Guide to Drafting MFRS 16 Disclosures

For MFRS preparers applying the simplified retrospective transition method

About this disclosure guide on MFRS 16 – a new era of lease accounting

The new MFRS 16 "Leases", effective for annual reporting periods beginning on or after 1 January 2019 adds significant new, enhanced disclosures for both lessees and lessors. This disclosure guide explains the MFRS 16 presentation and disclosure requirements and provides guidance to preparers on how to address these requirements in the first year of adoption of MFRS 16 in 2019. Guidance notes are added where applicable to provide insights on the requirements.

Disclosure objective of MFRS 16

The objective of the MFRS 16 disclosure requirements is for lessees and lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessees and the lessors.

Other than quantitative information, entities are required to disclose qualitative information about its leasing activities necessary to meet the disclosure objective of MFRS 16. It is therefore important for an entity to consider the disclosure objective and requirements of the standard when determining the level of detail required to be disclosed on leasing activities in the financial statements.

Transition disclosures upon adoption of MFRS 16

MFRS 16 provides various transitions expedients and exemptions. Entities shall explain the transition method used as well as practical expedients applied in its first set of annual financial statements where MFRS 16 is adopted. The reporting entity in this disclosure guide is a group with 31 December year end, adopting MFRS 16 for the first time in its annual financial statement ending 31 December 2019 by applying the simplified retrospective transition method. Date of initial application is therefore 1 January 2019. .

Tips to using this disclosure guide

(i) **Black** fonts indicate where specific disclosures are typically located in financial statements.

(ii) **Orange** fonts provide specific guidelines on the disclosure requirements. Preparers are encouraged to refer to the specific requirements in MFRS 16 when drafting the disclosures. References to MFRS 16 requirements are provided in the reference column on the left.

(iii) Icons  in orange box indicates some useful tips for preparers to consider while drafting the relevant disclosures.

(iv) Examples of disclosures are shaded in **grey**.

This disclosure guide is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

The illustrative disclosures in this disclosure guide should not be considered the only acceptable form of presentation. Alternative presentations to those proposed in this disclosure guide may be equally acceptable so long as they meet the objective of disclosure requirements prescribed in MFRS 16.

STRUCTURE OF THIS DISCLOSURE GUIDE

Notes to the financial statements

1. BASIS OF PREPARATION (EXTRACT)

MFRS 108.28(a), (b)

1.1 New and amended standards adopted by the Group

- To disclose the fact about the adoption of new accounting policies upon initial application of MFRS 16 and make reference to the note disclosing the impacts of the change.

MFRS 16.C5(b)

Example

The Group has adopted MFRS 16 for the first time in the 2019 financial statements with the date of initial application ("DIA") of 1 January 2019 by applying the simplified retrospective transition method.

The practical expedients elected and the detailed impacts of the changes in accounting policies on leases are disclosed in **Note 2**. The details of the accounting policies on leases are disclosed separately in **Note 3.**

MFRS 108.28(c)

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16

- To disclose the effects of the change in accounting policy e.g. explain how lease contracts were accounted for previously in the comparative periods and how the adoption of MFRS 16 has changed those accounting.

MFRS 108.28(d)

- To disclose the transition method that an entity has adopted.

MFRS 16.C4

- To disclose the fact if the entity applies the practical expedient on definition of a lease.

Example

During the financial year, the Group changed its accounting policies on leases upon adoption of MFRS 16. The Group has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16.

Under the simplified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Group is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 "Leases" and IC Int. 4 "Determining whether an Arrangement Contains a Lease".

As a lessor, the Group is not required to make any adjustment on transition, except for the reassessment of existing operating subleases at the DIA.

In addition, the Group has elected not to reassess whether a contract is, or contains a lease at the DIA. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying MFRS 117 and IC Int. 4. **[GN1]**

Notes to the financial statements (continued)

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16 (CONTINUED)

MFRS 16.C3, C4

Key consideration [GN1]

As an optional practical expedient, both lessor and lessee can, at the DIA, opt not to reassess whether an existing contract is, or contains, a lease in accordance with MFRS 16. Accordingly, entities need not apply MFRS 16 to existing contracts that did not meet the definition of a lease under MFRS 117 / IC 4, although these contracts meet the definition of lease under MFRS 16. This practical expedient should be consistently applied to all contracts.

