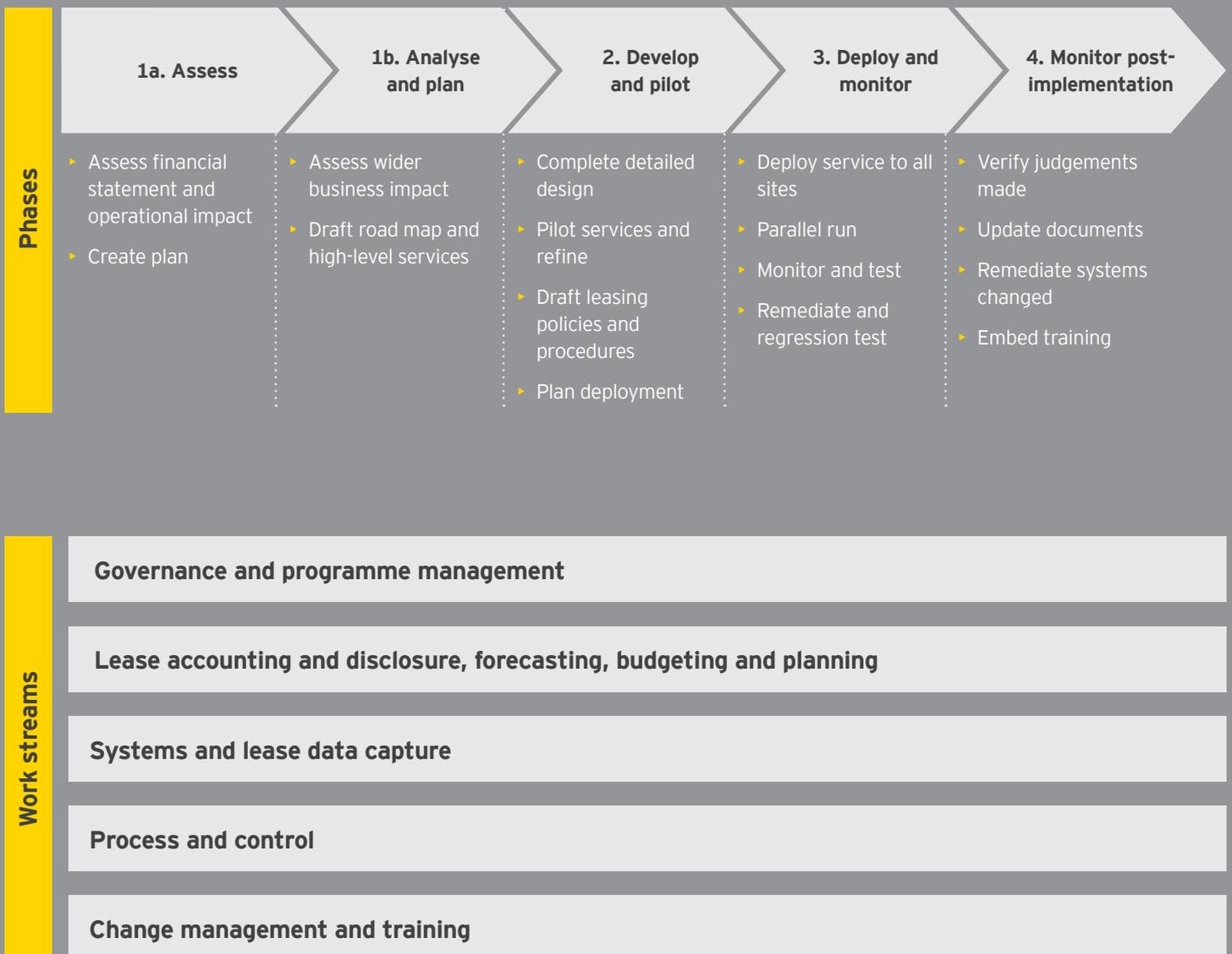
Sample lease contract review (commercial, operational, accounting)

2

Contract management capability review

3

Disclosure review, including data traceability testing



## Your EY contacts

At EY we have developed an approach that can be tailored to meet your specific requirements around IFRS 16 readiness assessment, implementation and compliance.\* Your EY IFRS 16 contact will be able to give you more insights on the standard, provide guidance on potential areas of impact and guide you through the steps for a successful adoption at a limited cost.

## EMEIA IFRS 16 contacts

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Name:

EMEIA IFRS 16 Leader

Tel:

Email:

Visit our website [ey.com/IFRS](http://ey.com/IFRS)

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EY's accounting, regulatory, compliance and information technology professionals combine technical experience with business and industry insights to help clients navigate complexity. Whether your focus is on managing highly technical accounting requirements or addressing governance and regulatory issues, having the right advisors on your side can make all the difference.

Our team uses proven and integrated methodologies to help you resolve your challenging business problems, deliver accurate financial reports in complex market conditions and make sustainable improvements for the longer term. We understand that you need services that are adapted to your specific industry issues, so we bring our broad sector experience and deep subject matter knowledge to your projects in a proactive and objective way.

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