Applying IFRS in consumer products and retail

Leases standard – Consumer products and retail

Updated June 2017
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Overview

The International Accounting Standards Board (IASB) issued IFRS 16 Leases, which requires lessees to recognise assets and liabilities for most leases. This could have broad implications for entities’ finance and operations. Consumer products entities and retailers should plan to explain the effects of applying the new leases standard to stakeholders. The IASB’s Effects Analysis accompanying IFRS 16 shows that many retailers will be significantly affected by changes in lessee accounting.\(^1\) Implementing the standard could also require an entity to develop new processes and controls or adjust existing ones to identify and account for leases.

The current lease accounting requirements in IAS 17 Leases, have been criticised for failing to meet the needs of users of the financial statements, particularly because IAS 17 does not require lessees to recognise assets and liabilities from operating leases. IFRS 16 addresses those criticisms by requiring lessees to recognise most leases on their balance sheets and providing enhanced disclosures. The IASB believes this will result in a more faithful representation of lessees’ assets and liabilities and greater transparency of lessees’ financial obligations and leasing activities.

Under IFRS 16, leases are accounted for based on a ‘right-of-use model’. The model reflects that, at the commencement date, a lessee has a financial obligation to make lease payments to the lessor for its right to use the underlying asset during the lease term. The lessor conveys that right to use the underlying asset at lease commencement, which is the time when it makes the underlying asset available for use by the lessee.

Entities will need to focus on whether an arrangement contains a lease or a service agreement because there are significant differences in the accounting. Although IFRS 16 changes how the definition of a lease is applied, we believe that the assessment of whether a contract contains a lease will be straightforward in most arrangements (e.g. lease of a retail store). However, judgement may be required in applying the definition of a lease to certain arrangements, particularly those that include significant services (e.g. services rendered by a data or service outsourcing centre).

For lessees, the income statement presentation and expense recognition pattern will be similar to today’s finance lease (i.e., separate interest and depreciation expenses with generally higher periodic expense in the earlier periods of lease).

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

IFRS 16’s transition provisions permit lessees to use either a full retrospective or a modified retrospective approach for leases existing at the date of initial application of the standard (i.e., the beginning of the annual reporting period in which an entity first applies the standard), with options to use certain transition reliefs.

This publication discusses how IFRS 16 is applied and is intended to help entities consider the effects of adopting it. The focus of the publication is on sector-specific effects on consumer products entities and retailers. These effects are

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1 IFRS 16 Leases, Effects Analysis, Section 3 - Companies affected by changes in lease accounting.
illustrated by examples and issues tailored for consumer products entities and retailers.

The views we express in this publication represent our perspectives as of June 2017. We may identify additional issues as we analyse the standard and entities begin to interpret it, and our views may evolve during that process.

1. Identifying a lease

1.1 Definition of a lease

A lease is a contract (i.e., an agreement between two or more parties that creates enforceable rights and obligations), or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The requirement that there be an identified asset is fundamental to the definition of a lease. This concept is generally consistent with the ‘specified asset’ concept in IFRIC 4 Determining whether an Arrangement contains a Lease. Under IFRS 16, an identified asset can be either implicitly or explicitly specified in a contract and can be a physically distinct portion of a larger asset (e.g., a retail unit located in a shopping centre).

The flow chart in Figure 1 below is included in IFRS 16’s application guidance and depicts the decision making process for determining whether an arrangement is or contains a lease:

Figure 1: Identifying a lease
1.2 Identified asset

Even if an asset is specified, a customer does not have the right to use an identified asset if, at inception of the contract, a supplier has the substantive right to substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfil a contract with a customer, including the sum of any non-consecutive periods of time). A substitution right is substantive if the supplier has the practical ability to substitute alternative assets throughout the period of use and the supplier would benefit economically from exercising its right to substitute the asset.

In many cases, it will be clear that the supplier will not benefit from the exercise of a substitution right because of the costs associated with substituting an asset. The physical location of the asset may affect the costs associated with substituting an asset. For example, if an asset is located at the customer’s premises, the cost associated with substituting it is generally higher than the cost of substituting a similar asset located at the supplier’s premises. However, simply because a supplier concludes that the cost of substitution is not significant does not automatically mean that it would economically benefit from the right of substitution.

IFRS 16 further clarifies that a customer should presume that a supplier’s substitution right is not substantive when the customer cannot readily determine whether the supplier has a substantive substitution right.

Contract terms that allow or require a supplier to substitute alternative assets only when the underlying asset is not operating properly (e.g., a normal warranty provision) or when a technical upgrade becomes available do not create a substantive substitution right.

A supplier’s right or obligation to substitute alternative assets only on or after a particular date or the occurrence of a specified event also does not create a substantive substitution right because the supplier does not have the practical ability to substitute alternative assets throughout the period of use.