MFRS 108.28(d), MFRS 16.C10, C13

- To disclose the fact if the lessee has applied any of the other optional practical expedients on a lease-by-lease basis.

Example

The Group as a lessee

(a) Leases classified as operating leases under MFRS 117

MFRS 16.C8(a)

On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of-use ("ROU") assets for property leases were measured on a retrospective basis as if the new requirements has always been applied. Other ROU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. [GN2]

MFRS 16.C8(b)

Key consideration [GN2]

Under the simplified retrospective transition method,

- a lessee can choose (on a lease-by-lease basis) one of the alternative below to measure the ROU asset:
  - retrospective calculation, using a discount rate based on lessee's incremental borrowing rate at the DIA; or
  - using an amount equal to the lease liability and adjusted by the amount of any previously recognised prepaid or accrued lease payments related to that lease recognised prior to the DIA.
- ROU asset is subject to impairment indicator assessment under MFRS 136 "Impairment of Assets" at the DIA (unless an entity elects to apply the practical expedient on onerous provision under MFRS 137 "Provisions, Contingent Assets and Contingent Liabilities" as permitted in MFRS 16.C10(b)).

MFRS 16.C8(c)

MFRS 16.C10

In applying MFRS 16 for the first time, the Group has applied the following practical expedients permitted by the standard to leases previously classified as operating leases under MFRS 117:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the ROU asset at the DIA; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the financial statements (continued)

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16 (CONTINUED)

MFRS 16.C19

The Group had also derecognised the asset or liability related to favourable or unfavourable terms of an operating lease acquired as part of a business combination and adjusted the carrying amount of the ROU asset with the same amount at the DIA.

(b) Leases classified as finance leases under MFRS 117

MFRS 16.C11

For leases previously classified as finance leases and presented as a part of 'property, plant and equipment', the Group recognised the carrying amount of the lease asset and lease liability immediately before transition which were measured applying MFRS 117 as the carrying amount of the ROU asset and the lease liability at the DIA.

MFRS 16.C14

- The lessor is not required to make any adjustment on transition, except for the reassessment of lease classification of operating subleases at the DIA. **[GN3]**

MFRS 16.C15

- At the DIA, an intermediate lessor shall,
  - reassess operating subleases on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date; and
  - for subleases that were classified as operating leases applying MFRS 117, but finance lease applying MFRS 16, account for the sublease as a new finance lease entered into at the DIA.

Key consideration [GN3]

MFRS 16.BC290

Subleases that were classified by an intermediate lessor as operating leases applying MFRS 117 may be classified as finance lease applying MFRS 16. This is because MFRS 16 requires an intermediate lessor to evaluate the classification of a sublease by reference to the ROU asset arising from the head lease and not by reference to the underlying assets as was required by MFRS 117.

Example

The Group as a lessor

Under MFRS 16, the Group (acting as a sub-lessor) is required to assess the lease classification of a sublease with reference to the ROU asset, not the underlying asset. On transition, the Group reassessed the lease classification of a sublease contract previously classified as an operating lease under MFRS 117. The Group concluded that the sublease is a finance lease under MFRS 16 and the sublease contract was accounted for as a new finance lease entered into at the DIA. Accordingly, the Group derecognises the ROU asset related to the head lease, and recognises a receivable at an amount equal to the net investment in the sublease. The net impacts are presented as an adjustment to the opening balance of retained earnings at the DIA. **[GN4]**

Key consideration [GN4]

MFRS 16 is not explicit on where to present the net impacts of recognising a finance sublease at the DIA. Since the effects are related to initial application of MFRS 16, we believe that it is appropriate to present the net impacts within the retained earnings (or other component of equity, as appropriate).

In addition, the Group applied MFRS 15 "Revenue from Contracts with Customers" to allocate the consideration in the contract to each lease and non-lease component.

Notes to the financial statements (continued)

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16 (CONTINUED)

MFRS 16.C12

- If a lessee elects to apply the simplified retrospective transition method, the lessees shall disclose information about the initial application of MFRS 16 required by MFRS 108.28 (e.g. nature of the change in accounting policy, the transitional provision adopted), except for information on the effects of the change in accounting policy affecting each financial statement line items as required by MFRS 108.28(f).

  In addition, the lessee shall disclose:
  - the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position ("SOFP") at the DIA; and
  - an explanation of any difference between:
    - operating lease commitments disclosed applying MFRS 117 at the end of the financial year immediately preceding the DIA, discounted using the incremental borrowing rate at the DIA; and
    - lease liabilities recognised in the SOFP at the DIA.

