

In brief

A look at current financial reporting issues

12 November 2018

Disclosure of the expected impact of IFRS 16

At a glance

IFRS 16, the new accounting standard for leases, becomes effective for annual reporting periods commencing on or after 1 January 2019. As with other new accounting standards, IFRS reporters are required to disclose information relevant to assessing the impact of IFRS 16 in periods prior to adoption.

The 2018 annual reporting period is the final reporting period prior to the mandatory adoption of IFRS 16; and, by the time that companies publish their 2018 annual reports, they will have implemented IFRS 16.

The European Securities and Markets Authority (ESMA) has published guidance setting out its expectations of disclosure of the impact of IFRS 16 within 2018 annual reports. This In brief summarises the IFRS requirements and expectations of ESMA, and it sets out our practical suggestions of matters for entities to consider disclosing.

What is the issue?

Regulator focus on robust disclosure of the expected impact of IFRS 16

Paragraphs 30 and 31 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', detail the disclosure requirements for the expected impact of new accounting standards which have not yet been adopted. In particular, IAS 8 requires entities to disclose known or reasonably estimable information relevant to assessing the possible impact that application of IFRS 16 will have on an entity's financial statements in the period of initial application.

There has been recent regulator focus on providing robust disclosure of the impact of IFRS 16 within 2018 annual reports. ESMA stated its expectations of this disclosure in its [26 October 2018 Public Statement of European Common Enforcement Priorities for 2018 Annual Reports](#).

In particular, ESMA notes that, because the 2018 annual report will be published after the requirements in IFRS 16 become effective, it expects that issuers will have substantially completed their IFRS 16 implementation by the time that the 2018 annual report is issued. ESMA clearly stated that it expects that the impact of IFRS 16 should be known or reasonably estimable at the time of preparing the 2018 annual report, and so this impact should be disclosed.

It is therefore important that entities carefully consider the expected impact of IFRS 16, to provide specific and meaningful disclosure.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2018 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

What is the impact and for whom?

Practical suggestions for robust disclosure of the impact of IFRS 16

All entities with leases, or arrangements where significant judgement has been made in assessing whether it contains a lease, will need to consider their disclosure of the expected impact of IFRS 16. Entities without leases should consider disclosing the fact that IFRS 16 is not expected to impact them.

With reference to the requirements of IAS 8, and the expectations of ESMA, we set out below our practical suggestions of matters for entities to consider disclosing in relation to the expected impact of IFRS 16:

NB: these practical suggestions are solely an indicative guide of how an entity could respond to the need to disclose the impact of IFRS 16. Disclosures should be entity-specific, and each entity should consider what disclosures best meet the requirements of IAS 8 and regulator expectations, based on their specific facts and circumstances.

- Disclose the fact that IFRS 16: *Leases* has not yet been applied, that it is applicable for annual reporting periods commencing 1 January 2019, and the date on which the entity expects to first apply IFRS 16.
- Information about the structure and status of the entity's implementation project.
- A description of the changes in accounting policy which will take effect, including whether exemptions will be applied (such as low-value or short-term exemptions).
- A description of which transition approach will be taken, and whether any practical expedients will be applied.
- A description of the key judgements and estimates made (such as assessing whether an arrangement contains a lease, determining the lease term, calculating the discount rate and whether any service/lease components of arrangements will be separated), and identifying lease portfolios for which IFRS 16 has a significant impact.
- Quantification of the expected impact (restatement to assets, liabilities and retained earnings/opening retained earnings adjustment, or the change in assets, liabilities, income, expense on adoption, depending on transition approach).
- If alternative performance measures (APMs) are used by investors (such as EBITDA), and IFRS 16 is expected to have a significant impact on those APMs, the quantum of that impact (considering ESMA guidance on the use and disclosure of APMs).
- If taking the simplified transition approach, an explanation of any differences between the current operating lease commitment disclosure and IFRS 16 lease liability balances, and a statement that lease liability comparative information has not been restated.

When does it apply?

IFRS 16 applies for annual reporting periods beginning on or after 1 January 2019. Therefore there is an expectation, as explained above, that disclosures within the 2018 annual reports will sufficiently explain the expected impact of IFRS 16, particularly given that 2018 annual reports will be released during 2019, after IFRS 16 has been adopted.

Where do I get more details?

Contact Sandra Thompson (sandra.thompson@pwc.com), Jessica Taurae (jessica.taurae@pwc.com) or Richard Brown (richard.brown@pwc.com) for more information.



This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2018 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.