Appendix A: Amendments to Draft IFRS 16 Leases Section 4.2 (20/21 Code)

	Original	New	Comment / Impact
4.2.1.4 (note of adaptations etc)	This adaptation includes the use of the cost model in IFRS 16 for plant and equipment and leases of property of a lease term of 30(25) years or less. Right-of-use assets which were previously recognised as assets under finance leases under IAS 17 Leases will continue to be measured at current value until they are derecognised.	The Code adapts IFRS 16 and requires that the subsequent measurement of the right-of-use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code (see paragraph 4.2.2.50). This adaptation includes the use of the cost model in IFRS 16 as a proxy for current value for most right of use assets.	**Significant:** 'Hard cut' criteria for property lease assets replaced by reference to 'most assets' where cost model is used as a proxy for current value (see later). Reference to existing finance lease assets continuing to be valued until de-recognition is removed (implications noted below).
4.2.1.4 (note of adaptations etc)	The Code interprets IFRS 16 and requires that for right-of-use assets where the underlying asset is land is measured using the cost model.	Removed.	**Significant:** Land right of use assets are no longer specifically identified as mandatorily having to be measured using the cost model. There are general principles for subsequent measurement of the right of use asset that apply to all leases, regardless of the type of underlying asset. CIPFA/LASAAC previously determined that considering valuation issues the cost model should be required.[1] Potentially implementation practices may be open to influence through informal (non-Code) guidance rather than Code specification.

[1] See the IFRS 16 Leases consultation feedback report (CL 07 11-18) to CIPFA/LASAAC on 6 November 2018 which noted in 6.15 "The Secretariat would note that the only way to measure the right-of-use asset for land would be to use the deprival concept ie measured using the lease payments/rental information. So as confirmed in the consultation papers it is recommended that as an interpretation leases of land are measured using the cost model." The Board concurred with the proposal.

	Original	New	Comment / Impact
4.2.2.50 Basis for determination of valn or cost model	as a practical expedient the cost model in g) shall, for leases of plant and equipment, be used as a proxy for current value following the approach in paragraph 4.1.2.32 of the Code property leases for buildings with a lease term at its commencement date of 25 years and greater (including leases at peppercorn and those with nominal lease payments) shall be measured in accordance with the revaluation provisions in section 4.1 property leases of a lease term of less than 25 years shall follow paragraph a) above unless paragraph f) below is followed leases of land shall follow the cost model,	On an asset by asset basis, for right of use assets which are measured at current value per Section 4.1 as a practical expedient the cost model in b) shall be used as a proxy for current value unless paragraph c) applies.	**Significant:** Moves to a principles based approach which pivots upon an assessment of whether use of the 'cost model as proxy' approach is inappropriate. This means that: • Plant & equipment RoU assets may be required to be revalued, (although in practice this would be anticipated to be rare) • Land RoU assets may be required to be revalued. • Peppercorn and nominal rent property RoU assets are likely to be revalued The wording implies that the 'default' is to use cost as proxy. The requirement to do so is 'shall' rather than 'may' to maintain consistency with the clarity previously provided re plant & equipment RoU assets. CIPFA/LASAAC may wish to consider whether 'may' is more appropriate.

	Original	**New**	**Comment / Impact**
4.2.2.50 Specific criteria for whether valn model is suitable proxy	<see above>	c) for some right of use assets the use of the cost model in b) as a proxy for current value will be inappropriate. This is anticipated, subject to rebuttal, to be the case where both of the following conditions are met: i. A longer-term lease has no provisions to update lease payments for market conditions (such as rent reviews), or there is a significant period of time between those updates; and ii. There is a significant risk that the fair value or current value in existing use of the underlying asset will fluctuate significantly due to changes in market prices. This is particularly likely to be the case with property assets.	**Highly Significant:** Sets out the 'principles based' criteria which would be expected to be applied to assessing when the IFRS 16 cost is not to be used as a proxy. Phrased to be applied on an 'asset by asset' basis. The wording allows the application of the two criteria to be rebutted since the FReM does not specify that the criteria are 'absolute' in nature, simply that the criteria are 'likely' to indicate when the proxy model is inappropriate. It should be noted that *both* criteria are expected to be met before concluding that cost as proxy is inappropriate. The wording for the criteria matches (almost exactly) that proposed for the FReM including the last sentence "This is particularly likely to be the case with property assets." This seeks to avoid an expectation of revaluation of non-property assets. CIPFA/LASAAC may wish to consider how this will affect implementation practices.

