CIPFA The Chartered Institute of Public Finance & Accountancy

Report

Paper CL 09 11-19

Board	CIPFA/LASAAC
Venue	CIPFA, 160 Dundee Street, Edinburgh EH11 1DQ
Date	6 November 2019
Author	CIPFA Secretariat
Subject	IFRS 16 Leases Implementation in 20/21

Purpose

To identify IFRS 16 Leases implementation considerations which may give rise to refinement of the planned Code text for 20/21.

1 Background

1.1 Based on FRAB feedback the Code and the FReM have agreed the principles and basis for IFRS 16 implementation.

1.2 CIPFA/LASAAC also requested information on progress towards that Transport for London early adoption can be permitted to early adopt IFRS 16 for 2019/20 accounts without jeopardising Whole of Government Accounts or National Accounts processes.

1.3 Over summer 2019 CIPFA/LASAAC issued the planned Code text as an Appendix to the 20/21 Code ITC with the intention that this should support implementation preparation. No questions were specifically asked in the ITC. No specific opportunity was provided to comment on the text.

1.4 Some respondents did offer comments in their ITC responses. Additionally implementation planning and preparation feedback has also been received. The feedback identifies a number of areas where clarification in the Code may assist implementation.

1.5 This paper therefore address:

- FReM Considerations
- Early Adoption by Transport for London
- Implementation aspects for consideration
- Statutory arrangements considerations
- Communications with stakeholders

2 FReM Considerations

2.1 The FReM 19/20 specifies the adaptations and interpretations made to IFRS 16 (table 6.2 page 33) to allow for early adoption. The early adoption criteria are listed in table 6.2 page 33 of the FReM. Two central government bodies are currently considered eligible for early adoption.

2.2 FReM IFRS 16 *Leases* application guidance has also been issued. Additionally supplementary budgeting guidance for central government is also provided.

2.3 FReM and CIPFA/LASAAC secretariat liaison is ongoing. HM Treasury are currently considering whether any additional clarifications or changes should be made to the IFRS 16 guidance based on feedback received from departments. At present, HM Treasury expects only minor clarifications to the guidance published in the FReM, if any.

2.4 HM Treasury have indicated that central government's liability measurement practices for liabilities arising from Service Concession Arrangements (SCA eg PPP/PFI) is not anticipated to change. (see main ITC responses paper for details).

3 Early Adoption in 19/20 by Transport for London

3.1 Transport for London (TfL) has been identified as having similar criteria and needs for early adoption in 19/20 in relation to the criteria stated in the FReM.

3.2 TfL have requested early adoption. CIPFA/LASAAC previously indicated (5 March 2019) that early adoption permission would be contingent upon arrangements being in place to ensure that Whole of Government Accounts (WGA) and National Accounts processes were not jeopardised or unduly compromised in doing so.

3.3 The WGA team has indicated that they are content for TfL to early adopt IFRS 16 in 19/20. This is based on significant early engagement and discussion. More detailed work remains to be done.

3.4 In relation to the National Accounts the Office for National Statistics (ONS) has indicated that the arrangements for central government are in the process of finalisation. This has assisted in providing TfL with an indication of the similar requirements which they would be anticipated to meet.

3.5 A core decision in this is for agreement to be reached on what, if any, TfL leased assets should appear on the National Accounts balance sheet. For central government agreement has been reached that property leases will be on balance sheet, but non-property will be off balance sheet.

3.6 The specific nature of TfL leased assets, including buses (usually 5-7 year leases) and rolling stock (usually 20+ year leases), may require specific identification of whether some leased assets should be on the National Accounts balance sheet.

3.7 The ONS have provided TfL with an indication that they would seek (in summary):

	Item Requested	**Potential Application**
1.	For National Accounts 'on balance sheet' leased assets the full value of	Potentially this may be challenging to establish for rolling stock

	the asset as at balance sheet date (ie not the IFRS right-of-use value)	
2.	For National Accounts classified 'operating leases' the estimated annual payments.	If not available directly this may potentially be estimated as IFRS 16 depreciation plus IFRS 16 interest charges.
3.	Adjusting for non-property leases that were IAS 17 finance leases.	It is understood that many TfL leases were classified as operating leases under IAS 17, so adjustments may not be significant.
4.	Production of a historic time series (based on the new methodology) going back to 2009/10 or earlier.	HMT data is anticipated to include TfL in the restatement.
5.	Procedures for intra-government leases.	Subject to confirmation, it is considered that these are probably not that significant for TfL.