Consumer products entities and retailers enter into a variety of supply arrangements that will need to be evaluated to determine whether they involve the use of an identified asset. For example, some contract manufacturing arrangements require the use of an explicitly or implicitly specified asset (e.g., an entire facility) or involve the use of a portion of a larger asset (e.g., a production line within a facility). In other situations, logistics service providers store goods for customers and the location of the warehouse is not explicitly specified in the arrangement. This is because the customer is only concerned with the specific service level (e.g., delivery time) provided by the logistics service provider and not where the goods are physically stored. However, once a particular warehouse is used (i.e., the asset is identified), it may not be practicable for the logistics service provider to move the customer’s goods to another warehouse and simultaneously retain the agreed performance level (e.g., delivery time). Even if the arrangement specifies an asset, consumer products and retail entities will also need to carefully evaluate whether the supplier has substantive substitution rights (i.e., whether, throughout the period of use, it can practically use another production line to make the product or it can move the customer’s goods to another location and economically benefit from doing so) to determine if there is an identified asset subject to lease accounting.
1.3 Right to control the use of the identified asset

A contract conveys the right to control the use of an identified asset for a period of time if, throughout the period of use, the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

1.3.1 Right to obtain substantially all of the economic benefits from use of the identified asset

A customer can obtain economic benefits either directly or indirectly (e.g., using, holding or subleasing the asset). Economic benefits include the asset’s primary outputs (i.e., goods or services) and any by-products (e.g., renewable energy credits that are generated through use of the asset), including potential cash flows derived from these items. Economic benefits also include benefits from using the asset that could be realised from a commercial transaction with a third party (e.g., subleasing the asset). However, economic benefits arising from construction or ownership of the identified asset (e.g., tax benefits related to excess tax depreciation and investment tax credits) are not considered economic benefits derived from the use of the asset.

1.3.2 Right to direct the use of the identified asset

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

(1) The customer has the right to direct how and for what purpose the asset is used throughout the period of use

Or

(2) The relevant decisions about how and for what purpose the asset is used are predetermined and the customer either: (1) has the right to operate the asset, or 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 (2) 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

When evaluating whether a customer has the right to change how and for what purpose the asset is used throughout the period of use, the focus is on whether the customer has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. Those rights can be viewed as similar to decisions made by a board of directors. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

IFRS 16 provides the following examples of decision-making rights that grant the right to change how and for what purpose an asset is used:

(1) The right to change the type of output that is produced by the asset

(2) The right to change when the output is produced

(3) The right to change where the output is produced

(4) The right to change whether the output is produced and the quantity of that output

The focus is on whether the customer has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. Those rights can be viewed as similar to decisions made by a board of directors.
IFRS 16 also provides the following examples of decision-making rights that do not grant the right to change how and for what purpose an asset is used:

- Maintaining the asset
- Operating the asset

Although the decisions about maintaining and operating the asset are often essential to the efficient use of that asset, the right to make those decisions, in and of itself, does not result in the right to change how and for what purpose the asset is used throughout the period of use.

The customer does not need the right to operate the underlying asset to have the right to direct its use. That is, the customer may direct the use of an asset that is operated by the supplier's personnel. However, as discussed below, the right to operate an asset will often provide the customer with 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 Example 8 in IFRS 16 Leases Illustrative Examples for an example of the evaluation of whether a customer controls the use of the factory when the customer enters into a contract with a manufacturer to purchase a particular type, quality and quantity of shirts.

Evaluating whether a consumer products entity or a retailer has the right to direct the use of an identified asset will be straightforward in most arrangements. However, evaluating certain arrangements may require more judgement. For example, a customer in a contract manufacturing arrangement may need to evaluate whether it has the right to direct the use of any identified asset (e.g., the production facility, a dedicated production line) by considering, among others, whether it decides what type of output will be produced (e.g., different sizes or colours of shirts), the timing and quantity of the production and whether it has the right to make changes to these decisions throughout the period of use.

Similarly, a customer's contract with a logistics service provider to transport goods by truck may need to be evaluated to determine whether the customer has the right to direct the use of each truck. The customer might consider whether it decides the types and quantity of goods to be transported (within the defined scope of the arrangement), when the truck is used (e.g., the timing for loading or unloading the goods), the routes (e.g., the collection point, stops and the final destination) and whether it has the right to make changes to these decisions throughout the period of use.

In some cases, it may not be clear whether the customer has the right to direct the use of the identified asset. This could be the case when the most relevant decisions about how and for what purpose an asset is used are predetermined by contractual restrictions on the use of the asset (e.g., the decisions about the use of the asset are agreed to by the customer and supplier in negotiating the contract, and those decisions cannot be changed). This could also be the case when the most relevant decisions about how and for what purpose an asset is used are, in effect, predetermined by the design of the asset. Decisions about how and for what purpose an asset is used are expected to be predetermined only in few cases.
Judgement may be required to assess whether a 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. Also see Example 5 in IFRS 16 Leases Illustrative Examples for an example of the evaluation of whether a customer has the right to direct the use of an identified asset when how and for what purpose an identified asset will be used is predetermined in the contract.

1.3.2.1 Specifying the output of an asset before the period of use

If a customer can only specify the output from an asset before the beginning of the period of use and cannot change that output throughout the period of use, the customer does not have the right to direct the use of that asset unless it has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) or it designed the asset (or specific aspects of the asset), as contemplated in IFRS 16. If the customer did not design the asset or aspects of it, the customer’s ability to specify the output in a contract that does not give it any other relevant decision-making rights relating to the use of the asset (e.g., the ability to change when, whether and what output is produced) gives the customer the same rights as any customer that purchases goods or services in an arrangement (i.e., a contract that does not contain a lease).

1.3.2.2 Protective rights

A supplier’s protective rights, in isolation, do not prevent the customer from having the right to direct the use of an identified asset. Protective rights typically define the scope of the customer’s right to use the asset without removing the customer’s right to direct the use of the asset. Protective rights are intended to protect a supplier’s interests (e.g., interests in the asset, its personnel, compliance with laws and regulations) and might take the form of a specified maximum amount of asset use, a restriction on where an asset may be used or a requirement to follow specific operating instructions.

