



THE 14th ANNUAL AOSSG MEETING

Joining hands in regional cooperation and the development of IFRS

November 15-16, 2022, Hybrid Meeting

Transition Relief and Ongoing Practical Expedients in IFRS 16 *Leases* A joint AASB-MASB project

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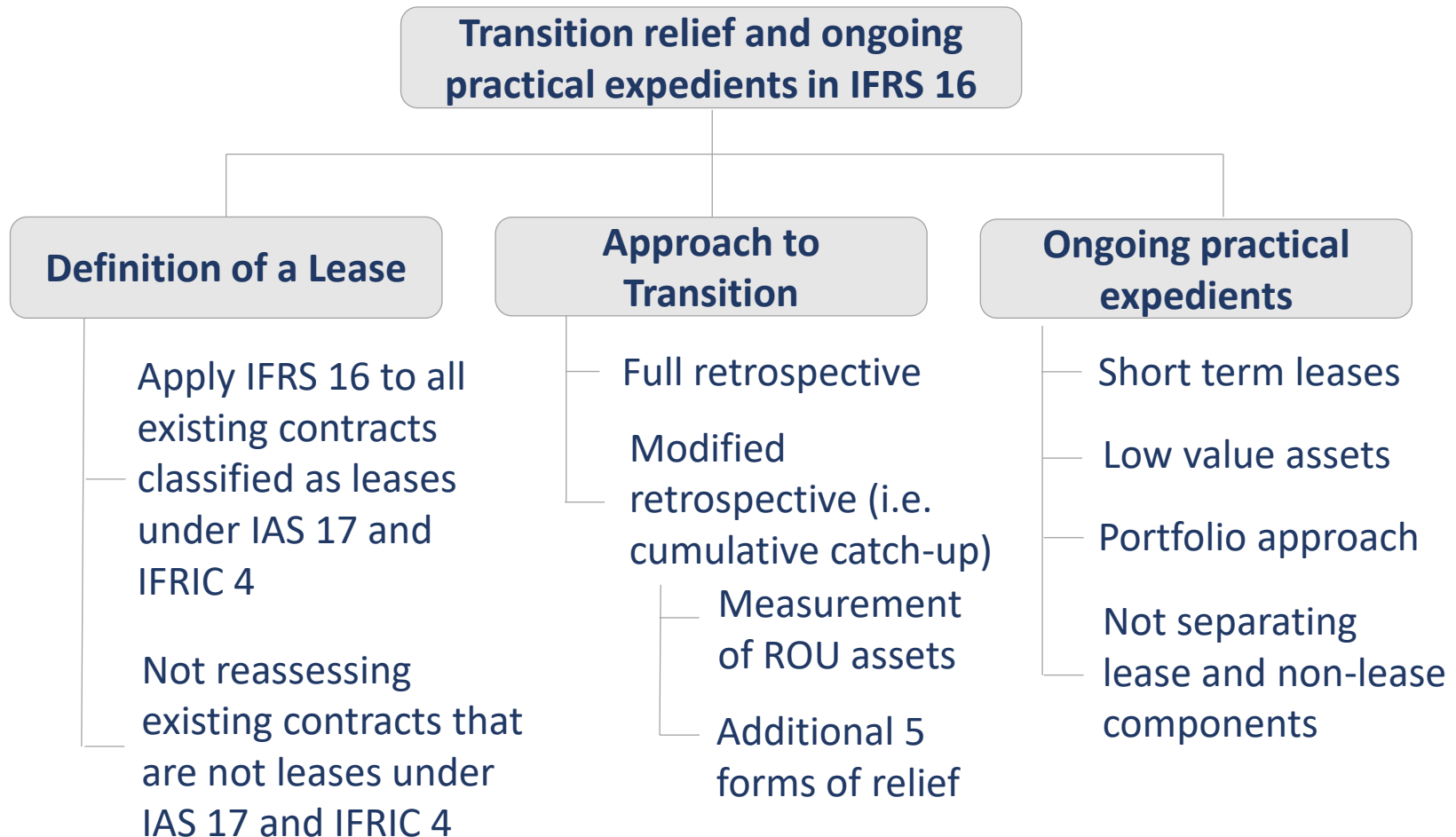
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Objectives

- Identify possible lessons that can be learned from implementing IFRS 16 that might prove helpful in identifying transition relief and ongoing practical expedients to be made available in future (new or amended) IFRS Accounting Standards
- Contribute to the upcoming IFRS 16 Post-implementation Review

Transition relief and practical expedients in IFRS 16



Methodology - A two-stage approach

Questions

01

the extent to which the transition relief and practical expedients have been applied