Example

(a) Adjustments as at 1 January 2019 [GN5]

As at 1 January 2019, the change in accounting policies has affected the following items:

- property, plant and equipment – decrease by RMx,xxx
- ROU assets – increase by RMx,xxx
- deferred tax assets – increase by RMx,xxx
- prepayments – decrease by RMx,xxx
- borrowings – decrease by RMx,xxx
- lease liabilities – increase by RMx.xxx

The net impact on retained earnings on 1 January 2019 was a decrease of RMx,xxx.

Key consideration [GN5]

The voluntary disclosure stating the significant impacts at the DIA in a summarised form as shown in the Example above could be useful to the users of the financial statements.

Notes to the financial statements (continued)

2. CHANGES IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16 (CONTINUED)

Example (continued)

(b) Measurement of lease liabilities on 1 January 2019

MFRS 16.12(a)

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was xx% per annum.

MFRS 16.12(b)

The reconciliation between the operating lease commitments disclosed applying MFRS 117 at 31 December 2018 to the lease liabilities recognised at 1 January 2019 is as follows:

	RM'000
Operating lease commitments disclosed as at 31 December 2018	x,xxx
Discounted using the lessee's incremental borrowing rate of at the DIA	x,xxx
Add:	
Finance lease liabilities recognised as at 31 December 2018	x,xxx
(Less):	
Short-term leases recognised on a straight-line basis as expense	(xxx)
Low-value leases recognised on a straight-line basis as expense	(xxx)
Contracts reassessed as service agreements	(xxx)
Add/(Less):	
Adjustments as a result of a different treatment of extension and termination options	xx
Adjustments relating to changes in the index or rate affecting variable payments	xx
Lease liabilities recognised as at 1 January 2019	x,xxx
Of which are:	
Current lease liabilities	x,xxx
Non-current lease liabilities	x,xxx
	x,xxx

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES

Example disclosure below are for illustration only. Preparers should tailor the relevant accounting policy disclosures based on the facts & circumstances and terms of the lease contracts.

3.1 Leases in which the Group is a lessee

MFRS 101.117

To disclose the significant accounting policies on lessee accounting which may include:

- Initial recognition and measurement of ROU assets and lease liabilities
- Subsequent measurement of ROU assets and lease liabilities
- Determination of lease term
- Reassessment of lease liabilities

Example

The Group as a lessee

Accounting policies applied from 1 January 2019

MFRS 16.22

From 1 January 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Group (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Group is a lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability. **[GN6]**

Key consideration [GN6]

MFRS 16.13 - 16

A lessee shall allocate the considerations to the lease and non-lease components based on relative stand-alone price (or estimates by maximising the use of observable information, if stand-alone price is not readily available).

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate the lease and non-lease components, and instead account for both the components as a single lease component.

(a) Lease term

MFRS 16.18 - 20

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

MFRS 16.21, B41

The Group reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities (refer to (d) below).

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Leases in which the Group is a lessee (continued)

Example (continued)

The Group as a lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

MFRS 16.23 - 25

(b) ROU assets

ROU assets are initially measured at cost comprising the following:
- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

MFRS 16.31, 32

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

While the Group revalues land and building (presented as part of property, plant and equipment) that it owns, it has chosen not to revalue the ROU building held by the Group. **[GN7]**

The Group applies the fair value model to ROU assets that meet the definition of investment property of MFRS 140 consistent with those investment property owned by the Group. Refer to Note X for accounting policy on investment property. **[GN7]**

MFRS 16.34, 35

Key consideration [GN7]

In addition to the cost model as illustrated in the Example, there are 2 other measurement models for ROU assets:

(a) A lessee that has elected to apply the fair value model to measure its investment properties ("IP") must also apply the fair value model to the ROU assets that meet the definition of IP.

(b) A lessee that applies the revaluation model to a class of property, plant and equipment ("PPE") can choose to measure the corresponding class of ROU asset under revaluation model. The election is by class of ROU asset.

