

Official Journal of the European Union

L 291



English edition

Legislation

Volume 60

9 November 2017

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⁽¹⁾ Text with EEA relevance.

EN

Acts whose titles are printed in light type are those relating to day-to-day management of agricultural matters, and are generally valid for a limited period.

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II

(Non-legislative acts)

REGULATIONS

COMMISSION REGULATION (EU) 2017/1986**of 31 October 2017****amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) Commission Regulation (EC) No 1126/2008 ⁽²⁾ adopted certain international standards and interpretations that were in existence on 15 October 2008.
- (2) On 13 January 2016, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 16 Leases. This standard aims to improve financial reporting on lease contracts.
- (3) Adoption of IFRS 16 implies consequential amendments to the following standards or interpretations of standards: IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13, IFRS 15, International Accounting Standard (IAS) 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40, IAS 41, Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 1, IFRIC 12, Interpretation of Standing Interpretations Committee (SIC) 29 and SIC-32.
- (4) The consultation with the European Financial Reporting Advisory Group confirms that IFRS 16 meets the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (5) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1126/2008 is amended as follows:

- (a) International Financial Reporting Standard (IFRS) 16 Leases is inserted as set out in the Annex to this Regulation;

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).

- (b) IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13, IFRS 15, IFRIC 1, IFRIC 12, SIC-29 and SIC-32 are amended in accordance with IFRS 16 as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2019.

Article 3

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 31 October 2017.

For the Commission
The President
Jean-Claude JUNCKER

ANNEX

International Financial Reporting Standard 16***Leases*****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 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;
 - (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. 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.
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.
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.

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.
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 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 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.

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.
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	<p>Payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:</p> <ul style="list-style-type: none"> (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. <p>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.</p> <p>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.</p>
lease term	<p>The non-cancellable period for which a lessee has the right to use an underlying asset, together with both:</p> <ul style="list-style-type: none"> (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.
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.
- 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.

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);

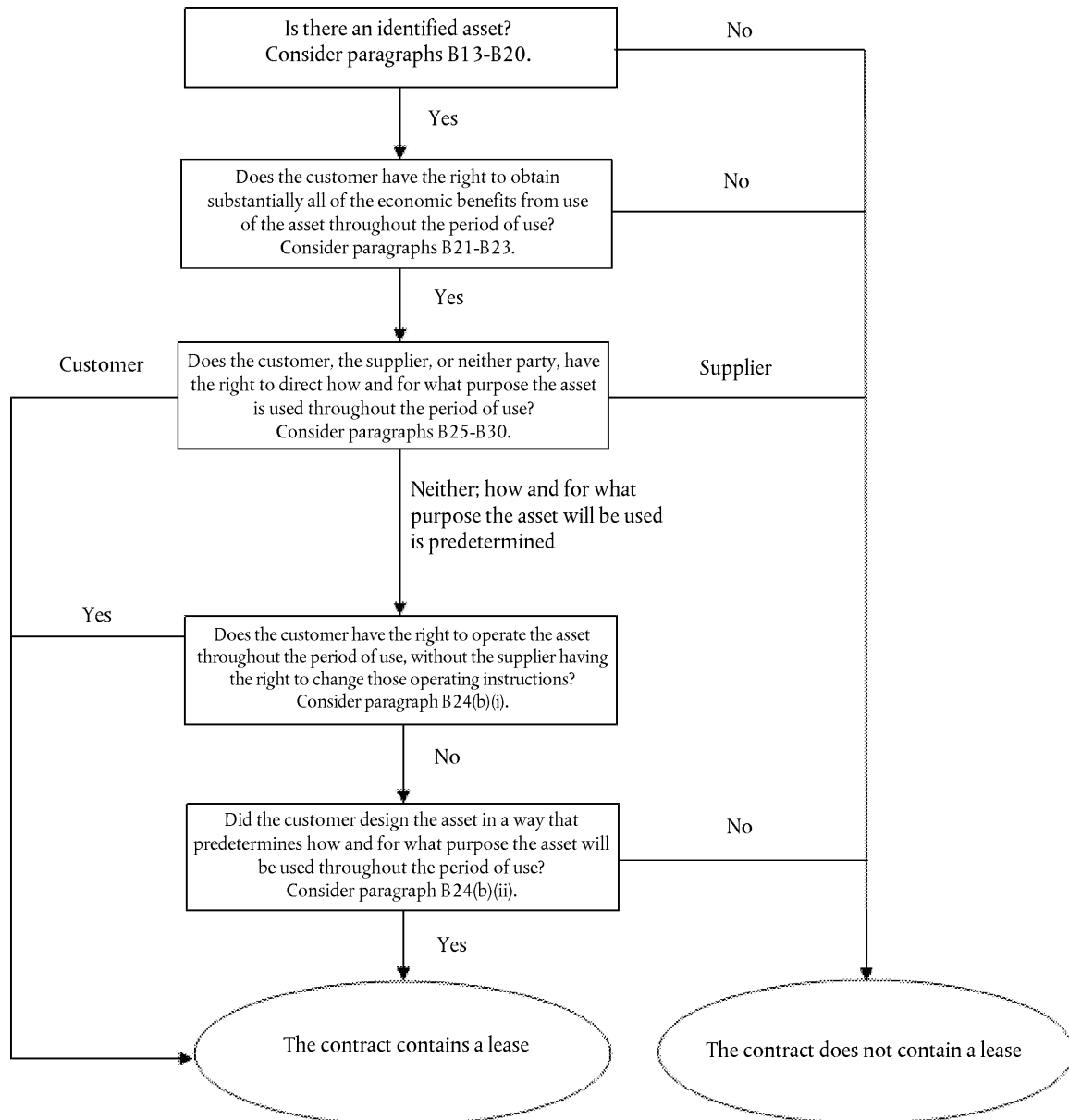
- (b) rights to change when the output is produced (for example, to decide when an item of machinery or a power plant will be used);
 - (c) rights to change where the output is produced (for example, to decide upon the destination of a truck or a ship, or to decide where an item of equipment is used); 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)).

