About this MFRS 16 transition 1-page guide

The new MFRS 16 "Leases", effective for annual reporting periods beginning on or after 1 January 2019, provides lessees with an option of two transition methods: either (1) full retrospective; or (2) simplified retrospective. This guide explains the MFRS 16 requirements associated with each transition method in the first year of adoption of MFRS 16 in 2019. Guidance Notes ("GN") are added where applicable to provide insights on the requirements.

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

MFRS 16 transition methods for existing MFRS preparers* as Lessees

Note (*)
MFRS 16 is effective for annual periods beginning on or after 1 Jan 2019. This one-page diagram illustrates when existing MFRS preparers adopt MFRS 16 when the standard is effective (i.e. no early adoption of MFRS 16). Lessees shall apply the transition method consistently to all leases in which they are lessees. (MFRS 16.C6)

Full retrospective (GN$_{iii}$) (MFRS 16.C5(a))

- Restate comparatives
- MFRS 16 adjustments are reflected in opening retained earnings of the comparative period (GN$_{i}$)
- 3 balance sheets presentation is required.
- MFRS 108 disclosures of quantitative information.
- As an optional expedient, at the date of initial application (DIA) (GN$_{ii}$), lessees are not required to reassess whether a contract is, or contains, a lease. Instead, lessees are permitted:
  - to apply MFRS 16 to existing contracts that were previously identified as leases applying MFRS 117 or IC Int. 4.
  - not to apply MFRS 16 to existing contracts that were not previously identified as containing a lease applying MFRS 117 and IC Int. 4. (MFRS 16.C3)
  - This expedient if elected must be applied to all contracts. As a result, MFRS 16 is applied to contracts entered into (or changed) on or after DIA. Also, lessees shall disclose that they have used this expedient. (MFRS 16.C4)

(GN$_{i}$)
E.g. a lessee with 31 Dec 2019 FYE will reflect the cumulative impacts of MFRS 16 in its retained earnings as at 1 Jan 2018. The FY2018 comparative is restated. The restatement of the FY2018 comparative should take into consideration the impacts of the above expedient elected.

(GN$_{ii}$)
DIA is the beginning of the annual reporting period in which an entity first applies MFRS 16. (MFRS 16.C2).
E.g. the DIA for a lessee with 31 Dec 2019 FYE is 1 Jan 2019.

(GN$_{iii}$)
For every lease on transition to MFRS 16, lessees need but not limited to the following data:
- Start and end date of the lease
- Initial direct costs
- Lease payments, including variable payments
- Option dates, payments and penalties
- Lease incentives and makegood provisions
- Historical discount rate
- Historical stand-alone prices for non-lease components
- Historical assessment on "reasonably certain" criteria for options
- Historical estimates of residual value guarantee
- Historical MFRS 136 impairment assessment on the right-of-use asset

Simplified retrospective (GN$_4$) (MFRS 16.C5(b))

(GN$_4$)
For every lease on transition to MFRS 16, leases need but not limited to the following data:
- End date of the lease
- Initial direct costs
- Lease payments, including variable payments
- Option dates, payments and penalties
- Lease incentives and makegood provisions
- Incremental borrowing rate at DIA
- Historical MFRS 137 assessment on onerous lease contracts made before DIA
- MFRS 136 impairment assessment on the right-of-use asset at DIA
- Existing straight-lining adjustment

Lessees can use hindsight in:
- Stand-alone prices for non-lease components
- Reasonably certain assessment for options
- Residual value guarantee estimates

- No restatement of comparatives (GN$_2$)
- MFRS 16 adjustments reflected in opening retained earnings (or other component of equity, as appropriate) at the date of initial application (DIA). (MFRS 16.C7) (GN$_2$)
- Some relief on MFRS 108 disclosure of quantitative information (GN$_3$)
- As an optional expedient, at DIA, lessees are not required to reassess whether a contract is, or contains, a lease. Instead, lessees are permitted:
  - to apply MFRS 16 to existing contracts that were previously identified as leases applying MFRS 117 or IC Int. 4.
  - not to apply MFRS 16 to existing contracts that were not previously identified as containing a lease applying MFRS 117 and IC Int. 4. (MFRS 16.C3)

  This expedient if elected must be applied to all contracts. As a result, MFRS 16 is applied to contracts entered into (or changed) on or after DIA. Also, lessees shall disclose that they have used this expedient. (MFRS 16.C4)

(GN$_2$)
DIA is the beginning of the annual reporting period in which an entity first applies MFRS 16. (MFRS 16.C2)

E.g. the DIA for a lessee with 31 Dec 2019 FYE is 1 Jan 2019.