MFRS 16.47

The Group presents ROU assets that meet the definition of investment property in the statement of financial position as investment property. ROU assets that are not investment properties are presented as a separate line item in the statement of financial position. **[GN8]**

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Leases in which the Group is a lessee (continued)

Example (continued)

The Group as a lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

(b) ROU assets (continued)

Key consideration [GN8]

MFRS 16.47(a)
- Entities are not required to present ROU assets as a separate line item in the SOFP. A lessee can choose to present the ROU asset within which the corresponding underlying assets would be presented if they were owned, and disclose which line items in the SOFP include those ROU assets.

MFRS 16.48
- ROU assets that meet the MFRS 140's definition of IP must be presented in the SOFP as IP.

(c) Lease liabilities

MFRS 16.26 - 28

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:
- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase and extension options if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

MFRS 16.37

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

MFRS 16.38(b)

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

MFRS 16.47(b), 49

The Group presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in the statement of profit or loss. [GN9]

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Leases in which the Group is a lessee (continued)

Example (continued)

The Group as a lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

(c) Lease liabilities

Key consideration [GN9]

- Entities are not required to present lease liabilities as a separate line item in the SOFP. However, a lessee shall disclose which line items in the SOFP include those liabilities.
- Lessee shall present interest expense on the lease liability that is not capitalised as part of qualifying assets separately from the depreciation charge for the ROU asset. Interest expense on the lease liability is a component of finance costs, which MFRS 101 "Presentation of Financial Statements" requires finance cost to be presented separately in the statement of profit or loss and other comprehensive income.

(d) Reassessment of lease liabilities

MFRS 16.39

The Group is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets. **[GN10]**

MFRS 16.40 - 43

Key consideration [GN10]

A reassessment of the lease liability takes place if the cash flows change based on the original terms and conditions, for example:

(a) A change in lease term due to the lessee exercises an option (purchase / termination / extension) in a different way than the entity had previously determined was reasonably certain;

(b) A change in lease term due to an event occurs that contractually obliged / prohibits the lessee from exercise the option;

(c) A change in the amounts expected to be payable under a residual value guarantee; or

(d) A change in future lease payments resulting from a change in an index or rate used to determine those payments (as illustrated in Example above).

For items (a) & (b) above, a lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate. In contrast, a lessee shall use an unchanged discount rate for items (c) & (d) above (unless the change is due to a change in floating interest rate).

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Leases in which the Group is a lessee (continued)

Example (continued)

The Group as a lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

(e) Short-term leases and leases of low-value assets

MFRS 16.60

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line bases as an expense in profit or loss. **[GN11]**

Key consideration [GN11]

MFRS 16.8

The election for short-term leases shall be made by class of underlying asset to which the ROU relates. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

MFRS 117

Accounting policies applied until 31 December 2018 [GN12]

Finance lease

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership were classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease

Leases in which a significant (substantially all) portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Leases in which the Group is a lessee (continued)

Key consideration [GN12]

When an entity applies the simplified retrospective transition method, the comparative information is not restated and continues to be reported under the previous accounting policies on leases based on the principles in MFRS 117 and IC Int. 4. Accordingly, the pre-MFRS 16 accounting policies should continue be disclosed in the 2019 financial statements when the entity first applied MFRS 16, in addition to MFRS 16 accounting policies.

3.2 Leases in which the Group is a lessor

MFRS 101.117

To disclose the significant accounting policies on lessor accounting which may include:

- Determination of finance or operating lease at lease inception
- Subsequent measurement of operating and finance leases

Example

The Group as a lessor

MFRS 16.61, 66

As a lessor, the Group determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(a) Finance leases

MFRS 16.62

The Group classifies a lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

MFRS 16.67, 77

The Group derecognises the underlying asset and recognises a receivable at an amount equal to the net investment in a finance lease. Net investment in a finance lease is measured at an amount equal to the sum of the present value of lease payments from lessee and the unguaranteed residual value of the underlying asset. Initial direct costs are also included in the initial measurement of the net investment. The net investments is subject to MFRS 9 impairment (refer to Note X on impairment of financial assets). In addition, the Group reviews regularly the estimated unguaranteed residual value.

MFRS 16.75, 77

Lease income is recognised over the term of the lease using the net investment method so as to reflect a constant periodic rate of return. The Group revises the lease income allocation if there is a reduction in the estimated unguaranteed residual value.