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



Separating components of a contract (paragraphs 12–17)

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

- 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
- 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 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:
- (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 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.
- 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. 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 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*.

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.

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, 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 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 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 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*;

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

(b) ...

...

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 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]

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

...

- 14. Paragraphs B31–B40 provide guidance on recognising 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 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.

B28 [Deleted]

B29 [Deleted]

B30 [Deleted]

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]
 - (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. 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.

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 variable lease payments and similar items), as well as a lessee's residual value guarantee embedded in a lease (see 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 lease 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 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) **lease 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) ...

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 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) variable lease payments based on related sales or (iii) 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 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 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 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 IFRS 16 *Leases*;
- (b) ...

Costs to fulfil a contract

...

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, 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 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 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, 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 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 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 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*, 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*, 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.

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]

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]

...

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. 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 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. 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 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; 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) interest in respect of leases liabilities recognised in accordance with 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.

In the Application Guidance, paragraphs AG9 and AG10 are amended.

Financial assets and financial liabilities

...

- AG9 A lease typically creates an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under a finance lease rather than the underlying asset itself that is subject to the finance lease. Accordingly, a lessor regards a finance lease as a financial instrument. Under IFRS 16, a lessor does not recognise its entitlement to receive lease payments

under an operating lease. The lessor continues to account for the underlying asset itself rather than any amount receivable in the future under the contract. Accordingly, a lessor does not regard an operating lease as a financial instrument, except as regards individual payments currently due and payable by the lessee.

- AG10 Physical assets (such as inventories, property, plant and equipment), right-of-use assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical assets, right-of-use assets and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

...

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 IFRS 16 *Leases*). However, 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 of intangible assets accounted for in accordance with IFRS 16 *Leases*.
 - (d) ...
6. Rights held by a lessee under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights 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 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*. 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 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) **lease liabilities recognised by a lessee are subject to the derecognition provisions in paragraph 39 of this Standard; 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.

In the Application Guidance, paragraph AG33 is amended for an entity that has not adopted IFRS 9 *Financial Instruments*. The Application Guidance is not amended for an entity that has adopted IFRS 9.

EMBEDDED DERIVATIVES (PARAGRAPHS 10–13)

...

- AG33 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) variable lease payments based on related sales or (iii) variable lease payments based on variable interest rates.

(g) ...

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.

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*
- ...
- ...
- ...

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 IFRS 16.

SIC-29 Service Concession Arrangements: Disclosures

The References paragraph is amended.

REFERENCES

- IFRS 16 *Leases*
- ...
- ...

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, 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 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*

— ...

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 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.

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.

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]
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) 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) 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]
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) 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 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.

RECOGNITION

16. **An owned 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
 - (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]
26. [Deleted]
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, 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 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]

- 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. IFRS 16 specifies the basis for initial recognition of the cost of an investment property held by a lessee as a right-of-use asset. Paragraph 33 requires 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. When lease payments are at

market rates, the fair value of 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. Thus, remeasuring a right-of-use asset from cost in accordance with 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 reflects expected cash flows (including 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 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 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.
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. 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 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.
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 IFRS 16. In accordance with IFRS 16, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee that holds an investment property as a right-of-use asset provides lessees' disclosures as required by IFRS 16 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]
 - (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.
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 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.
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).
-

COMMISSION REGULATION (EU) 2017/1987**of 31 October 2017****amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 15****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾, certain international standards and interpretations that were in existence at 15 October 2008 were adopted.
- (2) On 12 April 2016, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. The amendments aim to clarify some requirements and provide additional transitional relief for companies that are implementing the standard.
- (3) The consultation with the European Financial Reporting Advisory Group confirms that the amendments to IFRS 15 meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (5) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1126/2008, International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers is amended as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2018.

*Article 3*This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.⁽¹⁾ OJ L 243, 11.9.2002, p. 1.⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 31 October 2017.

For the Commission

The President

Jean-Claude JUNKER

ANNEX

Clarifications to IFRS 15*Revenue from Contracts with Customers***Amendments to****IFRS 15 *Revenue from Contracts with Customers***

Paragraphs 26, 27 and 29 are amended. Paragraphs 28 and 30 have not been amended but have been included for ease of reference.

Distinct goods or services

26. Depending on the contract, promised goods or services may include, but are not limited to, the following:
- (a) sale of goods produced by an entity (for example, inventory of a manufacturer);
 - (b) resale of goods purchased by an entity (for example, merchandise of a retailer);
 - (c) resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal, as described in paragraphs B34–B38);
 - (d) performing a contractually agreed-upon task (or tasks) for a customer;
 - (e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;
 - (f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party, as described in paragraphs B34–B38);
 - (g) granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);
 - (h) constructing, manufacturing or developing an asset on behalf of a customer;
 - (i) granting licences (see paragraphs B52–B63B); and
 - (j) granting options to purchase additional goods or services (when those options provide a customer with a material right, as described in paragraphs B39–B43).
27. A good or service that is promised to a customer is distinct if both of the following criteria are met:
- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and
 - (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).
28. A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

29. In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 27(b), the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a customer are not separately identifiable include, but are not limited to, the following:
- (a) the entity provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.
 - (b) one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract.
 - (c) the goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.
30. If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

In Appendix B, paragraphs B1, B34–B38, B52–B53 and B58 are amended and paragraphs B34A, B35A, B35B, B37A, B59A, B63A and B63B are added. Paragraph B57 is deleted. Paragraphs B54–B56, B59 and B60–B63 have not been amended but have been included for ease of reference.

Appendix B

Application Guidance

...

B1 This application guidance is organised into the following categories:

- (a) ...
- (i) licensing (paragraphs B52–B63B);
- (j) ...

