Frequency Asked Questions (FAQs) – AASB 16 *Leases*

On transition should an agency's current lease incentive liability be reversed out through the right of use asset balance or retained earnings?

The standard is not prescriptive on this matter and there does not appear to be a broad consensus in practice. For consistency across the sector, all agencies are required to reverse any lease liability that remains through the right-of-use asset (ROUA) that is connected to the lease incentive liability.

This will mean for those leases with a lease incentive liability the ROUA will be lower than the lease liability. This will also reduce future depreciation expense. This method has been chosen as Treasury believe it best reflects the intention of the standard.

On transition Treasury mandated (Treasury Circular 18-05) the modified retrospective approach where the ROUA is equal to the lease liability per AASB 16 C8b(ii). Are there any exceptions to this?

For leases that will be subject to accelerated, rather than straight line depreciation agencies have the option to use the modified retrospective approach where the ROUA is calculated as if the standard had always been in effect [AASB 16 para C8b(i)]. This will avoid an agency recording an impairment expense for FY19-20 which would be equal to the difference between the value as at transition date and the fair value (the fair value would reflect the higher rate of depreciation and thus be a lower amount). Therefore, under both options the ROUA will be the same value at the end of the year.

Once the standard is effective what are the discount rates to use when entering a lease?

Agencies are required to use the rate implicit in the lease in the first instance [AASB 16 para 26.] Where this cannot be determined agencies then use the incremental borrowing rate (IBR).
The IBR for transition ie 1 July 2019 and for leases entered into post transition as:

Lease Term	**Rate to be Applied as at 1 July 2019**
For leases up to 5 years	1.42%
For leases > 5 years up to 10 years	2.00%
For leases > 10 years	2.42%

Note: For State Owned Corporations (SOCs) the Government Guarantee Fee should be added to the rates above.

Treasury and Treasury Corp (TCorp) will monitor rates and publish updated IBRs as required throughout the year. At a minimum, it is expected the IBR will be updated biannually. When the IBR changes the current lease liabilities should not be updated, because this rate reflects the cost of borrowing at a point in time and should be used for the remainder on the lease term.

How will right-of-use assets (ROUA) be subsequently measured – at cost or fair value?

ROUAs will be measured at fair value in line with all other classes of property, plant and equipment in accordance with Treasury Policy Paper TPP14-01 *Valuation of Physical Non-Current Assets at Fair Value*. There will be instances where ROUA require revaluations. Treasury will publish guidance with information on subsequent measurement of ROUAs.

How do agencies account for make good provisions?

Make good provisions should be accounted for under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.* There is no change to the calculation of these liabilities due to the new leasing standard.

Any dismantling or restoring costs (ie costs to make good) are to be included in the cost of the relevant ROUA [AASB 16 para 24d]. Agencies may choose to identify these make good costs in their own accounting systems separately from the ROUA for ease of tracking. However, for reporting purposes these make good costs will need to be included in the ROUA amount.