(b) Operating leases

MFRS 16.62

The Group classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

MFRS 16.81

The Group recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

Notes to the financial statements (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Leases in which the Group is a lessor (continued)

(c) Sublease classification

MFRS 16.B58

Until the financial year ended 31 December 2018, when the Group was an intermediate lessor, the subleases were classified as finance or operating leases by reference to the underlying assets.

From 1 January 2019, when the Group is an intermediate lessor, it assesses the lease classification of a sublease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. If a head lease is short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

(d) Separating lease and non-lease components

MFRS 16.17

If an arrangement contains lease and non-lease components, the Group allocates the consideration in the contract to the lease and non-lease components based on the stand-alone selling prices in accordance with the principles in MFRS 15.

Notes to the financial statements (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

MFRS 101.122, 125, 129

- The accounting for leases under MFRS 16 involves making various judgements and estimates which may need to be disclosed. The level of detail provided depends on the individual circumstances of the entity and the materiality of the amounts involved. For example, an entity may explain how it applies the judgment in the following areas :
  a) How the entity has determined whether a contract is, or contains, a lease.
  b) How the entity has determined the incremental borrowing rate, for example where third party financing cannot be obtained (or can only be obtained at a significant premium), or by adjusting rates to reflect the term, security, value or economic environment.
  c) What the entity considers to be an index or rate in determining lease payments.
  d) How the entity accounts for costs incurred in connection with a lease that are not part of the cost of the ROU asset.
  e) The interpretation of what constitutes a penalty in determining the lease term. **[GN13]**

Key consideration [GN13]

At the June 2019 meeting, the IFRS Interpretations Committee observed that when determining the enforceable period of a cancellable or renewable lease, an entity shall consider:

a) the broader economics of the contract, and not only contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated; and

b) whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Example – The Group as a lessee

Extension and termination options

MFRS 16.59(b)(ii), B50

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of RMxxx have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

MFRS 16.20

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in lease liabilities and ROU assets of RMxxx. Refer to **Note 5** for details about the Group's leases.

Residual value guarantees

MFRS 16.59(b)(iii), B51

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period. As at 31 December 2019, RMxxx is expected to be payable and is included in calculating the lease liabilities while RMxxx is not expected to be payable and has hence been excluded from the lease liabilities.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE

MFRS 16.51

- The objective of MFRS 16 disclosures is for lessee to disclose sufficient information about its lease contracts for users of financial statements to assess the effect of these contracts on the financial position, financial performance and cash flows of the lessee.

MFRS 16.52, B48(b)

- A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.

MFRS 16.47(a), MFRS 116.73(e)

- Where a lessee has elected to present ROU assets within the same line item as the corresponding underlying assets would be presented if they were owned, it should provide the same disclosures for the ROU assets as for the corresponding underlying assets. For example, where the ROU assets are presented as PPE, they would need to be included in the reconciliation that is required under MFRS 116 "Property, Plant and Equipment", with the same amount of detail as is required for other items of PPE.

MFRS 16.57

- If ROU assets are measured at revalued amounts applying MFRS 116, the lessee shall also disclose the following information required by MFRS 116.77 for those ROU assets:
  (a) Effective date of the revaluation;
  (b) Whether an independent valuer was involved;
  (c) Carrying amount that would have been recognised had the ROU assets been carried under the cost model; and
  (d) Revaluation surplus, indicating the change for the period and any restriction on distribution of the balance to shareholders.

MFRS 16.55

- Lessee who chooses to apply the short-term lease exemption in MFRS 16.6 is not required to recognise any lease liability. Instead, the lessee shall recognise the lease payments associated with short-term leases as an expense. Accordingly, MFRS 16 requires such lessees to disclose the amount of its short-term lease commitments if the portfolio of short-term lease commitment at the end of the reporting period is dissimilar to the portfolio of short-term leases for the current reporting period. This is because the amount of lease expense for the next reporting period would be different from the current reporting period.

Key consideration [GN14]

MFRS 101.38

As a general rule, entities must provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. However, where a lessee has applied the simplified retrospective transition method that is permitted under MFRS 16 it does not restate any comparative information and the disclosures for the prior period should reflect the accounting treatment applied in that period. Accordingly, such entities:

- shall retain the finance and operating lease disclosures for the prior year period in accordance with MFRS 117 and IC Int. 4; and
- are not require to provide comparative information for the new MFRS 16 disclosures.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.1 Disclosures about the ROU assets, expenses and cash flows related to leases

MFRS 16.53, 54, BC217

- MFRS 16 prescribes specific items of information that, if material, should be disclosed by lessees to meet the information needs of users of financial information. A lessee shall disclose these information in tabular format unless another format is more appropriate.