Principal versus agent considerations

B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

- B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:
- (a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and
 - (b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.
- B35 An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. However, an entity does not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. An entity that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf.
- B35A When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:
- (a) a good or another asset from the other party that it then transfers to the customer.
 - (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
 - (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.
- B35B When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.
- B36 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.
- B37 Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:
- (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
 - (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.

- (c) the entity has discretion in establishing the price for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).

...

Licensing

B52 A licence establishes a customer's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:

- (a) software and technology;
- (b) motion pictures, music and other forms of media and entertainment;
- (c) franchises; and
- (d) patents, trademarks and copyrights.

B53 In addition to a promise to grant a licence (or licences) to a customer, an entity may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or implied by an entity's customary business practices, published policies or specific statements (see paragraph 24). As with other types of contracts, when a contract with a customer includes a promise to grant a licence (or licences) in addition to other promised goods or services, an entity applies paragraphs 22–30 to identify each of the performance obligations in the contract.

B54 If the promise to grant a licence is not distinct from other promised goods or services in the contract in accordance with paragraphs 26–30, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single performance obligation. Examples of licences that are not distinct from other goods or services promised in the contract include the following:

- (a) a licence that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the customer to access content).

B55 If the licence is not distinct, an entity shall apply paragraphs 31–38 to determine whether the performance obligation (which includes the promised licence) is a performance obligation that is satisfied over time or satisfied at a point in time.

B56 If the promise to grant the licence is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the licence is a separate performance obligation, an entity shall determine whether the licence transfers to a customer either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the licence to a customer is to provide the customer with either:

- (a) a right to access the entity's intellectual property as it exists throughout the licence period; or
- (b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

Determining the nature of the entity's promise

B57 [Deleted]

B58 The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

- (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs B59 and B59A);
- (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and
- (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 25).

B59 Factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the customer related to the intellectual property to which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

B59A An entity's activities significantly affect the intellectual property to which the customer has rights when either:

- (a) those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

Accordingly, if the intellectual property to which the customer has rights has significant stand-alone functionality, a substantial portion of the benefit of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

B60 If the criteria in paragraph B58 are met, an entity shall account for the promise to grant a licence as a performance obligation satisfied over time because the customer will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 35(a)). An entity shall apply paragraphs 39–45 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

B61 If the criteria in paragraph B58 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the licence transfers to the customer. However, revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. For example, if a software licence period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

- B62 An entity shall disregard the following factors when determining whether a licence provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:
- (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised licence, rather than define whether the entity satisfies its performance obligation at a point in time or over time.
 - (b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorised use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the licence transferred meets the specifications of the licence promised in the contract.

Sales-based or usage-based royalties

- B63 Notwithstanding the requirements in paragraphs 56–59, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:
- (a) the subsequent sale or usage occurs; and
 - (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).
- B63A The requirement for a sales-based or usage-based royalty in paragraph B63 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).
- B63B When the requirement in paragraph B63A is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph B63. When the requirement in paragraph B63A is not met, the requirements on variable consideration in paragraphs 50–59 apply to the sales-based or usage-based royalty.

In Appendix C, paragraphs C2, C5 and C7 are amended and paragraphs C1B, C7A and C8A are added. Paragraphs C3 and C6 have not been amended but have been included for ease of reference.

EFFECTIVE DATE

...

- C1B *Clarifications to IFRS 15 Revenue from Contracts with Customers*, issued in April 2016, amended paragraphs 26, 27, 29, B1, B34–B38, B52–B53, B58, C2, C5 and C7, deleted paragraph B57 and added paragraphs B34A, B35A, B35B, B37A, B59A, B63A, B63B, C7A and C8A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

TRANSITION

- C2 For the purposes of the transition requirements in paragraphs C3–C8A:
- (a) the date of initial application is the start of the reporting period in which an entity first applies this Standard; and
 - (b) a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations.
- C3 An entity shall apply this Standard using one of the following two methods:
- (a) retrospectively to each prior reporting period presented in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph C5; or
 - (b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C7–C8.

...