4 Recommendation

4.1 It is recommended that ONS and TfL are requested to advise CIPFA/LASAAC when sufficient agreement has been reached to ensure that the National Accounts requirements for 2019/20 can be met.

5 Implementation Aspects for Consideration

5.1 A number of aspects have been noted in relation to IFRS 16 *Leases* implementation which may affect CIPFA/LASAAC consideration of whether amendment to Appendix B of the ITC (the planned Code text) is appropriate

5.2 They are summarised below with additional details, comments and recommendations provided in Appendix A.

No.	Item	Summary of Recommendation	FRAB Discussion?
1.	School buildings provided by Trusts & Religious Institutions under mere licences	Further specific stakeholder engagement prior to Code text finalisation.	Yes
2.	Housing Revenue Account– IFRS 16 Leases Application to Housing Rents	Adaptation to specifically exclude HRA housing tenancies from the scope of IFRS 16 Leases and Section 4.2 of the Code.	Yes
3.	Nil Consideration Leases: Adaptation of definition applying to lessor arrangements	Consider restricting the adaptation to only lessee arrangements.	Yes

No.	Item	Summary of Recommendation	FRAB Discussion?
4.	Nil Consideration Leases: Grandfathering application: prospective or retrospective application	Confirm FRAB expectations regarding central government implementation practices.	Yes
5.	Valuation: Transition Arrangements (for Lessee: Finance Leases)	Permit voluntary revaluation, or reversion to the cost model (where criteria met), to be undertaken as part of transition.	Yes
6.	Valuation Requirements as at 31 March 2021	Confirm FRAB expectations regarding central government implementation practices.	Yes
7.	Nil Consideration (Lessee) Leases: RoU Asset Measurement	Where fair value determination is not commensurate with the benefits to users allow valuation at current value as a proxy for fair value.	Notify
8.	Valuation: Reversion to Cost Model	Explicitly specify that reversion to the cost model requires a cost based on IFRS 16 Leases requirements as applied after transition.	Notify
9.	Disclosure Requirements	Specify that specific disclosures should only be provided by exception or in summary.	Notify
10.	Cost Model: Includes Decommissioning Obligation Changes	Explicitly specify that the cost model includes decommissioning obligations.	Notify
11.	Land and Buildings Elements Re-Combination	No action. Guidance should be sufficient	N/A
12.	Other Text Amendments	Provide other text amendments to CIPFA/LASAAC as tracked changes in draft Code prior to FRAB consideration.	Draft Text

6 Statutory arrangements considerations

6.1 The following are identified as potential areas for CIPFA/LASAAC and stakeholder consideration in respect of the application of each administration's statutory arrangements.

No.	Item
1.	**Non-lease components affecting prudential code application and statutory definition of capital expenditure** The expedient to allow 'non-lease' components (payments) to be included in the lease liability calculations could mean that costs not normally capitalised are (at least in part, based on the principal / interest calculation) capitalised. In the event that this represents a material amount it may have implications for an authority's Prudential Code and CFR (ie it will increase the reported CFR and debt of the authority). Since this is permitted under the accounting standards it is not clear that there would be statutory framework implications arising.
2.	**Statutory treatment of capital receipts arising from a sale and leaseback situation** The accounting treatment is based on the substance that only a part of the current interest in the asset (the 'non-retained' part of the sale) has been sold. At present it is considered that the whole capital receipt received for a sale and leaseback arrangement would potentially be treated as a capital receipt, and thus applied to fund new capital expenditure. Authorities may be advised to consider the potential application of the full capital receipt with care. An analogy could however be drawn with a situation where an asset is sold (outright) and a replacement asset (to replace the service potential) is purchased using statutory borrowing powers. The end result of both is similar in that a full capital receipt has been generated and a replacement asset (at least in part) has been secured through the use of debt. The focus may then become more on ensuring that the arrangement provides value for money.
3.	**Statutory capital requirements regarding dilapidation and re-instatement costs** Queries and confirmation regarding the application of the statutory arrangements for dilapidation and reinstatement costs, particularly those arising at the end of the lease term, may arise (eg relating to the period over which fund balances must be charged).
4.	**Statutory implications of changes in classification of sub-leases** The classification of sub-leases, where an authority is leasing in an RoU asset and leases it out (in whole or in part) to a third party, may change from being an operational lease to a finance lease on transition to IFRS 16. This is dependent on the assessment of the extent to which the interest in the RoU asset is sub-leased to the third party. This has potential implications for the classification of existing 'revenue' income streams to change to 'capital' income and 'interest' income streams (ie relating to finance lease income).