Example

The Group as a lessee

Information about ROU assets, expenses and cash flows related to leases [GN14]

Reference		2019 RM'000	2018 RM'000
MFRS 16.53(j)	Carrying amounts of ROU asset by class of underlying assets:[GN16]		
	Properties	xx,xxx	-
	Equipment	xx,xxx	-
	Others	xx,xxx	-
		xx,xxx	-
MFRS 16.53(h)	Additions to the ROU assets during the financial year	xx,xxx	-
MFRS 16.53(a)	Depreciation charge of ROU assets by class of underlying assets(*):		
	Properties	(x,xxx)	-
	Equipment	(x,xxx)	-
	Others	(x,xxx)	-
		(x,xxx)	-
MFRS 16.53(b)	Interest expense (*)	(x,xxx)	-
MFRS 16.53(c)	Expense related to short-term leases [GN17] (included in cost of goods sold and administrative expenses) [GN18]	(x,xxx)	-
MFRS 16.53(d)	Expense relating to lease of low-value assets that are not shown above as short-term leases [GN17] (included in administrative expenses) [GN18]	(x,xxx)	-
MFRS 16.53(e)	Expense relating to variable lease payments not included in the lease liabilities (included in administrative expenses) [GN18]	(x,xxx)	-
MFRS 16.53(f)	Income from subleasing ROU assets	x,xxx	-
MFRS 16.53(i)	Gains arising from sale and leaseback transactions	x,xxx	-
MFRS 16.53(g)	Total cash outflow for leases [GN19]	xx,xxx	-

MFRS 16.54

(*) *The amount disclosed shall include depreciation / interest that have been capitalised in the carrying amount of another asset during the financial year.*

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.1 Disclosures about the ROU assets, expenses and cash flows related to leases (continued)

Example (continued)

The Group as a lessee (continued)

Information about ROU assets, expenses and cash flows related to leases (continued)

MFRS 16.48, 56
MFRS 140.74

Key consideration [GN15]

- If ROU assets meet the definition of IP, a lessee shall present the ROU assets in the SOFP as IP and apply the disclosure requirements in MFRS 140. In that case, a lessee is not required to disclose the following information for those ROU assets:
  - Depreciation charge by class of underlying assets (paragraph 53(a));
  - Income from subleasing (paragraph 53(f));
  - Additions (paragraph 53(h)); or
  - Gains or loss from sale and leaseback transactions (paragraph 53(j)).

MFRS 16.51,
MFRS 101.112(c)

Key consideration [GN16]

Unlike MFRS 116, MFRS 16 does not mandate disclosure of the reconciliation of the ROU assets held. However, additional disclosures may be necessary to explain significant changes in the amount of ROU assets, for example as a result of foreign exchange movements or modifications to lease arrangements.

Key consideration [GN17]

MFRS 16.53(c)

The expenses related to short-term leases need not include the expense relating to leases with a lease term of 1 month or less.

MFRS 16.53(d)

The expenses related to leases of low-value assets shall not include the expenses related to those low-value assets that are included in the expenses on short-term leases.

MFRS 101.104

Key consideration [GN18]

An entity classifying expenses by function shall disclose additional information on the nature of expenses.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.1 Disclosures about the ROU assets, expenses and cash flows related to leases (continued)

MFRS 16.50

Key consideration [GN19]

The lessee shall classify the total cash outflows in the statement of cash flows as follows:

(a) Cash payments for the principal portion of the lease liability within financing activities;

(b) Cash payments for the interest portion of the lease liability consistent with presentation of interest payments chosen by the Group; and

(c) Short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

5.2 Additional entity specific qualitative and quantitative information about its leasing activities

MFRS 16.BC224

- Many leases contain more complex features, which can include variable payments, termination and extension options and residual value guarantee. These features of a lease are often determined on the basis of the individual circumstances of the parties to the contract. Accordingly, to meet the MFRS 16 disclosure objective, a lessee shall disclose additional qualitative and quantitative information about its leasing activities that is relevant to users of financial statements and is not apparent or disclose elsewhere in the financial statements.