- C5 An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C3(a):
- (a) for completed contracts, an entity need not restate contracts that:
 - (i) begin and end within the same annual reporting period; or
 - (ii) are completed contracts at the beginning of the earliest period presented.
 - (b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - (c) for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 20–21. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - (i) identifying the satisfied and unsatisfied performance obligations;
 - (ii) determining the transaction price; and
 - (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.
 - (d) for all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (see paragraph 120).
- C6 For any of the practical expedients in paragraph C5 that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:
- (a) the expedients that have been used; and
 - (b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
- C7 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity 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) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end).
- C7A An entity applying this Standard retrospectively in accordance with paragraph C3(b) may also use the practical expedient described in paragraph C5(c), either:
- (a) for all contract modifications that occur before the beginning of the earliest period presented; or
 - (b) for all contract modifications that occur before the date of initial application.
- If an entity uses this practical expedient, the entity shall apply the expedient consistently to all contracts and disclose the information required by paragraph C6.
- ...
- C8A An entity shall apply *Clarifications to IFRS 15* (see paragraph C1B) retrospectively in accordance with IAS 8. In applying the amendments retrospectively, an entity shall apply the amendments as if they had been included in IFRS 15 at the date of initial application. Consequently, an entity does not apply the amendments to reporting periods or to contracts to which the requirements of IFRS 15 are not applied in accordance with paragraphs C2–C8. For example, if an entity applies IFRS 15 in accordance with paragraph C3(b) only to contracts that are not completed contracts at the date of initial application, the entity does not restate the completed contracts at the date of initial application of IFRS 15 for the effects of these amendments.
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COMMISSION REGULATION (EU) 2017/1988**of 3 November 2017****amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 4****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.
- (2) On 12 September 2016, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard (IFRS) 4, Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* ('amendments to IFRS 4'). The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts replacing IFRS 4 (IFRS 17).
- (3) The objective of IFRS 9 is to improve the financial reporting of financial instruments by addressing concerns that arose in this area during the financial crisis. In particular, IFRS 9 responds to the G20's call to move to a more forward-looking model for the recognition of expected losses on financial assets.
- (4) The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 until 1 January 2021. The effect of such a deferral is that the entities concerned may continue to report under the existing standard, International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. The amendments to IFRS 4 also permit entities that issue insurance contracts to remove from profit or loss some of the additional accounting mismatches and temporary volatility that could occur when applying IFRS 9 before IFRS 17 is implemented.
- (5) Following consultations with the European Financial Reporting Advisory Group, the Commission concludes that the amendments to IFRS 4 meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (6) The Commission, however, considers that the amendments to IFRS 4 are not sufficiently broad in scope to meet the needs of all significant insurance entities in Union. In particular, the insurance sector within a financial conglomerate would not be eligible to defer the application of IFRS 9, which could put them at a competitive disadvantage. Therefore, the insurance sector of a financial conglomerate falling within the scope of Directive 2002/87/EC of the European Parliament and of the Council ⁽³⁾ should be allowed to defer the application of IFRS 9 until 1 January 2021.
- (7) A deferral of the application of IFRS 9 by the insurance sector in a conglomerate would mean the application of two different accounting standards within one financial conglomerate which could create opportunities for accounting arbitrage as well as possibly lead to difficulties for investors in understanding the consolidated financial statements. Therefore, such a deferral should be subject to certain conditions. To prevent the group transferring financial instruments between sectors in order to benefit from a more favourable accounting treatment, a temporary prohibition on transfer of financial instruments, other than financial instruments that are measured at fair value with changes in fair values through profit and loss, should apply. Only transfers of

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).⁽³⁾ Directive 2002/87/EC of the European Parliament and Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council (OJ L 35, 11.2.2003, p. 1).

financial instruments that qualify for de-recognition from the accounts of the transferring entity should be subject to the prohibition of transfer. Financial instruments issued by an entity of the group should not be subject to this prohibition because intra-group holdings of financial instruments are eliminated in the consolidated accounts of the conglomerate.

- (8) The deferral of the application of IFRS 9 is consistent in its approach with IFRS 4 which permits insurance groups to consolidate subsidiaries without conforming the measurement of insurance liabilities from subsidiaries' local generally accepted accounting policies to the accounting policies used by the rest of the group. While the use of non-uniform accounting policies may reduce the understandability of the financial statements, users of the financial statements will already be familiar with the financial reporting under IAS 39 and the deferral is only for a limited period of time. The conditions for use of the deferral should also mitigate any such concerns.
- (9) The deferral of the application of IFRS 9 for the insurance sector within a financial conglomerate should be limited in time because it is important that the improvements introduced by IFRS 9 become effective as soon as possible and IFRS 17 will have an effective date of application of 1 January 2021.
- (10) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (11) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1126/2008, International Financial Reporting Standard (IFRS) 4 *Insurance Contracts* is amended as set out in the Annex to this Regulation.

Article 2

A financial conglomerate as defined in Article 2(14) of Directive 2002/87/EC may elect that none of its entities operating in the insurance sector within the meaning of Article 2(8)(b) of that Directive apply IFRS 9 in the consolidated financial statements for financial years the commencement of which precedes 1 January 2021 where all of the following conditions are met:

- (a) no financial instruments are transferred between the insurance sector and any other sector of the financial conglomerate after 29 November 2017 other than financial instruments that are measured at fair value with changes in fair value recognised through the profit or loss account by both sectors involved in such transfers;
- (b) the financial conglomerate states in the consolidated financial statements which insurance entities in the group are applying IAS 39;
- (c) disclosures requested by IFRS 7 are provided separately for the insurance sector applying IAS 39 and for the rest of the group applying IFRS 9.

Article 3

1. Each company shall apply the amendments referred to in Article 1 as from the commencement date of its first financial year starting on or after 1 January 2018.
2. However, a financial conglomerate may choose to apply the amendments referred to in Article 1 subject to the conditions laid down in Article 2 as from the commencement date of its first financial year starting on or after 1 January 2018.

Article 4

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 3 November 2017.

For the Commission

The President

Jean-Claude JUNKER

ANNEX

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

(Amendments to IFRS 4)

Amendments to**IFRS 4 *Insurance Contracts***

Paragraph 3 is amended.

SCOPE

...

3. This IFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see IAS 32 *Financial Instruments: Presentation*, IFRS 7 and IFRS 9 *Financial Instruments*), except:
- (a) paragraph 20A permits insurers that meet specified criteria to apply a temporary exemption from IFRS 9;
 - (b) paragraph 35B permits insurers to apply the overlay approach to designated financial assets; and
 - (c) paragraph 45 permits insurers to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss.

...

Paragraph 5 is amended.

...

5. For ease of reference, this IFRS describes any entity that issues an insurance contract as an insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes. All references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

...

New headings are added below paragraphs 20, 20K and 20N. New paragraphs 20A–20Q are added.

RECOGNITION AND MEASUREMENT

...

Temporary exemption from IFRS 9

- 20A** IFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. However, for an insurer that meets the criteria in paragraph 20B, this IFRS provides a temporary exemption that permits, but does not require, the insurer to apply IAS 39 *Financial Instruments: Recognition and Measurement* rather than IFRS 9 for annual periods beginning before 1 January 2021. An insurer that applies the temporary exemption from IFRS 9 shall:
- (a) use the requirements in IFRS 9 that are necessary to provide the disclosures required in paragraphs 39B–39J of this IFRS; and
 - (b) apply all other applicable IFRSs to its financial instruments, except as described in paragraphs 20A–20Q, 39B–39J and 46–47 of this IFRS.