7 Communications with stakeholders

7.1 Stakeholder feedback has been requested that the Code IFRS 16 *Leases* requirements for 2020/21 are clarified as soon as possible to allow informed preparation to continue.

7.2 A suggestion has been received that a “Forthcoming Provisions” copy of IFRS 16 Code requirements would be helpful. Finalisation of text however may be affected by decisions arising regarding areas for further clarification (eg mere licences for schools). A summary of amendments to be implemented in the text could be readily provided after FRAB to assist stakeholders in preparation.

8 Requested CIPFA/LASAAC Action

8.1 CIPFA/LASAAC is requested to review and discuss the ITC responses and:

- **Approve or amend the recommended actions.**

Appendix A – IFRS 16 Implementation Aspects and Recommendations

<table>
<tr><th>No.</th><th>Item</th></tr>
<tr><td>1.</td><td>School buildings provided by Trusts & Religious Institutions

Some trusts and religious bodies provide buildings under ‘mere licences’ to be used to deliver educational services. These may either normally be for nil consideration or for non-market rentals.

During 2013 and 2014 the status and accounting treatment of such situations was considered by a formal working group which examined the accounting for public sector schools in England and Wales. A particular concern on the part of stakeholders was the potential inclusion of such properties on the public sector balance sheet, effectively as long-term finance lease assets.

Current accounting treatment, under IAS 17 and IFRIC 4, is that such properties are not normally expected to be shown on the public sector balance sheet.

There are a number of areas of IFRS 16 application to mere licences which may benefit from clarification. Aspects include:

• Whether a ‘mere licence’ passes any legal rights to the authority
• The trust’s right and ability to substitute an asset
• The authority’s right to substantially all of the service potential of the asset throughout the period of use (eg whether the authority has <u>exclusive</u> rights of use)
• The authority’s right to direct the use of the asset during the period of use, potentially based on a ‘predetermination’ basis.

Dependent on exact circumstances and interpretation, application of IFRS 16 Leases may potentially give rise to the recognition of public sector right-of-use assets relating to the use of the properties. These may be restricted to a maximum of two years’ right of use.

<u>Risks</u>

Stakeholder engagement and involvement in agreeing on the application of IFRS 16 may be advisable. In particular the discussions in 2013-2014 indicated a degree of initial stakeholder feedback and concern which would indicate that caution and clarity regarding IFRS 16 implementation is advisable.

The planned adaptation of the definition of a lease was not subject to formal public consultation. There is therefore a risk that not all the implications of the adaptation, in local government circumstances, have been identified. There is also a risk of negative stakeholder comment arising during implementation.

The application of IFRS 16 will also have practical considerations for authorities in the event that right-of-use assets, potentially for two years’ use of a property, are recognised. Difficulties and resources relating to valuation of any potential right-of-use assets, and the audit focus that the valuations will attract, will affect authorities.</td></tr>
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<table>
<tr><th>No.</th><th>Item</th></tr>
<tr><td></td><td>Some stakeholder comment on the cost of compliance may be anticipated

It is considered that there will be no material impact in Whole of Government Accounts (WGA) or National Accounts (NA) on reported debt or borrowing. The materiality of right-of-use-asset recognition on WGA and NA is not clear.

It is not clear whether the Department for Education will have schools provided under mere licences within its remit. In the event these do exist, the consistency of public sector treatment will be a consideration.

