

Explanatory Statement

Accounting Standard AASB 16 *Leases*

February 2016



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Main Features of AASB 16

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

AASB 16 requires enhanced disclosures for both lessees and lessors to improve information disclosed about an entity's exposure to leases.

Application Date

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019, with early application permitted, for both for-profit and not-for-profit entities. Through a separate due process, the AASB will consider the relief from certain disclosure requirements that should be provided to entities that adopt Tier 2 Reduced Disclosure Requirements.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Standards Amended by AASB 16

This Standard makes amendments to 22 Australian Accounting Standards and four Interpretations as set out in Appendix D to the Standard.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Consultation Prior to Issuing this Standard

The AASB issued Invitation to Comment ITC 20 *Request for Comment on IASB Discussion Paper DP/2009/1 Leases – Preliminary Views* in April 2009. The purpose of this ITC was to elicit views from constituents on the goal of recognising all lease assets and liabilities on the balance sheets of lessees. The AASB received seven comment letters in response to this consultation, which were reflected in the AASB's comment letter to the IASB. Those views formed part of the IASB's first exposure draft on Leases, which was incorporated into AASB ED 202R *Leases* in August 2010. While the six submissions received in response to ED 202R indicated broad support for bringing leases onto the balance sheet concerns were expressed concerning the proposed accounting model.

Consequently, the IASB developed a new accounting model that was exposed as part of AASB ED 242 *Leases* issued in June 2013. Feedback contained in three comment letters in response to this exposure draft once again showed broad support for bringing all leases onto the balance sheet but again showed some concern about the model.

AASB 16 *Leases* takes into account all feedback received to date and adopts an approach that both achieves the overall objective of bringing all leases onto the balance sheet while requiring the application of a model that is familiar to constituents.

The AASB has completed a certified independent review in place of a Regulatory Impact Statement in relation to AASB 16.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 16 Leases

Overview of the Accounting Standard

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.