

## PRESS RELEASE

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For immediate release

### IASB shines light on leases by bringing them onto the balance sheet

**The International Accounting Standards Board<sup>®</sup> (the Board) today issued a new accounting Standard, called IFRS 16 *Leases*. It replaces accounting requirements introduced more than 30 years ago that are no longer considered fit for purpose and is a major revision of the way in which companies account for leases.**

Leasing provides an important and flexible source of financing for many companies. However, the old lease accounting Standard (IAS 17 *Leases*) makes it difficult for investors and others to get an accurate picture of a company's lease assets and liabilities, particularly for industries such as the airline, retail and transport sectors.

Listed companies using IFRS Standards or US GAAP are estimated to have around US\$3.3 trillion of lease commitments; over 85 per cent of which do not appear on their balance sheets<sup>1</sup>. That is because leases to date have been categorised as either 'finance leases' (which are reported on the balance sheet) or 'operating leases' (which are disclosed only in the notes to the financial statements).

This somewhat arbitrary distinction made it difficult for investors to compare companies. It also meant that investors and others had to estimate the effects of a company's off balance sheet lease obligations, which in practice often led to overestimating the liabilities arising from those obligations. IFRS 16 solves this problem by requiring all leases to be reported on a company's balance sheet as assets and liabilities.

Hans Hoogervorst, IASB Chairman, commented:

*These new accounting requirements bring lease accounting into the 21<sup>st</sup> century, ending the guesswork involved when calculating a company's often-substantial lease obligations.*

*The new Standard will provide much-needed transparency on companies' lease assets and liabilities, meaning that off balance sheet lease financing is no longer lurking in the shadows. It will also improve comparability between companies that lease and those that borrow to buy.*

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<sup>1</sup> Based on a sample of 30,000 listed companies using IFRS or US GAAP, over 14,000 companies disclose information about off balance sheet leases in their 2014 annual reports. The future payments for off balance sheet leases for those companies totalled US\$2.9 trillion (on an undiscounted basis).

The new *Leases* Standard has been subjected to multiple rounds of public consultation and extensive Board-level deliberation, all of which has been conducted in public and webcast.

The IASB has also worked in close collaboration with the US Financial Accounting Standards Board (FASB) on the development of the new Standard. The two Boards are aligned on the central issue of bringing leases onto balance sheets, and on the definition of a lease and how lease liabilities should be measured.

IFRS 16 is effective 1 January 2019. Early application is permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*.

## Effects Analysis

Accompanying the Standard, the IASB has also published a separate *Effects Analysis*, which outlines the costs and benefits of the Standard. It clearly demonstrates the need for the Standard and that the benefits outweigh the costs.

The Board has given careful consideration to feedback received and has introduced several cost-saving measures for preparers, such as exempting ‘small ticket’ items as well as leases of 12 months or less.

The publication of a separate *Effects Analysis* follows on from a report to the IFRS Foundation Trustees in November 2014 by the Effects Analysis Consultative Group. The Effects Analysis can be accessed [here](#).

A separate *Project Summary*, including an overview of the project history and how the Board has responded to stakeholders’ comments during the development of the Standard, can be found [here](#).

**End**

## Notes to editors:

- Further information about the *Leases* project can be found [here](#).
- Lessor (companies providing the leased assets) accounting remains substantially unchanged, except for a requirement to provide enhanced disclosures.
- IAS stands for International Accounting Standards and was the term used for Standards developed by the International Accounting Standards Board’s predecessor, the International Accounting Standards Committee (IASC). The Board adopted the IAS developed by IASC when it was established in 2001. Standards developed since then are called IFRS.
- IAS 17 *Accounting for Leases* was issued in 1982 and revised in 1997 (when it became IAS 17 *Leases*).
- The Effects Analysis Consultative Group’s report can be found [here](#).

- A short fact sheet can be found [here](#)

**Press enquiries:**

Kirstina Reitan, Head of Communications, IFRS Foundation

Telephone: +44 (0)20 7246 6960

Email: [kreitan@ifrs.org](mailto:kreitan@ifrs.org)

**Technical enquiries:**

Patrina Buchanan, Associate Director, IASB

Telephone: +44 (0)20 7246 6468

Email: [pbuchanan@ifrs.org](mailto:pbuchanan@ifrs.org)

Kathryn Donkersley, Technical Manager, IASB

Telephone: +44 (0)20 7246 6970

Email: [kdonkersley@ifrs.org](mailto:kdonkersley@ifrs.org)

**About the IFRS Foundation®**

The IFRS Foundation is an independent, not-for-profit organisation, overseen by a Monitoring Board of public authorities. Its vision of a single set of global accounting standards is supported by G20 leaders and other international organisations with responsibility for the global financial system.

The mission of the IFRS Foundation is to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world, fostering trust, growth and long-term financial stability. The International Accounting Standards Board is the standard-setting body of the IFRS Foundation, made up of independent experts from diverse professional and geographical backgrounds. IFRS Standards are adopted by more than 100 countries globally.

For detailed information on the organisation's structure, the standard-setting process and the spread of IFRS Standards, visit [www.ifrs.org](http://www.ifrs.org).

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