IFRS 16 – LEASES WHITEPAPER

CONTENTS

This is a comprehensive whitepaper to use as a template and starting point for your IFRS 16 – Leases ("IFRS 16") assessment. The purpose of this memo is to help accountants and finance professionals who are looking to begin their IFRS 16 assessments in preparation for the January 1, 2019 adoption date. If your IFRS 16 assessment is already underway, this is also a great tool to double check that you have considered everything that is needed for your specific company in a cost effective way. This memo is loaded with content which is detailed below:

Following on the next page is an example of the first page of the memo that provides the Background of IFRS 16. If there are any questions or concerns please use the question feature provided by tooluru.

BACKGROUND

This memo provides a summary of the implementation considerations for *IFRS 16 – Leases* ("IFRS 16"). IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. Earlier adoption is permitted but only if the new standard on revenue recognition (*IFRS 15 – Revenue from Contracts with Customers*), which is effective January 1, 2018, has also been adopted.

IFRS 16 replaces the following standards and interpretations:

- *IAS 17 – Leases* ("IAS 17")

- *IFRIC 4 – Determining Whether an Arrangement Contains a Lease* ("IFRIC 4")

- *SIC 15 – Operating Leases – Incentives*

- *SIC 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

IFRS 16 specifically <u>excludes</u> the following leases (paragraph 3):

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources

- Leases of biological assets within the scope of *IAS 41 – Agriculture Held by a Lessee*

- Service concession arrangements within the scope of *IFRIC 12 – Service Concession Arrangements*

- Licences of intellectual property granted by a lessor within the scope of *IFRS 15 – Revenue from Contracts with Customers*

- 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

The definition of a lease under IFRS 16 is not significantly different from the definition of lease included in IAS 17 and IFRIC 4. Accordingly, if an entity had a contract that was, or contained a lease under IAS 17 and IFRIC 4, it will continue to be a lease under IFRS 16; and contracts that were not, or did not contain a lease under IAS 17 and IFRIC 4 will generally not be considered a lease under IFRS 16. The single most significant change that will result from adopting IFRS 16 is the elimination of two categories of leases from the lessee's perspective - operating and financing. From the lessee's perspective IFRS 16 requires capitalization of all leases. Note that lease accounting by lessors is largely unchanged and will not be addressed in this memo. Accounting for sale and lease back arrangements are also not discussed in this memo although they are subject to the requirements of IFRS 16, as they are considered relatively nuanced and unusual transactions that are not often encountered in normal business operations.

This memo should be read in conjunction with IFRS 16 as the standard includes definitions and additional discussion that may not be included in this memo. Specifically, if terms and definitions in IFRS 16 do not significantly change from terms and definitions in IAS 17 and IFRIC 4, then those terms and definitions are not addressed in this memo.