

## **Thematic Review – Disclosures relating to the implementation of IFRS 16 within 2019 interim accounts**

The FRC will monitor companies' disclosures of the impact of the new financial reporting standard IFRS 16 'Leases' in interim accounts issued in 2019.

IFRS 16 is mandatory for annual reporting periods beginning on or after 1 January 2019. Interim accounts are prepared using the same accounting policies as those to be applied in the next set of annual accounts. For example, a company with an annual reporting period commencing on 1 January 2019 will need to apply the new standards when it releases its interim accounts for the 6-month period to 30 June 2019.

We conducted a light touch thematic review of the disclosures relating to the introduction of the standard in a sample of companies' reports and accounts during 2018. The review showed that most companies still appear to have a fair amount of work to do in order to provide meaningful information about the impact of the new standard, in place of a boilerplate description of the general effect of IFRS 16. Many companies appeared not to have decided on their transition method and referred to the accounting choices under the standard – for example, the recognition exemption available for low value assets and short-term leases – but did not say which they intended to apply.

We expect companies to include detailed quantitative disclosure of the expected effect of transition to IFRS 16 in their final accounts before implementation of the new requirements, e.g. in December 2018 year-end accounts. Where quantification is not possible, we expect additional qualitative information to be provided to enable users to understand the magnitude of the expected impact. We also expect this to be followed up with supporting explanations in subsequent interim accounts, once IFRS 16 is in force, about the impact of the new standard in the first year of adoption, prepared in accordance with the new requirements. It will be particularly important to provide meaningful and clear explanation of changes in policies, and judgements made, such as whether a lease exists.

Specifically, IAS 34 'Interim Financial Statements' requires a company to describe the nature and effect of a change of accounting policy. The FRC expects:

- quantitative disclosure to be accompanied by informative and detailed explanation of the changes, tailored to the company's specific circumstances;
- clear explanations of the effect of transition, including comparison of previous accounting policies with new policies;
- appropriate commentary on comparative amounts, where transitional arrangements may mean these are not directly comparable with current period amounts;
- any key judgments made by management in applying IFRS 16 to be clearly explained, such as including clarification of the exemptions they intend applying and the policy choices that they have made; and
- an explanation of how the transition has been implemented, after careful consideration of the transitional disclosure requirements under IFRS 16 and the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

### **Notes:**

1. Some companies, such as those listed on the AIM market, are not required to comply with IAS 34. However, a discussion of the nature and effect of a change in accounting policy is necessary for all companies in order to provide meaningful information to readers of their interim accounts.