1.4 Identifying and separating lease from non-lease components of a contract

For contracts that contain the rights to use multiple assets (e.g., a warehouse and equipment, multiple pieces of equipment), the right to use each asset is considered a separate lease component if: (1) the lessee can benefit from the use of the underlying asset either on its own or together with other resources that are readily available to the lessee; and (2) the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

Many contracts contain a lease coupled with an agreement to purchase or sell other goods or services (non-lease components). The non-lease components are identified and accounted for separately from the lease components in accordance with other standards. For example, the non-lease components may be accounted for as executory arrangements by lessees (customers) or as contracts subject to IFRS 15 by lessors (suppliers).

Retailers’ store leases frequently include payments for maintenance activities such as common area maintenance (CAM) (e.g., cleaning the common areas of a building, removing snow from a car park for employees and customers) and other goods or services transferred to the lessee (e.g., providing utilities, rubbish removal or security services). Under IFRS 16, payments for these activities are considered non-lease components because they provide the lessee with a service.
In some leases, a lessee may also reimburse, or make certain payments on behalf of, the lessor that relate to the leased asset for activities and costs that do not transfer a good or service to the lessee (e.g., payments made for real estate taxes that would be owed by the lessor regardless of whether it leases the building and regardless of who the lessee is, payments made for the insurance that protects the lessor’s investment in the building and the lessor will receive the proceeds from any claim). Under IFRS 16, such costs are not separate components of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract (i.e., the lease and non-lease components). Entities also need to evaluate whether such payments are fixed (or in-substance fixed) lease payments or variable lease payments which do not depend on an index or a date.

IFRS 16 provides a practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component and allocate all of the contract consideration to the lease component. Therefore, when the lease and non-lease components are combined, the initial and subsequent measurement of the lease liability and the right-of-use asset is higher than if the policy election was not applied. The practical expedient is intended to reduce costs and the administrative burden of allocating consideration to separate lease and non-lease components and the Board expects the practical expedient to most often be used when the non-lease components of a contract are not significant when compared with the lease components of a contract.

Lessees that do not make an accounting policy election to use this practical expedient are required to allocate the consideration in the contract to the lease and non-lease components on a relative stand-alone price basis. Lessees are required to use observable stand-alone prices (i.e., prices at which a customer would purchase a component of a contract separately) when available. The consideration for a retailer store lease and related services (e.g., CAM) are often included as part of a single stated price in the contract. Stand-alone selling prices of the lease and non-lease components may not always be readily available and therefore judgement may be required to estimate the respective relative stand-alone prices.

How we see it

Identifying non-lease components of contracts may change practice for some lessees in the consumer products and retail sector. Today, entities may not focus on identifying lease and non-lease components because their accounting treatment (e.g., the accounting for an operating lease and a service contract) is often the same. However, because most leases are recognised on lessees’ balance sheets under IFRS 16, lessees may need to put more robust processes in place to identify and separately account for the lease and non-lease components of contracts.
2. Key Concepts

2.1 Evaluating lease term

The lease term begins at the lease commencement date and is determined on the date based on the non-cancellable term of the lease, including periods covered by an option to: (1) extend the lease if the lessee is reasonably certain to exercise that option; and (2) to terminate a lease if the lessee is reasonably certain not to exercise that option.

The phrase ‘reasonably certain’, which is also used in IAS 17, is generally interpreted as a high threshold. Therefore, the IASB does not anticipate a change in practice.

When evaluating whether a lessee is reasonably certain to exercise an option to renew the lease, not terminate the lease or to purchase the underlying asset, lessees and lessors are required to assess all relevant factors that create an economic incentive for the lessee to exercise lease renewal, termination or purchase options (i.e., contract-, asset-, entity- and market-based factors) including:

- The existence of a purchase option or lease renewal option and its pricing (e.g., fixed rate, discounted rates, ‘bargain’ rates)
- The existence of a termination option, the amount of payments for termination or non-renewal and the pricing of continuing lease
- Contingent amounts due under residual value guarantees and other variable lease payments
- Costs of returning the asset in a contractually specified condition or to a contractually specified location
- Significant customisation (e.g., leasehold improvements), installation costs or relocation costs
- The importance of the leased asset to the lessee’s operations considering the potential business disruptions from not having the leased asset and the availability of a replacement asset
- A sublease term that extends beyond the non-cancellable period of the head lease (e.g., a head lease that has a non-cancellable term of five years with a two-year renewal option, and the sublease term is seven years).

The longer the period from commencement of the lease to the exercise date of an option, the more difficult it will be, in certain cases, to determine whether the exercise of the option is reasonably certain. This may also be the case for new retail leases in new, or uncertain, markets.

An artificially short lease term (e.g., a lease of corporate headquarters, distribution facility, manufacturing plant or other key property) may effectively create a significant economic incentive for the lessee to exercise a purchase or renewal option. This may be evidenced by the significance of the underlying asset to the lessee’s continuing operations and whether, absent the option, the lessee would have entered into such a lease.

Similarly, the significance of the underlying asset to the lessee’s operations may affect a lessee’s decisions about whether it is reasonably certain to exercise a purchase or renewal option.

Purchase options should be assessed in the same way as options to extend the lease term or terminate the lease. The IASB indicated in the Basis for Conclusions (BC173) an option to purchase an underlying asset is economically
similar to an option to extend the lease term for the remaining economic life of the underlying asset.