- 20B An insurer may apply the temporary exemption from IFRS 9 if, and only if:**
- (a) it has not previously applied any version of IFRS 9 ⁽¹⁾, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of IFRS 9; and**
 - (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G.**
- 20C** An insurer applying the temporary exemption from IFRS 9 is permitted to elect to apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of IFRS 9. If an insurer elects to apply those requirements, it shall apply the relevant transition provisions in IFRS 9, disclose the fact that it has applied those requirements and provide on an ongoing basis the related disclosures set out in paragraphs 10–11 of IFRS 7 (as amended by IFRS 9 (2010)).
- 20D** An insurer's activities are predominantly connected with insurance if, and only if:
- (a) the carrying amount of its liabilities arising from contracts within the scope of this IFRS, which includes any deposit components or embedded derivatives unbundled from insurance contracts applying paragraphs 7–12 of this IFRS, is significant compared to the total carrying amount of all its liabilities; and
 - (b) the percentage of the total carrying amount of its liabilities connected with insurance (see paragraph 20E) relative to the total carrying amount of all its liabilities is:
 - (i) greater than 90 per cent; or
 - (ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance (see paragraph 20F).
- 20E** For the purposes of applying paragraph 20D(b), liabilities connected with insurance comprise:
- (a) liabilities arising from contracts within the scope of this IFRS, as described in paragraph 20D(a);
 - (b) non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39 (including those designated as at fair value through profit or loss to which the insurer has applied the requirements in IFRS 9 for the presentation of gains and losses (see paragraphs 20B(a) and 20C)); and
 - (c) liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital.
- 20F** In assessing whether it engages in a significant activity unconnected with insurance for the purposes of applying paragraph 20D(b)(ii), an insurer shall consider:
- (a) only those activities from which it may earn income and incur expenses; and
 - (b) quantitative or qualitative factors (or both), including publicly available information such as the industry classification that users of financial statements apply to the insurer.
- 20G** Paragraph 20B(b) requires an entity to assess whether it qualifies for the temporary exemption from IFRS 9 at its annual reporting date that immediately precedes 1 April 2016. After that date:
- (a) an entity that previously qualified for the temporary exemption from IFRS 9 shall reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.

⁽¹⁾ The Board issued successive versions of IFRS 9 in 2009, 2010, 2013 and 2014.

- (b) an entity that previously did not qualify for the temporary exemption from IFRS 9 is permitted to reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date before 31 December 2018 if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.

20H For the purposes of applying paragraph 20G, a change in an entity's activities is a change that:

- (a) is determined by the entity's senior management as a result of external or internal changes;
- (b) is significant to the entity's operations; and
- (c) is demonstrable to external parties.

Accordingly, such a change occurs only when the entity begins or ceases to perform an activity that is significant to its operations or significantly changes the magnitude of one of its activities; for example, when the entity has acquired, disposed of or terminated a business line.

20I A change in an entity's activities, as described in paragraph 20H, is expected to be very infrequent. The following are not changes in an entity's activities for the purposes of applying paragraph 20G:

- (a) a change in the entity's funding structure that in itself does not affect the activities from which the entity earns income and incurs expenses.
- (b) the entity's plan to sell a business line, even if the assets and liabilities are classified as held for sale applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. A plan to sell a business line could change the entity's activities and give rise to a reassessment in the future but has yet to affect the liabilities recognised on its statement of financial position.

20J If an entity no longer qualifies for the temporary exemption from IFRS 9 as a result of a reassessment (see paragraph 20G(a)), then the entity is permitted to continue to apply the temporary exemption from IFRS 9 only until the end of the annual period that began immediately after that reassessment. Nevertheless, the entity must apply IFRS 9 for annual periods beginning on or after 1 January 2021. For example, if an entity determines that it no longer qualifies for the temporary exemption from IFRS 9 applying paragraph 20G(a) on 31 December 2018 (the end of its annual period), then the entity is permitted to continue to apply the temporary exemption from IFRS 9 only until 31 December 2019.

20K An insurer that previously elected to apply the temporary exemption from IFRS 9 may at the beginning of any subsequent annual period irrevocably elect to apply IFRS 9.

First-time adopter

20L A first-time adopter, as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, may apply the temporary exemption from IFRS 9 described in paragraph 20A if, and only if, it meets the criteria described in paragraph 20B. In applying paragraph 20B(b), the first-time adopter shall use the carrying amounts determined applying IFRSs at the date specified in that paragraph.

20M IFRS 1 contains requirements and exemptions applicable to a first-time adopter. Those requirements and exemptions (for example, paragraphs D16–D17 of IFRS 1) do not override the requirements in paragraphs 20A–20Q and 39B–39J of this IFRS. For example, the requirements and exemptions in IFRS 1 do not override the requirement that a first-time adopter must meet the criteria specified in paragraph 20L to apply the temporary exemption from IFRS 9.

20N A first-time adopter that discloses the information required by paragraphs 39B–39J shall use the requirements and exemptions in IFRS 1 that are relevant to making the assessments required for those disclosures.

Temporary exemption from specific requirements in IAS 28

- 20O Paragraphs 35–36 of IAS 28 *Investments in Associates and Joint Ventures* require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before 1 January 2021, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows:
- (a) the entity applies IFRS 9 but the associate or joint venture applies the temporary exemption from IFRS 9; or
 - (b) the entity applies the temporary exemption from IFRS 9 but the associate or joint venture applies IFRS 9.
- 20P When an entity uses the equity method to account for its investment in an associate or joint venture:
- (a) if IFRS 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then IFRS 9 shall continue to be applied.
 - (b) if the temporary exemption from IFRS 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then IFRS 9 may be subsequently applied.
- 20Q An entity may apply paragraphs 20O and 20P(b) separately for each associate or joint venture.