<u>Additional references in support:</u>

<table>
<tr><td>Detailed consideration of the treatment of schools used under mere licences on IFRS 16 implementation (embedded report)</td><td></td></tr>
<tr><td>CIPFA/LASAAC Technical Information Note 14 (01) (Embedded)

Accounting for Local Authority Maintained Schools (England and Wales): Informal Commentary and Clarification of the Relationship between Schools as Entities and the Recognition of Non-current Assets used by Schools</td><td></td></tr>
<tr><td colspan="2"><u>LAAP Bulletin 101 Accounting for Non-Current Assets Used by Local Authority Maintained Schools</u></td></tr>
</table>
</td></tr>
<tr><td></td><td>Recommendation:

That the potential for deferring the application of IFRS 16 to school properties under mere licence arrangements is considered, pending wider stakeholder discussions. An objective would be to conclude prior to formal approval of the 20/21 Code by CIPFA and LASAAC, and final oversight by FRAB.</td></tr>
<tr><td>2.</td><td>Housing Revenue Account– IFRS 16 Leases Application to Housing Rents

The 19/20 Code, using IAS17, does not specifically indicate whether housing tenancies are considered to be leases. The Housing SORP is understood to define housing association standard rental agreements as operating leases.

<u>Current practices</u>

Local government (HRA): it is considered that at present housing tenancies are not normally reported as specific lease disclosures. Reliance is normally placed on the presentation of housing rents prominently on the face of the HRA statements and the statutory disclosure requirements as meeting user needs.</td></tr>
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No.	Item
	Example: Birmingham City Council 18/19 annual accounts. Lessor operating lease policy p35; lessor operating lease disclosures p120. HRA accounts p141 on Housing Associations: Example1: Clarion Housing Group 2017/18 accounts. Does not appear to explicitly treat or disclose housing rents as being operating lease income. See rent income disclosures Notes 4a) & 4b) page 68. Lease obligations are disclosed in note 31 page 101. Example2: Aster Group 18/19 accounts. No apparent substantive disclosures or treatment of rental income as operating lease income. For operating lease commitments see note 40 p164; finance leases note Potentially it is assumed that specific operating lease disclosures are not provided on the basis that the arrangements are regarded as short-term (eg 4 weeks notice) and disclosures would not be material. *Statutory Basis of Arrangement: Potential Rebuttal of IFRS 16 Application* It is arguable that HRA tenancies would not meet the definition of a lease due to the statutory basis, and specific terms, of HRA tenancies. For example see English HRA legislation , such as the Housing Act 1985 part IV which deals with secure tenancies (see sect 79-81, which is considered to mean that HRA tenancies are normally secure tenancies, with limited powers of the authority to terminate the arrangement (see section 82). Section 25 of the same act suggests that some letting arrangements may not be secure tenancies (ie not have the same legal conditions). Secure tenancies have no date for which a tenant has an obligation to return the underlying asset. There is therefore arguably no specified period of use and so there could be no right-of-use asset. It is recognised that in some cases there may be a right to inherit the tenancy (see Shelter England). The gov.uk website states "Different council tenants have different tenancies. These give you different rights and responsibilities." Potentially different portfolios (introductory, secure, flexible, joint tenancies) may apply within the HRA, with different assessments as to whether a lease exists and what term might be applicable. In particular flexible tenancies include an option for HRA cessation of the tenancy after a set period (with the tenant having a right to challenge this). *Clarity for Users* It can be noted that the primary focus of IFRS 16 was to amend lessee accounting, to clarify funding obligations and asset rights. Lessor accounting was not a primary focus of the amendments. The current arrangements may be