IFRS 16 applies to contracts that are referred to as ‘cancellable’, ‘month-to-month’, ‘at will’, ‘perpetual’ or ‘rolling’, if they create enforceable rights and obligations. An arrangement is not enforceable if both the lessor and the lessee each have the right to terminate the lease without permission from the other party and with no more than an insignificant penalty.

Any non-cancellable periods (by the lessee and the lessor) in contracts that meet the definition of a lease are considered part of the lease term. If only a lessor has the right to terminate a lease, the period covered by the option to terminate the lease is included in the non-cancellable period of the lease. If only a lessee has the right to terminate a lease, that right is a termination option that is considered when determining the lease term.

2.2 Lease payments

Lease payments are payments, made by a lessee to a lessor, relating to the rights to use an underlying asset during the lease term and include the following amounts:

- Fixed (including in-substance fixed) payments, less any lease incentives receivable from the lessor
- Variable lease payments that depend on an index or a rate
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that purchase option
- Payments for penalties for termination of a lease, if the lease term reflects the lessee exercising an option to terminate the lease
- Amount expected to be payable by the lessee under residual value guarantees (lessee only)
- 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 (lessor only)

2.2.1 Variable lease payments and in-substance fixed payments

Variable lease payments that depend on an index or rate are included in lease payments and are measured using the prevailing index or rate at the measurement date (e.g., lease commencement date for initial measurement).

Variable payments that are not based on an index or rate and are not in-substance fixed lease payments, such as those based on performance (e.g., a percentage of sales) or usage of the underlying asset (e.g., numbers of units produced) are not included as lease payments. Those payments are recognised in a manner similar to today’s accounting. Lessees recognise an expense in the period in which the event or condition that triggers those payments occurs.

Some lease agreements include payments that are described as variable, or may appear to contain variability, but are in-substance fixed payments because the contract terms ensure that the payment of a fixed amount is unavoidable. Such payments are included in the lease payments at lease commencement and thus used to measure entities’ lease assets and lease liabilities. For example, a lease of retail space may include payments based on certain formulae (e.g., based on a percentage of sales with caps and floors). For these and all lease contracts, entities will carefully consider whether the arrangement contains in-substance fixed payments.
3. Initial measurement

IFRS 16 requires lessees to recognise a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases, except for short-term leases and leases of low-value assets if they choose to apply such exemptions.

A lessee initially measures the right-of-use asset at cost, which consists of all of the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made to the lessor at or before the commencement date, less any lease incentives received from the lessor
- Any initial direct costs incurred by the lessee
- An estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which the underlying asset is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless the costs are incurred to produce inventories

Costs may be incurred at lease commencement or during a particular period as a consequence of having used an underlying asset. Costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories are accounted for under IAS 2 Inventories. The liability associated with dismantling, removal and restoration costs is recognised and measured in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

At the commencement date, a lessee initially measures the lease liability at the present value of the lease payments to be made over the lease term. Lessees apply the concepts previously described to identify the lease components and to determine the lease term, lease payments and discount rate as of the commencement date of the lease.

3.1 Short-term lease recognition exemption

Lessees can make an accounting policy election to apply accounting similar to IAS 17’s operating lease accounting to leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying asset (short-term leases).

If a lessee applies this exemption, short-term leases are not recognised on the balance sheet and the related lease expenses are recognised on a straight-line basis over the term of the lease or another systematic basis, if that basis is more representative of the pattern in which the benefits from the use of the underlying asset are diminished.

3.2 Leases of low-value assets recognition exemption

Lessees can make an election to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low value (i.e., a low-value asset). This election can be made on a lease-by-lease basis. A lessee assesses the value of the underlying asset based on the value of the asset, when it is new, regardless of the age of the asset being leased. Different lessees are expected to reach the same conclusion about whether a particular underlying asset is of low-value. At the time of reaching its decision about the exemption, the IASB had in mind leases of underlying assets with a value, when new, of US$5,000 or less.
A lessee assesses whether an underlying asset is of low-value for each separate lease component. A lessee may apply the exemption only if both:

- The lessee can benefit from use of the assets on its own, or together with, other resources that are readily available to the lessee
- And
- The underlying asset is not dependent on, or highly interrelated with, other assets

Illustration 1 - Low-value assets

Scenario

A supplier installs a security system in a large multi-storey department store. The security system comprises many modules which together function as an integrated system covering different sections of the department store. An individual module, when new, would cost about US$3,000. Each module is connected with the centralised computer system as well as other modules where appropriate. Assume the supplier appropriately concludes the arrangement contains a lease.

Is a single module of the security system considered to be of low-value?

Conclusion

A single module is highly interrelated with the other modules of the integrated security system. Accordingly, a single module does not qualify as a separate lease component for purposes of assessing whether the arrangement qualifies as a lease of low-value assets.

4. Subsequent measurement

A lessee subsequently measures the right-of-use asset using a cost model, unless it applies the fair value model in IAS 40 Investment Property or the revaluation model in IAS 16 Property, Plant and Equipment.

When a lessee applies the cost model, the right-of-use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The right-of-use asset is generally depreciated over the shorter of the lease term or the useful life of the right-of-use asset. The depreciation period is the remaining useful life of the underlying asset if the cost of the right-of-use asset reflects that the lessee is reasonably certain to exercise a purchase option or if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

Lessees’ right-of-use assets are subject to existing impairment requirements in IAS 36 Impairment of Assets. This analysis would be new for leases currently accounted for as operating leases and could significantly affect the timing, measurement and presentation of expense recognition.

