

Straight away

IFRS bulletin from PwC

Disclosing the expected impact of AASB 16

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At a glance

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

For companies with 31 December 2018 year ends, the 2018 annual reporting period is the final reporting period prior to the mandatory adoption of AASB 16; by the time these companies publish their 2018 financial reports, they will have implemented AASB 16.

ASIC recently published guidance setting out its expectations of disclosure of the impact of AASB 16 within December 2018 annual financial reports ([Major financial reporting changes for 31 December 2018 reporting](#), 3 December 2018). With this in mind, we've summarised the reporting requirements and provide practical suggestions for disclosing the expected impact of AASB 16.

What's the issue?

Paragraphs 30 and 31 of AASB 108 *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, AASB 108 requires entities to disclose known or reasonably estimable information relevant to assessing the possible impact that application of AASB 16 will have on an entity's financial statements in the period of initial application.

Suggestions for disclosing the impact of AASB 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 AASB 16. Entities without leases should consider disclosing the fact that AASB 16 is not expected to impact them.

With reference to the requirements of AASB 108, we've set out matters for entities to consider disclosing regarding the expected impact of AASB 16:

NB: these practical suggestions are solely an indicative guide of how an entity could respond to the need to disclose the impact of AASB 16. Disclosures should be entity-specific, and each entity should consider what disclosures best meet the requirements of AASB 108 and regulator expectations, based on their specific facts and circumstances.

- The fact that AASB 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 AASB 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 AASB 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 AASB 16 is expected to have a significant impact on those APMs, the quantum of that impact.
- If taking the simplified transition approach, an explanation of any differences between the current operating lease commitment disclosure and AASB 16 lease liability balances, and a statement that lease liability comparative information has not been restated.

When does it apply?

AASB 16 applies for annual reporting periods beginning on or after 1 January 2019. ASIC has stated it expects that disclosures within the December 2018 annual financial reports will sufficiently explain the expected impact of AASB 16, particularly given that 2018 annual financial reports for December reporters will be released during 2019, after AASB 16 has been adopted.

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