New paragraphs 35A–35N, 39B–39M and 46–49 are added. New headings are added below paragraphs 35A, 35K, 35M, 39A, 39J, 45 and 47.

Discretionary participation features in financial instruments

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- 35A The temporary exemptions in paragraphs 20A, 20L and 20O and the overlay approach in paragraph 35B are also available to an issuer of a financial instrument that contains a discretionary participation feature. Accordingly, all references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

PRESENTATION**The overlay approach**

- 35B An insurer is permitted, but not required, to apply the overlay approach to designated financial assets. An insurer that applies the overlay approach shall:
- (a) reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if the insurer had applied IAS 39 to the designated financial assets. Accordingly, the amount reclassified is equal to the difference between:
 - (i) the amount reported in profit or loss for the designated financial assets applying IFRS 9; and
 - (ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied IAS 39.
 - (b) apply all other applicable IFRSs to its financial instruments, except as described in paragraphs 35B–35N, 39K–39M and 48–49 of this IFRS.
- 35C An insurer may elect to apply the overlay approach described in paragraph 35B only when it first applies IFRS 9, including when it first applies IFRS 9 after previously applying:
- (a) the temporary exemption from IFRS 9 described in paragraph 20A; or
 - (b) only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of IFRS 9.

- 35D An insurer shall present the amount reclassified between profit or loss and other comprehensive income applying the overlay approach:
- (a) in profit or loss as a separate line item; and
 - (b) in other comprehensive income as a separate component of other comprehensive income.
- 35E A financial asset is eligible for designation for the overlay approach if, and only if, the following criteria are met:
- (a) it is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39; and
 - (b) it is not held in respect of an activity that is unconnected with contracts within the scope of this IFRS. Examples of financial assets that would not be eligible for the overlay approach are those assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of this IFRS.
- 35F An insurer may designate an eligible financial asset for the overlay approach when it elects to apply the overlay approach (see paragraph 35C). Subsequently, it may designate an eligible financial asset for the overlay approach when, and only when:
- (a) that asset is initially recognised; or
 - (b) that asset newly meets the criterion in paragraph 35E(b) having previously not met that criterion.
- 35G An insurer is permitted to designate eligible financial assets for the overlay approach applying paragraph 35F on an instrument-by-instrument basis.
- 35H When relevant, for the purposes of applying the overlay approach to a newly designated financial asset applying paragraph 35F(b):
- (a) its fair value at the date of designation shall be its new amortised cost carrying amount; and
 - (b) the effective interest rate shall be determined based on its fair value at the date of designation.
- 35I An entity shall continue to apply the overlay approach to a designated financial asset until that financial asset is derecognised. However, an entity:
- (a) shall de-designate a financial asset when the financial asset no longer meets the criterion in paragraph 35E(b). For example, a financial asset will no longer meet that criterion when an entity transfers that asset so that it is held in respect of its banking activities or when an entity ceases to be an insurer.
 - (b) may, at the beginning of any annual period, stop applying the overlay approach to all designated financial assets. An entity that elects to stop applying the overlay approach shall apply IAS 8 to account for the change in accounting policy.
- 35J When an entity de-designates a financial asset applying paragraph 35I(a), it shall reclassify from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see IAS 1) any balance relating to that financial asset.
- 35K If an entity stops using the overlay approach applying the election in paragraph 35I(b) or because it is no longer an insurer, it shall not subsequently apply the overlay approach. An insurer that has elected to apply the overlay approach (see paragraph 35C) but has no eligible financial assets (see paragraph 35E) may subsequently apply the overlay approach when it has eligible financial assets.

Interaction with other requirements

- 35L Paragraph 30 of this IFRS permits a practice that is sometimes described as ‘shadow accounting’. If an insurer applies the overlay approach, shadow accounting may be applicable.
- 35M Reclassifying an amount between profit or loss and other comprehensive income applying paragraph 35B may have consequential effects for including other amounts in other comprehensive income, such as income taxes. An insurer shall apply the relevant IFRS, such as IAS 12 *Income Taxes*, to determine any such consequential effects.

First-time adopter

- 35N If a first-time adopter elects to apply the overlay approach, it shall restate comparative information to reflect the overlay approach if, and only if, it restates comparative information to comply with IFRS 9 (see paragraphs E1–E2 of IFRS 1).

...

DISCLOSURE

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Disclosures about the temporary exemption from IFRS 9

- 39B An insurer that elects to apply the temporary exemption from IFRS 9 shall disclose information to enable users of financial statements:**

- (a) to understand how the insurer qualified for the temporary exemption; and**
- (b) to compare insurers applying the temporary exemption with entities applying IFRS 9.**

- 39C To comply with paragraph 39B(a), an insurer shall disclose the fact that it is applying the temporary exemption from IFRS 9 and how the insurer concluded on the date specified in paragraph 20B(b) that it qualifies for the temporary exemption from IFRS 9, including:

- (a) if the carrying amount of its liabilities arising from contracts within the scope of this IFRS (ie those liabilities described in paragraph 20E(a)) was less than or equal to 90 per cent of the total carrying amount of all its liabilities, the nature and carrying amounts of the liabilities connected with insurance that are not liabilities arising from contracts within the scope of this IFRS (ie those liabilities described in paragraphs 20E(b) and 20E(c));
- (b) if the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was less than or equal to 90 per cent but greater than 80 per cent, how the insurer determined that it did not engage in a significant activity unconnected with insurance, including what information it considered; and
- (c) if the insurer qualified for the temporary exemption from IFRS 9 on the basis of a reassessment applying paragraph 20G(b):
 - (i) the reason for the reassessment;
 - (ii) the date on which the relevant change in its activities occurred; and
 - (iii) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the insurer's financial statements.

- 39D If, applying paragraph 20G(a), an entity concludes that its activities are no longer predominantly connected with insurance, it shall disclose the following information in each reporting period before it begins to apply IFRS 9:

- (a) the fact that it no longer qualifies for the temporary exemption from IFRS 9;
- (b) the date on which the relevant change in its activities occurred; and
- (c) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the entity's financial statements.