Currently, many of the lease contracts for retail units have been classified as operating leases under IAS 17. To the extent these operating leases are onerous (i.e., the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), a provision for onerous lease contracts is recognised under IAS 37.
Under IFRS 16, instead of recognising an onerous contract provision, an impairment loss is recognised for the right-of-use asset when the cash generating unit to which the right-of-use asset belongs is subject to an impairment charge.

Variable lease payments not included in the measurement of the lease liability are recognised as expenses (unless the costs are included in the carrying amount of another asset applying other applicable standards) in the period in which the event or condition that triggers those payments occurs.

A lease liability should be accounted for in a manner similar to other financial liabilities (i.e., on an amortised cost basis). Consequently, the lease liability as accreted using an amount that produces a constant periodic discount rate on the remaining balance of the liability (i.e., the discount rate determined at commencement date, as long as a reassessment requiring a change in the discount rate has not been triggered). Lease payments reduce the lease liability when paid.

5. Lease modifications

If a lease is modified (i.e., 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), the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, lease modification can result in a separate lease or a change in the accounting of the existing lease (i.e., not a separate lease).

A lessee accounts for a lease modification as a separate lease (i.e., separate from the original lease) when: (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (2) 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.

If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. Lessees account for the separate contract that contains a lease in the same manner as other new leases. Otherwise, the modified lease is not accounted for as a separate lease.

For a lease modification that is not accounted for as a separate lease, the lessee is required to remeasure 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 is required to recognise in profit or loss any gain or loss relating to the partial or full termination of the lease; and (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

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2 IFRS 16.BC182
6. Remeasurement of the lease liability

In addition to lease modification, lessees are required to remeasure the lease liabilities upon a change in any of the following:

- The lease term
- The assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset
- The amounts expected to be payable under residual value guarantees
- Future lease payments resulting from a change in an index or rate
- In-substance fixed lease payments

Lessees use a revised discount rate when lease payments are updated for a change in the lease term or a revised assessment of a purchase option. Lessees use the original discount rate when lease payments are updated for a change in expected amounts for residual value guarantees and payments dependent on an index or rate, unless the rate is a floating interest rate. The revised discount rate is based on the interest rate implicit in the lease for the remainder of the lease term. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate.

6.1 Reassessment of the lease term and purchase options

IFRS 16 requires lessees to monitor leases for significant changes that could trigger a change in the lease term. Lessees are required to reassess the lease term upon the occurrence of either a significant event or a significant change in circumstances that:

- Is within the control of the lessee
- 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

IFRS 16 also requires lessees to revise the lease term when the lessee either exercises an option that it previously deemed it was not reasonably certain to exercise or does not exercise an option that it previously deemed it was reasonably certain to exercise. Furthermore, the lease term is revised if 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 an event occurs that contractually prohibits the lessee from exercising an option previously included in the entity’s determination of the lease term.

As a lessee is required to reassess the lease term upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee, the revision of the lease term often happens before the actual exercise of the option in these circumstances. Additionally, if the reassessment of lease term or the exercise of a purchase option results in a change, lessees would remeasure the lease liability, using revised inputs (e.g., discount rate) at the reassessment date, and would adjust the right-of-use asset.

However, if the right-of-use asset is reduced to zero, a lessee would recognise any remaining amount in profit or loss.
7. Transition

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided that IFRS 15 has been applied, or is applied at the same date as IFRS 16. An entity that elects to early adopt IFRS 16 is required to disclose that fact.

How we see it

The application date for IFRS 15 is for annual reporting periods beginning on or after 1 January 2018. Because the IASB aligned several concepts in IFRS 16 with concepts in IFRS 15 (e.g., determining whether the transfer of an asset is a sale in a sale and leaseback transaction), some entities may consider applying IFRS 16 one year early, in order to have one transition date for both standards.

IFRS 16’s transition provisions are applied at the beginning of the annual reporting period in which the entity first applies the standard (i.e., the date of initial application). For example, an entity with a reporting date of 31 December 2019, applies the transition provisions on 1 January 2019 (assuming the entity does not adopt IFRS 16 early).

7.1 Definition of a lease

Lessees and lessors are permitted to make an election not to reassess whether existing contracts contain a lease as defined under IFRS 16. If an entity elects this practical expedient, contracts that do not contain a lease under IAS 17 and IFRIC 4 (e.g., service arrangements) are not reassessed either.

If an entity chooses to apply the practical expedient, it must be applied to all contracts that are ongoing at the date of initial application (i.e., an entity is not permitted to apply the practical expedient on a lease-by-lease basis) and that fact is disclosed.

How we see it

As the current accounting for operating leases and service contracts is similar, entities may not have always focused on determining whether an arrangement is a lease or a service contract. Some entities may need to revisit assessments made under IAS 17 and IFRIC 4 because, under IFRS 16, most leases are recognised on lessees’ balance sheets and the effects of treating an arrangement as a service instead of an arrangement containing a lease may be material.

We believe that IFRS 16’s practical expedient that allows an entity not to reassess whether a contract contains a lease only applies to arrangements that were appropriately assessed under IAS 17 and IFRIC 4.
7.2 Transition approaches

A lessee is required to apply IFRS 16 to its leases either:

- Retrospectively to each prior reporting period presented, applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Full retrospective approach)
- Retrospectively with cumulative effect of initially applying IFRS 16 recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of the initial application (Modified retrospective approach)

A lessee applies the elected application approach consistently to all leases in which it is lessee.