	Original	New	Comment / Impact
4.2.2.50 Option to allow use of valn for RoU property assets below threshold	where a local authority considers that the measurement provisions in section 4.1 provide a better subsequent measurement model for the right-of-use asset for leases of property than the cost model in g) they may also follow the current value measurement approach; a lessee may take this decision on a lease by lease basis	Removed / no replacement text	**Potentially Significant:** To align with the FReM there is no specific option to apply the valuation measurement instead of using cost as proxy. In practice this is not expected to be significant as it is considered that the draft code wording for the assessment of 'inappropriate' (criteria in sub-para c, see above) allows scope for authorities to conclude that revaluation provides a better measurement.

	Original	New	Comment / Impact
4.2.2.50 Arrangements for valuation of existing finance lease assets	following transitional arrangements specified in paragraph 4.2.2.95 the lease asset will be transferred at its carrying amount for finance leases which commenced prior to the date of initial application ie 1 April 2019; from that date the right-of-use asset shall continue to be measured in accordance with the revaluation provisions in section 4.1 until derecognition; for operating lease assets only those right-of-use assets with remaining lease term of 25 years at 1 April 2019 above shall be measured at current value, otherwise the measurement shall follow the practical expedient in a)	following the transitional arrangements specified in paragraph 4.2.2.95 the lease asset will be transferred at its carrying amount for finance leases which commenced prior to the date of initial application ie 1 April 2020. From that date such right-of-use assets may continue to be measured in accordance with the revaluation provisions in section 4.1.	**Significant:** Reference to existing finance leases continuing to be valued until de-recognition is removed. Phrasing changed from 'shall' be carried at revaluation to 'may'. This: • Now allows for such assets to move to the 'cost model as a proxy' before de-recognition • The Code as currently drafted could potentially be interpreted to allow such a change to occur (based on the criteria above) on implementation date; the next rent review or indexation date; the next date when a formal valuation is due; or on impairment. Potentially operating lease RoU assets could require to be revalued from 1 April 2020 after assessing the 'inappropriate' criteria. These implications may helpfully be addressed in the Transition requirements eg: For Operating lease new RoU assets and existing finance lease assets new RoU assets – no requirement for immediate revaluation but only consider whether revaln required as part of normal revluation cycle, next rent review / indexation, or on impairment.

	Original	New	Comment / Impact
4.2.2.50 Confirmatory para re use of valn model	for the avoidance of doubt a local authority with leases of a lease term in excess of 30 (25) years or that choses to use paragraph f) shall remeasure the right-of-use asset as if it were an item of property, plant and equipment.	for the avoidance of doubt a local authority with property, plant and equipment right of use assets which are measured using valuation shall apply the requirements of Section 4.1 regarding remeasurement.	**Potentially significant:** Amendments to reflect the change from a 'hard cut' approach to a principles based approach. The paragraph is intended to reinforce that re-measurement will follow the normal valuation requirements (eg frequency, appropriate valuer, disclosures, use of Revaluation Reserve etc). The paragraph may also be interpreted as supporting the requirement to value RoU assets on a 'replacement' cost rather than on a 'tenant calculation' basis. This will be particularly important in providing clarity to all, including valuers, regarding the expected valuation practices to be applied.
4.1.4.3 Property Plant & Equipt Section: Disclosures	Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to property, plant and equipment: 1) The financial statements shall disclose, for each class of property, plant and equipment: a) the measurement bases used for determining the gross carrying amount	New sub-paragraph added to align with FReM indication b) that the IFRS 16 cost model has been used as a proxy for valuation of right of use assets within the class, where this is the case, and explain why	**Potentially significant:** Application is naturally subject to materiality. Consideration may be given as to: • The need for the disclosure • The streamlining of the accounts • the needs of users and whether more specific detail is supported on a cost/benefit basis (eg specification of the value of assets measured used 'cost as proxy' in each class, number of assets, details of etc) • Whether WGA will require such an analysis

Appendix B – Extract of Draft Code 20/21 re IFRS 16 Leases

Adaptation for the public sector context

4.2.1.4 The following adaptations of IFRS 16 apply:

Recognition

The Code adapts IFRS 16 to require local authorities to apply the recognition exemption to short-term leases (see paragraph 4.2.2.30).

Measurement

The Code adapts IFRS 16 and requires that the subsequent measurement of the right-of-use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code (see paragraph 4.2.2.50). This adaptation includes the use of the cost model in IFRS 16 as a proxy for current value for most right of use assets.