- 39E To comply with paragraph 39B(b), an insurer shall disclose the fair value at the end of the reporting period and the amount of change in the fair value during that period for the following two groups of financial assets separately:

- (a) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (ie financial assets that meet the condition in paragraphs 4.1.2(b) and 4.1.2 A(b) of IFRS 9), excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis (see paragraph B4.1.6 of IFRS 9).

- (b) all financial assets other than those specified in paragraph 39E(a); that is, any financial asset:
 - (i) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
 - (ii) that meets the definition of held for trading in IFRS 9; or
 - (iii) that is managed and whose performance is evaluated on a fair value basis.
- 39F When disclosing the information in paragraph 39E, the insurer:
 - (a) may deem the carrying amount of the financial asset measured applying IAS 39 to be a reasonable approximation of its fair value if the insurer is not required to disclose its fair value applying paragraph 29(a) of IFRS 7 (eg short-term trade receivables); and
 - (b) shall consider the level of detail necessary to enable users of financial statements to understand the characteristics of the financial assets.
- 39G To comply with paragraph 39B(b), an insurer shall disclose information about the credit risk exposure, including significant credit risk concentrations, inherent in the financial assets described in paragraph 39E(a). At a minimum, an insurer shall disclose the following information for those financial assets at the end of the reporting period:
 - (a) by credit risk rating grades as defined in IFRS 7, the carrying amounts applying IAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).
 - (b) for the financial assets described in paragraph 39E(a) that do not have low credit risk at the end of the reporting period, the fair value and the carrying amount applying IAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances). For the purposes of this disclosure, paragraph B5.5.22 of IFRS 9 provides the relevant requirements for assessing whether the credit risk on a financial instrument is considered low.
- 39H To comply with paragraph 39B(b), an insurer shall disclose information about where a user of financial statements can obtain any publicly available IFRS 9 information that relates to an entity within the group that is not provided in the group's consolidated financial statements for the relevant reporting period. For example, such IFRS 9 information could be obtained from the publicly available individual or separate financial statements of an entity within the group that has applied IFRS 9.
- 39I If an entity elected to apply the exemption in paragraph 20O from particular requirements in IAS 28, it shall disclose that fact.
- 39J If an entity applied the temporary exemption from IFRS 9 when accounting for its investment in an associate or joint venture using the equity method (for example, see paragraph 20O(a)), the entity shall disclose the following, in addition to the information required by IFRS 12 *Disclosure of Interests in Other Entities*:
 - (a) the information described by paragraphs 39B–39H for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the IFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of IFRS 12), rather than the entity's share of those amounts.
 - (b) the quantitative information described by paragraphs 39B–39H in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:
 - (i) disclosed shall be the entity's share of those amounts; and
 - (ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

Disclosures about the overlay approach

- 39K **An insurer that applies the overlay approach shall disclose information to enable users of financial statements to understand:**
 - (a) **how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and**
 - (b) **the effect of that reclassification on the financial statements.**

- 39L To comply with paragraph 39K, an insurer shall disclose:
- (a) the fact that it is applying the overlay approach;
 - (b) the carrying amount at the end of the reporting period of financial assets to which the insurer applies the overlay approach by class of financial asset;
 - (c) the basis for designating financial assets for the overlay approach, including an explanation of any designated financial assets that are held outside the legal entity that issues contracts within the scope of this IFRS;
 - (d) an explanation of the total amount reclassified between profit or loss and other comprehensive income in the reporting period in a way that enables users of financial statements to understand how that amount is derived, including:
 - (i) the amount reported in profit or loss for the designated financial assets applying IFRS 9; and
 - (ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied IAS 39.
 - (e) the effect of the reclassification described in paragraphs 35B and 35M on each affected line item in profit or loss; and
 - (f) if during the reporting period the insurer has changed the designation of financial assets:
 - (i) the amount reclassified between profit or loss and other comprehensive income in the reporting period relating to newly designated financial assets applying the overlay approach (see paragraph 35F(b));
 - (ii) the amount that would have been reclassified between profit or loss and other comprehensive income in the reporting period if the financial assets had not been de-designated (see paragraph 35I(a)); and
 - (iii) the amount reclassified in the reporting period to profit or loss from accumulated other comprehensive income for financial assets that have been de-designated (see paragraph 35J).
- 39M If an entity applied the overlay approach when accounting for its investment in an associate or joint venture using the equity method, the entity shall disclose the following, in addition to the information required by IFRS 12:
- (a) the information described by paragraphs 39K–39L for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the IFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of IFRS 12), rather than the entity's share of those amounts.
 - (b) the quantitative information described by paragraphs 39K–39L(d) and 39L(f), and the effect of the reclassification described in paragraph 35B on profit or loss and other comprehensive income in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:
 - (i) disclosed shall be the entity's share of those amounts; and
 - (ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

...

EFFECTIVE DATE AND TRANSITION

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Applying IFRS 4 with IFRS 9

Temporary exemption from IFRS 9

46. *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Amendments to IFRS 4), issued in September 2016, amended paragraphs 3 and 5, and added paragraphs 20A–20Q, 35A and 39B–39J and headings after paragraphs 20, 20K, 20N and 39A. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after 1 January 2018.

47. An entity that discloses the information required by paragraphs 39B–39J shall use the transitional provisions in IFRS 9 that are relevant to making the assessments required for those disclosures. The date of initial application for that purpose shall be deemed to be the beginning of the first annual period beginning on or after 1 January 2018.