7.2.1 Full retrospective approach

An entity electing the full retrospective adoption will apply the provisions of IFRS 16 to each period presented in the financial statements, in accordance with IAS 8.

Under the full retrospective approach, an entity applies IFRS 16 as if it had been applied since the inception of all lease contracts that are presented in the financial statements. If the standard is applied at 1 January 2019, this means that, in the 31 December 2019 financial statements, the comparative period to 31 December 2018 (assuming that this is the only comparative period presented) must be restated. A restated opening balance sheet at 1 January 2018 will also need to be disclosed as required by IAS 1 Presentation of Financial Statements.

7.2.2 Modified retrospective approach

When applying the modified retrospective approach, a lessee does not restate comparative figures. Instead, a lessee recognises the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application. For leases previously classified as operating leases under IAS 17, a lessee recognises a lease liability measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. A lessee measures the right-of-use asset on a lease-by-lease basis, at either:

- Its carrying amount as if IFRS 16 had always been applied since the commencement date, but using a discount rate based on the lessee’s incremental borrowing rate at the date of initial application (Alternative 1)
- An amount equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments (Alternative 2).

The following example illustrates the differences between the various transition approaches for a lease contract:
A retailer (lessee) entered into 3-year lease of retail space beginning at 1 January 2017 with three annual lease payments of CU1,000 due on 31 December 2017, 2018 and 2019, respectively. The lease is classified as an operating lease under IAS 17. The retailer initially applies IFRS 16 for the first time in the annual period beginning at 1 January 2019.

The incremental borrowing rate at the date of the initial application is 3% p.a.. The incremental borrowing rate at the commencement of the lease was 6% p.a.. The right-of-use asset is subject to straight-line depreciation over the lease term. The present values of the remaining lease payments as of 1 January 2017 at 6% p.a., 1 January 2017 at 3% p.a. and 1 January 2019 at 3% p.a. are CU2,673, CU2,829 and CU971, respectively. Assume no practical expedients are elected.

For simplicity, this example assumes the lessee did not incur initial direct costs, there were no lease incentives and there were no requirements for the lessee to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition under the terms and conditions of the lease.

The following example illustrates the lease liability, the right-of-use asset at the date of initial application and expenses applying both the full retrospective and the modified retrospective approaches:

**Full retrospective approach**

**Analysis:** Under the full retrospective approach, the lease liability and the right-of-use asset are measured on the commencement date using the incremental borrowing rate at that date. The lease liability is accounted for by the interest method subsequently and the right-of-use asset is subject to depreciation on the straight line basis over the lease term of three years. The following table shows account balances under this method beginning at lease commencement:

<table>
<thead>
<tr>
<th></th>
<th>Right-of-use asset</th>
<th>Lease liability</th>
<th>Interest expense</th>
<th>Amortisation expense</th>
<th>Retained earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2017</td>
<td>2,673(^3)</td>
<td>2,673(^3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>31 December 2017</td>
<td>1,782(^4)</td>
<td>1,833(^5)</td>
<td>160(^6)</td>
<td>891(^7)</td>
<td>(51)</td>
</tr>
<tr>
<td>31 December 2018</td>
<td>891(^8)</td>
<td>943(^9)</td>
<td>110(^10)</td>
<td>891</td>
<td></td>
</tr>
<tr>
<td>1 January 2019</td>
<td>891</td>
<td>943</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>31 December 2019</td>
<td>-</td>
<td>-</td>
<td>57(^11)</td>
<td>891</td>
<td></td>
</tr>
</tbody>
</table>

---

3 Present value of three CU1,000 payments at 6%
4 CU2,673 - (CU2,673 / 3 years) = CU1,782
5 CU2,673 (prior period ending lease liability) - CU1,000 (cash payment) + CU160 (current period interest expense) = CU1,833
6 CU2,673 * 6% = 160
7 CU2,673 / 3 years = 891
8 CU1,782 - (CU2,673 / 3 years) = CU891
9 CU1,833 (prior period ending lease liability) - CU1,000 (cash payment) + CU110 (current period interest expense) = CU943
10 CU1,833 * 6% = CU110
11 CU943 * 6% = CU57
Illustration 2 – Accounting for lease contracts at transition using the full retrospective and modified retrospective approaches (Continued)

At adoption, lessee would record the right-of-use asset and lease liability at the 31 December 2017 values from the above table, with the difference between the right-of-use asset and lease liability going to retained earnings as of 1 January 2018 (assuming that only the 2018 financial information is included as comparatives).

| Right-of-use asset | CU1,782 |
| Retained earnings  | CU51    |
| Lease liability    | CU1,833 |

To initially recognise the lease-related asset and liability as of 1 January 2018

The following journal entries would be recorded during 2018:

- Interest expense: CU110
  - Lease liability: CU110
  To record interest expense and accrete the lease liability using the interest method

- Depreciation expense: CU891
  - Right-of-use asset: CU891
  To record depreciation expense on the right-of-use asset

- Lease liability: CU1,000
  - Cash: CU1,000
  To record lease payment

The following journal entries would be recorded during 2019:

- Interest expense: CU57
  - Lease liability: CU57
  To record interest expense and accrete the lease liability using the interest method

- Depreciation expense: CU891
  - Right-of-use asset: CU891
  To record depreciation expense on the right-of-use asset