MFRS 16.59, B48

- Lessee should apply judgement in determining the most useful and relevant disclosures, which will depend on a lessee's individual circumstances. The information is likely to be relevant to users of financial statements if it helps those users to understand:
  - (i) **the flexibility provided by leases**. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.
  - (ii) **restrictions imposed by leases**. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.
  - (iii) **sensitivity of reported information to key variables**. Reported information may be sensitive to, for example, future variable lease payments.
  - (iv) **exposure to other risks arising from leases**.
  - (v) **deviations from industry practice**. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.1 Disclosures about the ROU assets, expenses and cash flows related to leases (continued)

- Accordingly, additional information may include, but not limited to, information that helps users of financial statements to assess:
  - (a) Nature of the lessee's leasing activities **[illustrated in Example 1]**;
  - (b) Future cash flows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
    - MFRS 16.B49 (i) Variable lease payments **[Illustrated in Example 2]**;
    - MFRS 16.B50 (ii) Extension options and termination options **[Illustrated in Example 3]**;
    - MFRS 16.B51 (iii) Residual value guarantee; and
    - (iv) Leases not yet commenced to which the lessee is committed.
  - (c) Restrictions or covenants imposed by leases **[Illustrated in Example 1]**; and
  - MFRS 16.B52 (d) Sale and leaseback transactions.

> **Key consideration [GN20]**
>
> The illustrative examples (sourced from the IFRS 16 Illustrative Examples published by the IASB) included in this guide are not exhaustive and should not be used as a boilerplate for disclosures. The examples illustrate how judgement could be applied in identifying information that is useful and relevant to the users of financial statements, which will depend on a lessee's individual circumstances.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.2 Additional entity specific qualitative and quantitative information about its leasing activities (continued)

Example 1: Nature of the lessee's leasing activities [MFRS 16.59(a)] and restrictions or covenants imposed by leases [MFRS 16.59(c)] [GN20]

Nature of leased assets

Range of contractual lease period and whether there is any extension option.

The Group leases various offices, warehouses, retail stores, and equipment. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options.

How leases are negotiated

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Restrictions / covenants imposed by leases

The lease agreement do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Example 2: Variable payments terms [MFRS 16.IE9] [GN20]

Illustrative 2.1

Key variables upon which variable lease payment depend [MFRS 16.B49(c)]

Reasons for using variable lease payments [MFRS 16.B49(a)]

Some of the property leases within the Group contain variable payment terms that are linked to sales generated from the store. Variable payment terms are used, when possible, in newly established stores in order to link rental payments to store cash flows and minimise fixed costs.

Relative magnitude of variable lease payments to fixed payments [MFRS 16.B49(b)]

How payments are expected to vary in response to changes in key variables [MFRS 16.B49(c)]

Fixed and variable rental payments by segment for the financial year ended 31 December 2019 are summarised below:

	Stores	Fixed payments	Variable payments	Total payments	Estimated annual impact on total rent with a 1% increase in sales
	No.	RM'000	RM'000	RM'000	%
Segment A	4,522	3,854	120	3,974	0.03%
Segment B	xxx	xxx	xxx	xxx	xxx
Segment C	xxx	xxx	xxx	xxx	xxx
Segment D	xxx	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx	xxx

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.2 Additional entity specific qualitative and quantitative information about its leasing activities (continued)

Example 2: Variable payments terms [MFRS 16.IE9] [GN20] (continued)

Illustrative 2.2

Key variables upon which variable lease payment depend [MFRS 16.B49(c)]

Many of the property leases within the Group contain variable payment terms that are linked to the volume of sales made from leased stores.

Reason for using variable lease payments [MFRS 16.B49(a)]

These terms are used, when possible, in order to match lease payments with stores generating higher cash flows.

Relative magnitude of variable lease payments to fixed payments [MFRS 16.B49(b)]

For individual stores, up to 100% of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. In some cases, variable payment terms also contain minimum annual payments and caps. Lease payments and terms for the financial year ended 31 December 2019 are summarised below.

	Stores No.	Fixed payments RM'000	Variable payments RM'000	Total payments RM'000
Variable rent with minimum	3,089	1,091	1,435	2,526
Variable rent with no minimum	xxx	-	xxx	xxx
Fixed rent only	xxx	xxx	-	xxx
	xxx	xxx	xxx	xxx

How variable payments are expected to vary in response to changes in key variables [MFRS 16.B49(c)]

A 1% increase in sales across all stores in the Group would be expected to increase total lease payments by approximately xx% - xx%. A 5% increase in sales across all stores in the Group would be expected to increase total lease payments by approximately xx% - xx%.