No.	Item
	considered as providing appropriate clarity for users. An additional consideration may be that statistical reporting returns would require amendment and trend analysis information would be affected. *IFRS 16 Transition: Reliance on IAS 17/ IFRIC 4 Classification* Transition to IFRS 16 may cause uncertainty as to whether HRA tenancies are included in the 'grandfathering' arrangements. *IFRS 16 Operating or Finance Lease* If CIPFA/LASAAC considers that HRA tenancies should be treated as leases under IFRS 16 it is suggested that classification would normally be considered to be as operating leases. This is on the basis that the authority determines the deployment of the HRA asset and retains the underlying responsibility for repairs, maintenance and the future use of the asset as housing stock. Potentially where a 'right to buy' exists is involved this may arguably affect whether classification as a finance lease is appropriate ie removal from the balance sheet with a receivable shown. *IFRS 16: Lease Term Assessment* Under IFRS 16 determination of the lease term may be challenging. As indicated above the length of the rental is not time specified. The planned Code text currently states: *"The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:* *a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and* *b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option."* In many cases it is considered the lessee has the right to cancel at relatively short notice (eg 4 weeks). *IFRS 16: Sub-leases* Where the authority leases in housing stock and then lets these to tenants, potentially an argument for treatment as finance leases may arise. Therefore some HRA rental income could become 'capital' in nature. *IFRS 16: Accounting Treatment of Operating Leases* Potentially income recognition profiles (systematic basis) may be affected, although possibly not material. Initial direct costs of a lease (tenancy) may be required to "reduce the amount of income recognised over the lease term". Disclosures would be required, including lease income; separate identification of leased out assets; maturity analysis of lease payments - per annum for 5 years, then the remaining years (Note that this would be similar to declaring

No.	Item
	the expected cash flows of future HRA income. HRA rent setting is the responsibility of the council on an annual basis.) <u>Risks</u>: • The additional information provided by IFRS 16 treatment, over and above the existing clarity and transparency provided by the existing code and legislative requirements may not be beneficial for users. • There may be a lack of clarity, and some uncertainty on transition • The legal status and rights relating to different lease types could require investigation and legal views • Some tenancies may be determined not to be leases, however some tenancies (eg flexible tenancies) may meet the criteria • Any tenancies which may meet the definition of a finance lease would be removed from the balance sheet, with a receivable shown for future rents. • The resources incurred in providing and auditing the additional information may be considerable. • Rental income where the HRA is sub-leasing the accommodation to the tenant could potentially become a capital receipt
	Recommendation That an adaptation is provided in the Code for the avoidance of doubt to the effect that Housing Revenue Account tenancies are excluded from the scope of IFRS 16. Reliance would be placed instead on the HRA reporting requirements and statutory disclosures. **Discussion with FRAB will be required.** Potential adaptation text: "4.2.1.4 The following adaptations of IFRS 16 apply: Scope: The Code adapts IFRS 16 *Leases* to remove Housing Revenue Account tenancies from the requirements of IFRS 16 *Leases*." "Removal of Housing Revenue Account Tenancies from the Scope of Lease Accounting 4.2.2.28B For the avoidance of doubt the requirements of IFRS 16 Leases and this Section (4.2) of the Code shall not be applied to Housing Revenue Account tenancies. Housing Revenue Account tenancies will be reported in accordance with Section 3.5 and other relevant sections of the Code."
3.	**Nil Consideration Leases: Adaptation of definition applying to lessor arrangements** Currently the adaptation of the definition of a lease applies to lessor arrangements as well as lessee arrangements. The 'nil consideration' adaptation was not specifically consulted on with stakeholders either in the 2018 or 2019 ITCs.

No.	Item
	IFRS 16 has not fundamentally changed lessor accounting. For previously unrecognised nil consideration (lessor) arrangements: • IFRS 16 operating lease – asset retained on balance sheet, no annual income. Existing nil consideration lessor arrangements will continue to show the asset on the balance sheet, with no receivable on the balance sheet. • IFRS 16 finance lease – asset off balance sheet, no receivable shown. For existing nil consideration lessor arrangements which transfer "substantially all the risks and rewards incidental to ownership" of an asset (effectively a 'finance lease' without consideration) de-recognition from the balance sheet may potentially already have been applied eg as a donation to the third party. Identification of new nil consideration lessor arrangements as leases will however mean that some lease disclosures will apply (eg see 4.2.4.15). Work is also considered likely to arise on transition for authorities to confirm, for audit purposes, that all nil consideration (lessor) leases have been identified. Risk That there are minimal benefits to the users of local government financial reporting and WGA from the application of the nil consideration adaptation to lessor arrangements in local government. The restricted opportunity for stakeholder comment on the adaptation means that there is limited ability to assess this risk.
	Recommendation: Discuss with FRAB the scope for restricting the adaptation to only lessee arrangements for local government.
4.	**Nil Consideration Leases: Grandfathering application: prospective or retrospective application** The proposed code text currently indicates that grandfathering cannot directly apply under Code for nil consideration leases as they were not previously included by the previous Code requirements. The FReM is not definitively clear on the expectations. Possible options are: a. Identification on transition (as currently drafted): require transition work to specifically identify nil consideration leases or b. Prospective: amend the proposed Code text to apply grandfathering as specified, only identifying new arrangements (or as & when existing arrangements change) Risk: That by specifying identification on transition the Code requirements may require additional work by local authorities and auditors, compared to central government implementation.