- Lease liability: CU1,000
  - Cash: CU1,000
  To record lease payment

Modified retrospective approach (alternative 1)

**Analysis:** Under the modified retrospective approach (alternative 1), the lease liability is measured based on the remaining lease payments discounted (i.e., 3% per p.a.) using the incremental borrowing rate as of the date of initial application. The right-of-use asset is at its carrying amount as if the standard had been applied since the commencement date. The right-of-use asset is subject to depreciation on the straight-line basis over the lease term of three years:
Illustration 2 – Accounting for lease contracts at transition using the full retrospective and modified retrospective approaches (Continued)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use asset</td>
<td>CU943(^{12})</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>CU28(^{13})</td>
</tr>
<tr>
<td>Lease liability</td>
<td>CU971(^{14})</td>
</tr>
</tbody>
</table>

*To initially recognise the lease-related asset and liability as of 1 January 2019*

The following journal entries would be recorded during 2019:

- **Interest expense**  
  - CU29\(^{15}\)  
  - Lease liability  
  *To record interest expense and accrete the lease liability using the interest method*

- **Depreciation expense**  
  - CU943  
  - Right-of-use asset  
  *To record depreciation expense on the right-of-use asset*

- **Lease liability**  
  - CU1,000  
  - Cash  
  *To record lease payment*

**Modified retrospective approach (alternative 2)**

*Analysis:* Under the modified retrospective approach (alternative 2), the lease liability is also measured based on the remaining lease payments discounted using the incremental borrowing rate as of the date of initial application. In this example, the carrying amount of the right-of-use asset is an amount equal to the carrying amount of the lease liability on the date of initial application as there are no prepayments or accrual items:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use asset</td>
<td>CU971(^{14})</td>
</tr>
<tr>
<td>Lease liability</td>
<td>CU971(^{14})</td>
</tr>
</tbody>
</table>

*To initially recognise the lease-related asset and liability as of 1 January 2019*

The following journal entries would be recorded during 2019:

- **Interest expense**  
  - CU29\(^{15}\)  
  - Lease liability  
  *To record interest expense and accrete the lease liability using the interest method*

- **Depreciation expense**  
  - CU971\(^{14}\)  
  - Right-of-use asset  
  *To record depreciation expense on the right-of-use asset*

---

\(^{12}\) CU2,829 (present value of three CU1,000 payments at 3%) - (CU2,829 / 3 years) * 2 = CU943  
\(^{13}\) CU971 - CU943 = CU28  
\(^{14}\) Present value of one CU1,000 payment at 3%  
\(^{15}\) CU971 * 3% = CU29
Illustration 2 - Accounting for lease contracts at transition using the full retrospective and modified retrospective approaches (Continued)

<table>
<thead>
<tr>
<th></th>
<th>Full retrospective approach</th>
<th>Modified retrospective approach (alternative 1)</th>
<th>Modified retrospective approach (alternative 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liability</td>
<td>CU1,000</td>
<td>CU1,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To record lease payment

A summary of the lease contract’s accounting (assuming no changes due to reassessments) is, as follows:

**Opening balance sheet impact as of 1 January 2019**

<table>
<thead>
<tr>
<th></th>
<th>Full retrospective approach</th>
<th>Modified retrospective approach (alternative 1)</th>
<th>Modified retrospective approach (alternative 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use asset</td>
<td>CU891</td>
<td>CU943</td>
<td>CU971</td>
</tr>
<tr>
<td>Lease liability</td>
<td>CU943</td>
<td>CU971</td>
<td>CU971</td>
</tr>
</tbody>
</table>

**Period ended 31 December 2019 activity**

<table>
<thead>
<tr>
<th></th>
<th>Full retrospective approach</th>
<th>Modified retrospective approach (alternative 1)</th>
<th>Modified retrospective approach (alternative 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash lease payments</td>
<td>CU1,000</td>
<td>CU1,000</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Lease expense recognised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>CU891</td>
<td>CU943</td>
<td>CU971</td>
</tr>
<tr>
<td>Total periodic expense</td>
<td>CU948</td>
<td>CU972</td>
<td>CU1,000</td>
</tr>
</tbody>
</table>

Immaterial differences may rise in the computation of amounts in the example above due to rounding.

**How we see it**

Consumer products entities and retailers with leases classified as operating leases under IAS 17 should carefully analyse how the transition approaches will impact their financial statements.

The discount rate used has an impact on the financial statements at the date of initial application. The modified retrospective approach requires the use of the incremental borrowing rate from the date of initial application to initially recognise the lease liability, which will, in many cases, be lower than the historical rate at the commencement date. Entities should carefully evaluate their lease portfolio to understand how different interest rates will impact their financial statements at the date of initial application and in future periods.
7.2.2.1 Leases previously classified as operating leases

If a lessee uses one of the alternatives under the modified retrospective method, it may avail itself of the following:

- A lessee applies IAS 36 to right-of-use assets at the date of initial application. However, as a practical expedient, a lessee may rely on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.

- A lessee is not required to make adjustments on transition for leases of low-value assets.

- A lessee is also not required to make adjustments on transition for leases previously accounted for as investment property using the fair value model in IAS 40. However, a lessee measures the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases under 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.

In addition, a lessee is also permitted to use the following practical expedients to leases previously classified as operating leases, on a lease-by-lease basis to:

- Apply a single discount rate to a portfolio of leases with similar characteristics

- Apply a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application

- Exclude initial direct costs from measurement of the right-of-use asset

- Use hindsight, such as in determining the lease term if the contract contains options to extend or to terminate a lease.