A lessee with 31 Dec 2019 FYE will reflect the cumulative impacts of MFRS 16 in its retained earnings as at 1 Jan 2019. The FY2018 comparative is not restated.

The cumulative impacts of adjustments to retained earnings as at 1 Jan 2019 should take into consideration the impacts of any expedients elected.

(GN$_3$)
MFRS 108.28(f) requires entities to disclose the amount of the adjustment for each affected FSLI for current and each prior period presented.

MFRS 16.C12 exempts lessees from disclosure of the quantitative information for the current period and each period presented. Effectively, lessees need not to apply both MFRS 16 and previous GAAP (i.e. MFRS 117, IC Int. 4) at any point.

Leases previously classified as operating leases

(GN$_5$)
Lessee must apply incremental borrowing rate at DIA (but not interest rate implicit in the lease) to measure lease liability.

(GN$_7$)
An underlying asset can be of low value only if:

(a) the lessee can benefit from use 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.

(MFRS 16.B5)

Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones. (MFRS 16.B8)

- At DIA, lessee shall:
  - recognise and measure the lease liability at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at DIA (GN$_5$).
  - recognise and measure the right-to-use asset, on a lease-by-lease basis, either at:
    - the carrying amount as if MFRS 16 had been applied since the commencement date, but discounted at the lessee's incremental borrowing rate at DIA; or
    - an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised immediately before DIA.
  - assess the right-of-use asset for MFRS 136 impairment if there is impairment indicator unless optional practical expedient in MFRS 16.C10(b) is applied.

  (MFRS 16.C8)
- Lessees are not required to make any adjustment on transition for: (GN$_6$)
  - leases for which the underlying asset is of low value (GN$_7$)
  - leases previously accounted for as investment property using the fair value model in MFRS 140.
- Lessees shall measure the right-of-use asset at fair value at DIA for leases previously accounted for as operating leases under MFRS 117 and that will be accounted for as investment property using the fair value model in MFRS 140 from DIA. (MFRS 16.C9(c))
- Additional transition disclosure requirements (GN$_8$)

(GN$_6$)
Lessees shall account for these leases applying MFRS 16 from DIA.
(MFRS 16.C9(a) & (b))

(GN$_8$)
Lessees shall disclose:

(a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised at DIA; and

(b) an explanation of any difference between:

(i) operating lease commitments disclosed applying MFRS 117 at the end of the annual reporting period immediately preceding DIA discounted at the lessee's incremental borrowing date at DIA; and

(ii) lease liabilities recognised at DIA.

(MFRS 16.C12)

Optional practical expedients (GN$_9$)

(GN$_9$)
Lessees are permitted to apply these practical expedients on a lease-by-lease basis. Also, lessees shall disclose that they have used the expedients.

(MFRS 16.C10 & C13)

1) Portfolio approach

Lessees may apply a single discount rate to a portfolio of leases with reasonably similar characteristics. (MFRS 16.C10(a))

2) Previously recognised onerous lease provisions

- As an alternative to performing an impairment review, lessees may rely on the assessment of whether leases are onerous applying MFRS 137 immediately before DIA.
- At DIA, lessees shall adjust the right-of-use asset by the amount of any provision for onerous leases recognised immediately before DIA.

(MFRS 16.C10(b))

3) Lease term ends within 12 months

Lessees may elect not to apply MFRS 16 to accounts for leases for which the term ends within 12 months of DIA. Lessees shall account for those leases as short-term lease as described in MFRS 16.6 (GN$_{10}$). (MFRS 16.C10(c))

(GN$_{10}$)
Lessees shall recognise lease payments as an expense over the lease term (similar to operating lease under MFRS 117).

4) Initial direct costs

At DIA, lessees may exclude initial direct costs from the measurement of the right-of-use asset. (MFRS 16.C10(d))

5) Use of hindsight

Lessees may use hindsight in applying MFRS 16, e.g. in determining the lease term if the contract contains options to extend or terminate the lease. (MFRS 16.C10(e))

Leases previously classified as finance leases

At DIA, lessees measure the carrying amount of the right-of-use asset and the lease liability at the carrying amount of the lease asset and lease liability immediately before DIA applying MFRS 117. (MFRS 16.C11)

Do you have any further questions on MFRS 16?
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