No.	Item
	Recommendation: That FRAB expectations regarding central government implementation practices are clarified in order to support alignment.
5.	**Valuation: Transition Arrangements** The proposed text Code follows IFRS 16 *Leases* transition requirements (para C11) by specifying that the carrying value of finance lease assets is carried forward on transition. The Code does not specify revaluation on transition is required or allowed. Potentially however authorities may wish to revalue, or revert to the cost model as proxy, as part of transition. Consideration may be given to specifically allow authorities the option of voluntary revaluation or reversion to the cost model (where criteria are met) on transition (at 1/4/20), and show as part of transition Risk: That transition arrangements are unclear for authorities and auditors, leading to inconsistent practices.
	Recommendation: That the following text is included in the Code 4.2.2.98B On transition an authority may voluntarily revalue a right-of-use asset which was previously recognised under a finance lease or revert to the cost model where the relevant criteria are met. Adjustments arising shall be presented as transition adjustments." **This may be regarded as an adaptation or interpretation of IFRS 16 transition arrangements. Discussion with FRAB would be required.**
6.	**Valuation Requirements as at 31 March 2021** The proposed text Code transition arrangements are based on IFRS 16 Leases transition arrangements. They do not involve mandatory wide-scale finance lease asset revaluations on transition (ie 1/4/20). It has been noted however, at the end of 20/21, by requiring valuation to be undertaken in accordance with section 4.1; the requirements of 4.1.2.37 are likely to be applicable: "revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period." In particular it may be noted that following transition RoU assets which were previously finance lease assets: a) May be overvalued since asset currently valued on 'ownership equivalent' basis not limited to the 'RoU' asset term.

No.	Item
	b) May exclude any land value element previously classed as an operating lease under IAS 17 would have transitioned over and be on balance sheet based on the lease liability measurement, not existing use value. Risk There is a potential that widespread revaluations of right-of-use assets as at 31/3/21 may be expected. Options Options appear limited. 4.2.2.50 e) which specifies that the requirements of section 4.1 (valuations) apply to r-o-u assets could be amended to specify that this is with the exception of 4.1.2.37. Instead it could be specified that valuations stand until the earlier of (a) liability re-measurement; (b) next planned valuation; (c) voluntary revaluation; (d) reversion to the cost model. This may resolve a need for significant revaluations at 31/3/21 but may give rise to audit process and WGA consistency concerns. Risk may be reduced for those authorities which can place more reliance on use of the cost model as proxy.
	Recommendation: That FRAB expectations regarding central government right-of-use valuation practices, and anticipated audit practices, are clarified.
7.	**Nil Consideration (Lessee) Leases: RoU Asset Measurement** Feedback has been received that practical issues will arise regarding determination of the fair value of nil consideration right-of-use. In particular it has been suggested that fair value may be more challenging to assess than current value. Examples where fair value (& potentially even current value) assessment may be challenging have been noted as regulating leases of Crown Estate foreshore, toilets and castles. The FReM 19/20 specifies the transition arrangements for peppercorn and nil consideration (lessee) operating leases "the right-of-use asset shall be measured at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 7.1.4 7.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 7.1.34-7.1.39." The planned Code text (eg 2.3.2.16B – recognition of a donation after transition, 4.2.2.92 (a) recognition on transition) currently specifies use of fair value for measurement.