7.2.2.2 Leases previously classified as finance lease

If an entity applies the modified retrospective method for transition, it will not change its initial carrying amounts for assets and liabilities under finance leases existing at the date of initial application of IFRS 16.
7.3 Disclosure requirements on initial application

An entity that applies a standard retrospectively is required to provide the disclosures required in IAS 8, as follows:

<table>
<thead>
<tr>
<th>Extract from IAS 8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disclosure</strong></td>
</tr>
</tbody>
</table>
| 28 When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
| (a) The title of the IFRS; |
| (b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions; |
| (c) The nature of the change in accounting policy; |
| (d) When applicable, a description of the transitional provisions; |
| (e) When applicable, the transitional provisions that might have an effect on future periods; |
| (f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  | (i) For each financial statement line item affected; and |
  | (ii) If IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share; |
| (g) The amount of the adjustment relating to periods before those presented, to the extent practicable; and |
| (h) If retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied. |

Financial statements of subsequent periods need not repeat these disclosures.
Extract from IFRS 16

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 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.

A lessee is required to make specific disclosures to help users understand the effect of IFRS 16 compared to IAS 17. If a lessee adopts the modified retrospective method, instead of the requirements of paragraph 28(f) of IAS 8, it is required to disclose the following:

- The weighted average incremental borrowing rate at the date of initial application
- Explanation of any differences between:
  - The result of discounting the operating lease commitments reported under IAS 17 at the end of the annual reporting period preceding the date of initial application; and
  - Lease liabilities recognised on the balance sheet immediately after posting the cumulative catch-up adjustment on the date of initial application. Differences could arise because of the application of recognition exemptions for short-term leases and leases of low-value assets.

How we see it

Consumer product entities and retailers should carefully evaluate the costs and benefits of each transition approach. The full retrospective approach requires entities to determine the carrying amounts of all leases (except for short-term leases and leases of low-value assets where the recognition exemption is elected) in existence at the earliest comparative period as if those leases had always been accounted for applying IFRS 16 and to restate comparative information. The modified retrospective approach eliminates the need to restate financial information in comparative periods on transition and thereby may reduce costs. However, the modified retrospective approach will impact lease-related costs (i.e., interest expense and depreciation of the right-of-use asset) for these existing leases.
8. Impact on key performance indicators (KPIs)

When a lessee depreciates the right-of-use asset on a straight-line basis, the total periodic expense (i.e., the sum of interest and depreciation expense) is generally higher in the early periods and lower in the later periods. Because a constant interest rate is applied to the lease liability, interest expense decreases as cash payments are made during the lease term and the lease liability decreases. Therefore, more interest expense is incurred in the early periods and less in the later periods. This trend in the interest expense, combined with straight-line depreciation of the right-of-use asset, results in a front-loaded expense recognition pattern. This expense pattern is consistent with the subsequent measurement of finance leases under IAS 17.

In the statement of profit or loss and other comprehensive income, IFRS 16 requires a lessee to present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. In accordance with IAS 1, interest expense on the lease liability is a component of finance costs.

In addition, an entity is required to present cash payments for the principal portion of the lease liability within financing activities in the statement of cash flows.

Many consumer products entities and retailers use a variety of KPIs such as earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA), and cash flows before financing activities as alternative performance measures to supplement financial statement disclosures. A summary of the impact on these KPIs arising from the implementation of IFRS 16 on leases accounted for as operating leases under IAS 17 is, as follows:

<table>
<thead>
<tr>
<th>KPI</th>
<th>Impact</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>Increase</td>
<td>Generally, EBIT would include the depreciation expense of the right-of-use asset but not the interest expense whereas the operating lease expense under IAS 17 is included in EBIT.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Increase</td>
<td>Generally, EBITDA does not include the depreciation expense of the right-of-use asset and the interest expense whereas the operating lease expense under IAS 17 is included in EBITDA.</td>
</tr>
<tr>
<td>Cash flows before financing activities</td>
<td>Increase</td>
<td>Under IFRS 16, cash payments for the principal portion of the lease liabilities are included within financing cash flows. Depending on the entity’s accounting policy, cash payments for the interest portion of the lease liabilities are included within operating or financing cash flows. Cash payments for operating leases are generally included within operating cash flows.</td>
</tr>
</tbody>
</table>
How we see it

Consumer products entities and retailers should consider evaluating early the expected effect on KPIs and communicate those effects to stakeholders and financial analysts. The expected effect on KPIs may be influenced by certain accounting policy elections (e.g., leases of low-value assets, short-term leases, combination of lease and non-lease components) and by the transition method or methods selected by the entity.

For entities that have significant operating leases under IAS 17, IFRS 16 is expected to result in higher profit before interest over the lease term. This is because, under IFRS 16, the unwinding of the discounted lease payments is presented in finance costs. In contrast, under IAS 17, the operating lease expense was included in operating expenses. The extent of the increase in operating profit and other performance measures (e.g., EBITDA), and finance costs, depends on, among other things, the significance of leasing to the entity, the length of its leases and the discount rate applied.

The effects of implementing IFRS 16 on other KPIs for consumer products entities and retailers, such as return on equity, net debt and earnings per share would depend on the entity’s specific definition of the KPI and the individual circumstances of the entities’ contracts.
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