The overlay approach

48. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), issued in September 2016, amended paragraphs 3 and 5, and added paragraphs 35A–35N and 39K–39M and headings after paragraphs 35A, 35K, 35M and 39J. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies IFRS 9 (see paragraph 35C).
49. An entity that elects to apply the overlay approach shall:
- (a) apply that approach retrospectively to designated financial assets on transition to IFRS 9. Accordingly, for example, the entity shall recognise as an adjustment to the opening balance of accumulated other comprehensive income an amount equal to the difference between the fair value of the designated financial assets determined applying IFRS 9 and their carrying amount determined applying IAS 39.
 - (b) restate comparative information to reflect the overlay approach if, and only if, the entity restates comparative information applying IFRS 9.
-

COMMISSION REGULATION (EU) 2017/1989**of 6 November 2017****amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 12****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.
- (2) On 19 January 2016, the International Accounting Standards Board (IASB) published amendments to International Accounting Standard (IAS) 12 *Income Taxes*. The amendments aim to clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- (3) The consultation with the European Financial Reporting Advisory Group confirms that the amendments to IAS 12 meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (5) The IASB set the effective date of the amendments to IAS 12 as from 1 January 2017. Therefore, the provisions of this Regulation should apply retroactively to ensure legal certainty for the issuers concerned and consistency with other accounting standards laid down in Regulation (EC) No 1126/2008.
- (6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1126/2008, International Accounting Standard (IAS) 12 *Income Taxes* is amended as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1 at the latest, as from the commencement date of its first financial year starting on or after 1 January 2017.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.

⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 6 November 2017.

For the Commission

The President

Jean-Claude JUNKER

ANNEX

Recognition of Deferred Tax Assets for Unrealised Losses

(Amendments to IAS 12)

Amendments to IAS 12 *Income Taxes*

Paragraph 29 is amended and paragraphs 27A, 29A and 98G are added. An example following paragraph 26 is also added. Paragraphs 24, 26(d), 27 and 28 have not been amended but are included for ease of reference.

Deductible temporary differences

- 24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:**

- (a) is not a business combination; and**
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).**

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44.

...

- 26 The following are examples of deductible temporary differences that result in deferred tax assets:**

- (a) ...**
- (d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.**

Example illustrating paragraph 26(d)

Identification of a deductible temporary difference at the end of Year 2:

Entity A purchases for CU 1 000, at the beginning of Year 1, a debt instrument with a nominal value of CU 1 000 payable on maturity in 5 years with an interest rate of 2 % payable at the end of each year. The effective interest rate is 2 %. The debt instrument is measured at fair value.

At the end of Year 2, the fair value of the debt instrument has decreased to CU 918 as a result of an increase in market interest rates to 5 %. It is probable that Entity A will collect all the contractual cash flows if it continues to hold the debt instrument.

Any gains (losses) on the debt instrument are taxable (deductible) only when realised. The gains (losses) arising on the sale or maturity of the debt instrument are calculated for tax purposes as the difference between the amount collected and the original cost of the debt instrument.

Accordingly, the tax base of the debt instrument is its original cost.

The difference between the carrying amount of the debt instrument in Entity A's statement of financial position of CU 918 and its tax base of CU 1 000 gives rise to a deductible temporary difference of CU 82 at the end of Year 2 (see paragraphs 20 and 26(d)), irrespective of whether Entity A expects to recover the carrying amount of the debt instrument by sale or by use, ie by holding it and collecting contractual cash flows, or a combination of both.

This is because deductible temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods, when the carrying amount of the asset or liability is recovered or settled (see paragraph 5). Entity A obtains a deduction equivalent to the tax base of the asset of CU 1 000 in determining taxable profit (tax loss) either on sale or on maturity.

27 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

27A When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences. However, if tax law restricts the utilisation of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

28 It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse:

- (a) in the same period as the expected reversal of the deductible temporary difference; or
- (b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

29 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

- (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity:

- (i) compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

- (ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised.

- (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

29A The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this. For example, when an asset is measured at fair value, the entity shall consider whether there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. This may be the case, for example, when an entity expects to hold a fixed-rate debt instrument and collect the contractual cash flows.

...

EFFECTIVE DATE

...

- 98G *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12), issued in January 2016, amended paragraph 29 and added paragraphs 27A, 29A and the example following paragraph 26. An entity shall apply those amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies this relief, it shall disclose that fact.
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COMMISSION REGULATION (EU) 2017/1990**of 6 November 2017****amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 7****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.
- (2) On 29 January 2016, the International Accounting Standards Board (IASB) published amendments to International Accounting Standard (IAS) 7 *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities.
- (3) The consultation with the European Financial Reporting Advisory Group confirms that the amendments to IAS 7 meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (5) The IASB set the effective date of the amendments as 1 January 2017. Therefore, the provisions of this Regulation should apply from 1 January 2017. The provision of retroactivity is necessary to ensure legal certainty for the issuers concerned and consistency with other accounting standards laid down in the Regulation (EC) No 1126/2008.
- (6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

In the Annex to Regulation (EC) No 1126/2008, International Accounting Standard (IAS) 7 *Statement of Cash Flows* is amended as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1 at the latest, as from the commencement date of its first financial year starting on or after 1 January 2017.

Article 3

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

⁽¹⁾ OJ L 243, 11.9.2002, p. 1

⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1)

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 6 November 2017.

For the Commission

The President

Jean-Claude JUNKER

ANNEX

Disclosure Initiative

(Amendments to IAS 7)

Amendments to IAS 7 *Statement of Cash Flows*

Paragraphs 44A–44E and the related heading is added. Paragraph 60 is also added.

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

- (a) changes from financing cash flows;
- (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
- (c) the effect of changes in foreign exchange rates;
- (d) changes in fair values; and
- (e) other changes.

44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

EFFECTIVE DATE

...

60 *Disclosure Initiative* (Amendments to IAS 7), issued in January 2016, added paragraphs 44A–44E. An entity shall apply those amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. When the entity first applies those amendments, it is not required to provide comparative information for preceding periods.