No.	Item
	An argument may potentially be made that current value on transition would be appropriate, based on the fact the asset is currently in use and, if recognised historically, the carrying value would (where revalued) be based on current value (see 2.3.2.15). Practical implementation may be assisted by allowing current value use, by exception, for new arrangements. Note that moving to specifying current value as mandatory may be regarded as conflicting with the current requirements for donated assets (2.3.2.12). <u>Risk</u>: That fair value determination may be significantly more onerous than current value determination.
	Recommendation: That 4.2.2.92 (a) regarding transition is amended to: "recognise a right-of-use asset at 1 April 2020 for leases for nil consideration, measuring the right-of-use asset at fair value at the date of initial application. <u>Where fair value cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements current value shall be used as a proxy</u>." [Note – this phrasing is based on that used for heritage assets 4.10.2.6] That the general requirement for new peppercorn / nil consideration right-of-use assets is amended to: "4.2.2.46 Where a right-of-use asset is acquired at a peppercorn or for nominal lease payments, or for nil consideration, its cost shall be measured at its fair value as at the commencement date. Fair value is measured in these circumstances in accordance with the Code's provisions on donated assets in section 2.3 and the fair value measurement requirements in section 2.10. <u>Where fair value cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements current value shall be used as a proxy</u>."
8.	**Valuation: Reversion to Cost Model** Consideration could be given to specifying in the Code that reversion to the cost model (from valuation) requires that the cost must be stated in accordance with IFRS 16 requirements (i.e. if cost has not been updated since transition it will require to be updated on reversion to the cost model). <u>Risk</u>: That failure to specify requirements may lead to inconsistent practices affecting information for users, and uncertainty for authorities and auditors. Consideration may however be given as to whether this clarification could be regarded as affecting resource implication requirements, and materiality consideration.
	Recommendation:

No.	Item
	That the Code includes: 4.2.2.50B Where an authority determines that a previously revalued right-of-use asset meets the criteria permitting use of the cost model as proxy, if the authority applies the cost model as proxy it will do so in accordance with paragraph 4.2.2.50 b).
9.	**Disclosure Requirements** Responses to the Code ITC indicate that excessive disclosures are a significant concern and may create unnecessary complexity. Risk: That CIPFA/LASAAC's vision is not achieved due to unnecessary disclosures which obscure material information.
	Recommendation That specific disclosure are identified as being expected to be reported "by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided." This requirement may be applied to: 4.2.4.6 – Lessee disclosure re lease commitments for short-term leases 4.2.4.8 – Lessee disclosure of details of revaluations
10.	**Cost Model: Includes Decommissioning Obligation Changes** The Code phrasing could be made more explicit to highlight that changes in the cost of a right-of-use asset includes changes in decommissioning obligations. Risk: That the Code requirements are not appropriately implemented if the implicit specification of the cost model are not explicitly stated.
	Recommendation That the following text is added to 4.2.2.50 b) iii) adjusted for any changes in the estimated costs of dismantling, removal or restoration as specified in paragraph 4.2.2.44 (d) and 4.2.2.45.
11.	**Land and Buildings Elements Re-Combination** IAS 17 can require lessee to separate land and building elements of single lease into different leases (generally land is an operating lease, the building may be a finance lease). IFRS 16 does not specifically require this split for right-of-use assets, unless the land is deemed to be a separate component per IFRS 16 paragraphs 12-17. There is no specification of the treatment for transition. It is considered that each lease element transitions separately.

No.	Item
	After transition however it is considered that a revaluation or cost re-measurement may indicate or require these lease elements to be recombined, if the land is not deemed to be a separate lease component. Risk: That practices regarding the re-combination of lease elements is inconsistent, affecting information for users. There may be uncertainty for authorities and auditors.
	Recommendation That no Code amendment is made, with reliance on guidance and professional judgement being appropriate.
12.	**Other Text Amendments** A number of text amendments have been suggested to address editorial errors, improved clarity regarding IFRS 16 requirements and ambiguity. The corrections are not listed individually in this paper but will be provided to CIPFA/LASAAC as tracked changes to the text issued with the ITC. Risk: That the current Code text does not provide sufficient clarity.
	Recommendation That identified amendments and improvements are incorporated within the Code draft submitted for CIPFA/LASAAC prior to initial FRAB consideration.