02

reasons for lessees choosing to/not to apply

03

perceived usefulness of the transition relief and practical expedients

Stage 1 – Review of Financial Statement Disclosures

- 50 ASX listed entities
- 35 Bursa Malaysia listed entities

Stage 2 – Interviews

	Australia	Malaysia
Preparers (Lessees)	15	17
Users	5	7
Auditors	6	7

Stage 1

Review of Disclosures

Definition of lease
– 68% did not reassess

Approach to transition
– 89% modified retrospective

Additional 5 forms of relief

Portfolio approach to discount rate 64%

Previous Onerous Lease provision 57%

Leases less than 12m to run 96%

Exclusion of initial direct cost 64%

Use of Hindsight 68%

ROU measurement*

Option 1 only - 29%

Option 2 only - 38%

Option 1 and 2 - 33%

Ongoing Practical Expedients

Short term leases 98%

Low-value asset leases 99%

7% Not separating non-lease components

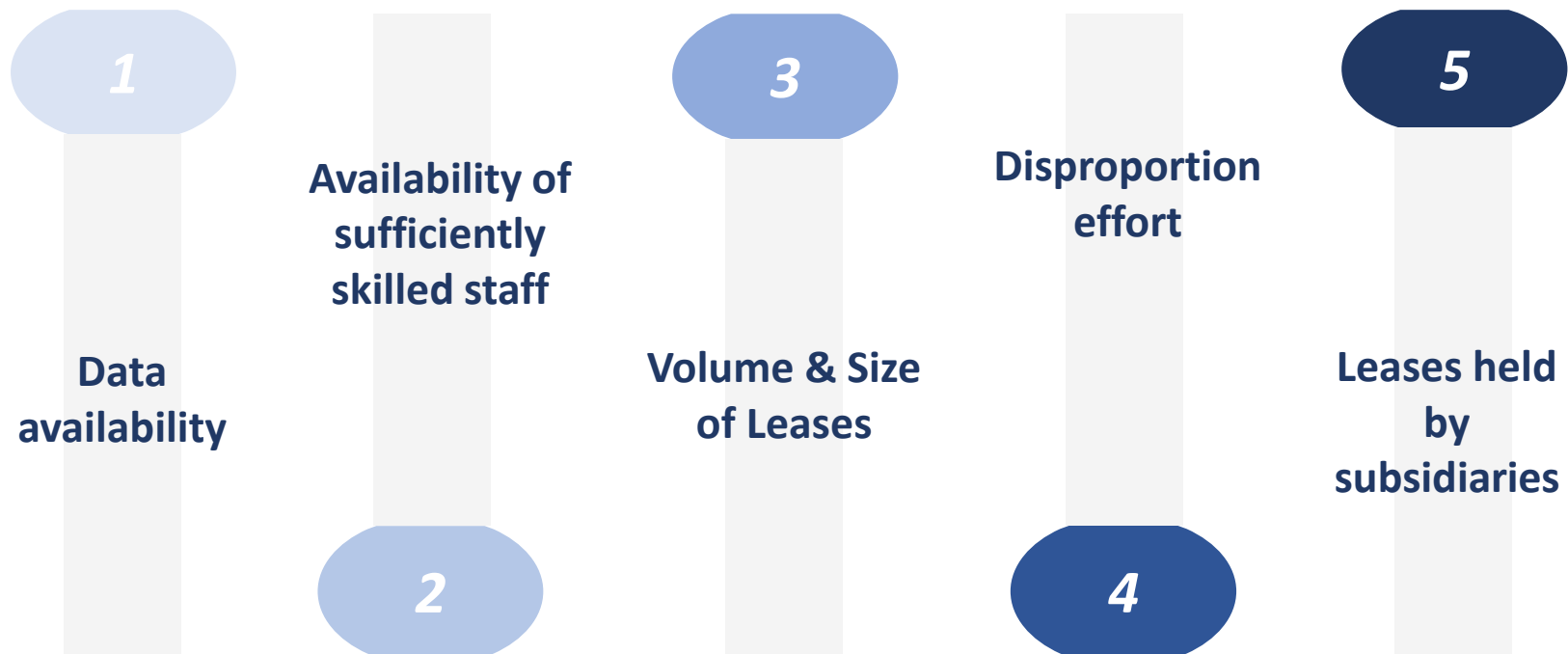
1% Portfolio Approach

*Option 1 - measure RoU assets at amounts determined as if IFRS 16 had been applied since the commencement date but discounted using the lessee's IBR at the date of initial application.

Option 2 - measure RoU assets at an amount equal to the lease liability, adjusted for any existing prepaid or accrued lease payments. 6

Stage 2 Interviews Preparers (Lessees)

Generally, very appreciative of the range of transition relief and ongoing practical expedients available based on the following consideration:



Auditors

- Clients' use of transition relief and ongoing practical expedients was manageable
- No abnormal audit concerns
- Need to carefully plan the audit to ensure that no material errors arose

Users

- Well-informed about the transition relief and ongoing practical expedients available to lessees
- Understood the choices being made by entities they analysed
- Familiar with the transition relief but not necessarily fully aware of the potential impacts on the information
- Limited concerns about the comparability of financial statements
- Appreciative of the level of disclosure that lessees are required to provide
- A good balance between facilitating the application of IFRS 16 and providing useful information to users

Overall

- The transition relief and ongoing practical expedients in IFRS 16 were useful by preparers, and auditors and users identified no major concerns.
- Features contributing to the success include:

01
**Pitched at
reasonable level**

The transition relief and ongoing practical expedients have been pitched at a reasonable level

02
**Scale of
application**

The scale at which the ongoing practical expedients can be applied.

03
**Competing
incentives**

The natural balance achieved by having competing incentives to either apply or not apply an ongoing practical expedient.

Implications



Likely starting point for reporting by the various IFRS stakeholders



Relief or expedients underpinned by countervailing incentives



Availability of suitably skilled staff around transition time



Potential flow-on effects which may not be immediately obvious



'Bright lines' transition relief and/or ongoing practical expedients



Users tolerance for and understanding of the relief or expedients



Flexibility around the scale of application



Communication around the possible material impact of any relief or expedient

Next Steps

- Identify key policy decisions that would form the basis for a framework for proposing and concluding transition relief and ongoing practical expedients
- Identify opportunities for communicating the impacts of transition relief and ongoing practical expedients to users
- Considering the role of materiality in determining transition relief and for ongoing practical expedients
- Research transition relief and policy choices available in other IFRS Accounting Standards
- Follow up research on the application of ongoing practical expedients in IFRS 16