Subsequent measurement

Subsequent measurement of the right-of-use asset

4.2.2.50 After the commencement date a lessee shall measure the right of use asset in accordance with section 4.1 for property, plant and equipment at current value in accordance with the following:

a) On an asset by asset basis, for right of use assets which are measured at current value per Section 4.1 as a practical expedient the cost model in b) shall be used as a proxy for current value unless paragraph c) applies..

b) to apply a cost model, a lessee shall measure the right-of-use asset at cost as defined in this section of the Code:

   i) less any accumulated depreciation and any accumulated impairment losses, and

ii) adjusted for any remeasurement of the lease liability specified in paragraph 4.2.2.52 c).

Note that the latter adjustment would follow the same accounting treatment (including the statutory accounting requirements) as subsequent expenditure (ie additions to cost) on owned assets under section 4.1 of the Code.

c) for some right of use assets the use of the cost model in b) as a proxy for current value will be inappropriate. This is anticipated, subject to rebuttal, to be the case where both of the following conditions are met:

i. A longer-term lease has no provisions to update lease payments for market conditions (such as rent reviews), or there is a significant period of time between those updates;

and

ii. There is a significant risk that the fair value or current value in existing use of the underlying asset will fluctuate significantly due to changes in market prices. This is particularly likely to be the case with property assets.

d) following the transitional arrangements specified in paragraph 4.2.2.95 the lease asset will be transferred at its carrying amount for finance leases which commenced prior to the date of initial application ie 1 April 2020. From that date such right-of-use assets may continue to be measured in accordance with the revaluation provisions in section 4.1.

e) for the avoidance of doubt a local authority with property, plant and equipment right of use assets which are measured using valuation shall apply the requirements of Section 4.1 regarding remeasurement.

4.2.2.50A Subject to the requirements of IFRS 16 paragraph 32 of IFRS 16 the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. A lessee shall apply the requirements of section 4.7 to determine whether the right of use asset is impaired.

Other Consequential Amendments

4.1.4 Disclosure Requirements

4.1.4.3 Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to property, plant and equipment:

1) The financial statements shall disclose, for each class of property, plant and equipment:
   a) the measurement bases used for determining the gross carrying amount
   b) that the IFRS 16 cost model has been used as a proxy for valuation of right of use assets within the class, if this is the case, and the reasons why
   c) the depreciation methods used
   d) the useful lives or the depreciation rates used
   e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
   f) a reconciliation of the carrying amount at the beginning and end of the period showing:

APPENDIX C – Differences between FReM and Code Proposed IFRS 16 Leases Implementation

	FReM	Code	Comments on Difference
a.	Early adoption (19/20) permitted where specific criteria are met and HM Treasury agree	No current allowance for early adoption (19/20)	Discussed in later report section.
b.	Definition of contract includes intra-UK government agreements (not legally enforceable)	No adaptation	Local authorities are separate legal entities and the adaptation is not considered to be relevant or necessary for local government.
c.	Nil consideration arrangements: The FReM proposes extending the definition of a lease to include 'nil consideration' arrangements.	No adaptation	CIPFA/LASAAC did not identify a local government need or basis for adaptation of the standard. Local government bodies are separate legal entities, with wide contracting powers and the ability to enter a variety of legal arrangements. Potential additional work in lease identification could also arise from an adaptation. In the absence of an adaptation reliance will be placed on the grants and donated assets requirements in the Code. Additionally the assessment of a 'constructive obligation' and/or the application of 'faithful representation' to determine the application of IFRS 16 criteria may be deemed as appropriate, without necessitating a formal adaptation to IFRS 16.
d.	Peppercorn leases – includes: Heritage asset peppercorn leases treatment specified RoU asset recognised at EUV or fair value (dependent on asset classification)	No separate specification of treatment of peppercorn leases for heritage assets RoU asset recognised at fair value (no allowance for recognition at existing use value)	Heritage assets treatment anticipated to be the same in practice, under application of the Code Section 4.10 Heritage Assets. Fair value recognition: follows existing Code practice for recognition of donated assets.

	FReM	Code	Comments on Difference
e.	Incremental borrowing rate specified by government (where implicit rate not identified). Allowance for local rate where the entity borrows.	No adaptation.	Local government entities typically have borrowing powers and should refer to their own borrowing rate.
f.	Right of Use asset subsequent measurement: noted earlier	Code proposals noted earlier	FReM and Code proposals both subject to further amendment, with alignment of treatment a key objective
g.	Transition: use of hindsight, for example in determining the lease term is mandatory.	Transition: use of hindsight, for example in determining the lease term is optional (per the standard)	Not regarded as a material difference on transition. Expected that authorities will normally apply hindsight however CIPFA/LASAAC concluded that authorities should be permitted to make the decision based on their own local circumstances. Potentially the use of hindsight could be phrased as mandatory subject to cost-benefit considerations.