



**The Institute of
Chartered Accountants
of Pakistan**

**CA
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HEAD OFFICE

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ALL MEMBERS OF THE INSTITUTE

Dear Member

Invitation to comment on the new Leases Standard: IFRS 16

The International Accounting Standards Board (IASB) has issued new Leases Standard IFRS 16. IFRS will supersede IAS 17 Leases (and related Interpretations) and is effective from 1 January 2019.

The Accounting Standards Board (ASB) has started the due process for recommending the adoption of IFRS 16, and stakeholder feedback is a critical input to the ASB's due process for recommending the adoption of an IFRS. In consideration of the ASB's policy to consider and safeguard the public interest, and eventual impact of IFRS 16 on the financial reporting and business processes of companies across various industries, it requests for your comments on the new Leases Standard: IFRS 16.

Snapshot of IFRS 16

The new standard applies to both lessors and lessees (with limited exceptions) and replaces all, the current lease standard and interpretations in IFRS, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives*, and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Under IFRS 16, the lessee accounting has changed substantially. There is little change for lessors.

Lessee accounting: IFRS 16 introduces a single accounting model for lessees. It removes the classification of leases as either operating leases or finance lease. Now all leases to be capitalized and accounted for as finance leases.

However, exceptions from using above accounting model are permitted for the:

- a) short-term leases (i.e., those with a lease term of 12 months or less); and
- b) low-value leases

For lessees the application of the above leasing model will significantly change the assets and liabilities on the balance sheet. However, the extent of the impact of IFRS 16 will vary for lessees depending on the number and size of operating leases. There will be consequential effects on the income statement and the cash flow statement. As a result, several key metrics (leverage, Asset turnover, EBITA, EBITDA etc.) may change.

IFRS 16 also introduces new disclosure requirements for lessees. Moreover, it permits the lessee to adopt either a full retrospective approach or a modified retrospective approach.

Lessor accounting: IFRS 16 is not expected to have a significant impact on lessors as the existing IAS 17 requirements are carried forward substantially unchanged.

A lessor will continue to classify its leases as operating leases or finance leases, and account for those two types of leases accordingly. Further, enhanced disclosures are to be provided by lessors.

(Established under the Chartered Accountants Ordinance, 1961 - X of 1961)



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Effective date: As per IASB, IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.

Accordingly, a company with a December 31 financial year end would apply IFRS 16 to its March 31, 2019, interim financial statements and December 31, 2019, annual financial statements.

IFRS for SMEs: Moreover, it is also to be noted that many small and medium-sized companies preparing their financial statements in accordance with the IFRS for SMEs or Revised Accounting and Financial Reporting Standard for Small-sized Entities (AFRS for SSEs) are not expected to be directly affected by IFRS 16 on the grounds that the IFRS for SMEs and AFRS for SSEs have not been changed by IFRS 16.

Publications:

- The full text of the IFRS 16 can be downloaded from the IASB website at:
<http://www.ifrs.org/issued-standards/list-of-standards/ifrs-16-leases/>
- Further, the Institute's Technical Services Department has compiled a list of useful international guidance material to help you understand and apply IFRS 16.

Please visit the page:

<http://www.icap.net.pk/ifrs-16-leases-international-guidance-material>

You are requested to send your views, if any, to the Technical Services Department at dtscomments@icap.org.pk latest by November 11, 2017.

Yours truly

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