Illustrative 2.3

Many of the property leases within the Group contain variable payment terms. Local management are responsible for store margins. Accordingly, lease terms are negotiated by local management and contain a wide range of payment terms.

Reason for using variable lease payments [MFRS 16.B49(a)]

Variable payment terms are used for a variety of reasons, including minimising the fixed cost base for newly established stores or for reasons of margin control and operational flexibility.

Variable lease payment terms vary widely across the Group:

Key variables upon which variable lease payments depend [MFRS 16.B49(c)]

(a) the majority of variable payment terms are based on a range of percentages of store sales;

Relative magnitude of variable lease payments to fixed payments [MFRS 16.B49(b)]

(b) lease payments based on variable terms range from 0% - 20% of total lease payments on an individual property; and
(c) some variable payment terms include minimum or cap clauses.

How variable payments are expected to vary in response to changes in key variables [MFRS 16.B49(c)]

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. This facilitates the management of margins across the Group. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future financial years.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.2 Additional entity specific qualitative and quantitative information about its leasing activities (continued)

Example 3: Extension options and termination options [MFRS 16.IE10] [GN20]

Illustrative 3.1

Extension and termination options are included in a number of equipment leases across the Group. Local teams are responsible for managing their leases and, accordingly, lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are included, when possible, to provide local management with greater flexibility to align its need for access to equipment with the fulfilment of customer contracts. The individual terms and conditions used vary across the Group. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

Reason for using extension and termination options [MFRS 16.B50(a)]

In cases in which the Group is not reasonably certain to exercise an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

Prevalence of the exercise of options that were not included in the measurement of lease liabilities [MFRS 16.B50(c)]

During 2019, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities of RMxxx.

Relative magnitude of optional lease payments to lease payments [MFRS 16.B50(b)]

In addition, the Group has a number of lease arrangements containing annual break clauses at no penalty. These leases are classified as short-term leases and are not included within lease liabilities. The short-term lease expense of RMxxx recognised during 2019 included RMxxx relating to leases with an annual break clause.

Financial effects of the extension and termination options [MFRS 16.50(d)]

Illustrative 3.2

Many of the property leases across the Group contain termination options. These options are used to limit the period to which the Group is committed to individual lease contracts and to maximise operational flexibility in terms of opening and closing individual restaurants.

Reason for using termination options [MFRS 1.B50(a)]

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.2 Additional entity specific qualitative and quantitative information about its leasing activities (continued)

Example 3: Extension options and termination options [MFRS 16.IE10] [GN20] (continued)

Illustrative 3.2 (continued)

Relative magnitude of optional lease payments to lease payments [MFRS 16.B50(b)]

For most leases of restaurants, recognised lease liabilities do not include potential future rental payments after the exercise date of termination options because the Group is not reasonably certain to extend the lease beyond that date. This is the case for most leases for which a longer lease term can be enforced only by the Group and not by the landlord, and for which there is no penalty associated with the option.

Potential future rental payments relating to periods following the exercise date of termination options are summarised below.

Business segment	Lease liabilities recognised (discounted)	Potential future lease payments not included in lease liabilities (undiscounted)		
		Payable during 2020 – 2024	Payable during 2025 – 2029	Total
	RM'000	RM'000	RM'000	RM'000
A	569	71	94	165
B	xxx	xxx	xxx	xxx
C	xxx	xxx	xxx	xxx
D	xxx	xxx	xxx	xxx
E	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx

Prevalence of the exercise of options that were not included in the measurement of lease liabilities [MFRS 16.B50(c)]

The table below summarises the rate of exercise of termination options during the financial year 20X0.

Business segment	Termination option exercisable during 2019	Termination option not exercised	Termination option exercised
	No. of leases	No. of leases	No. of leases
A	33	30	3
B	xxx	xxx	xxx
C	xxx	xxx	xxx
D	xxx	xxx	xxx
E	xxx	xxx	xxx
	xxx	xxx	xxx

Illustrative 3.3

Reason for using extension options [MFRS 16.B50(a)]

Many of the large equipment leases across the Group contain extension options. These terms are used to maximise operational flexibility in terms of managing contracts.

Prevalence of the exercise of options that were not included in measurement of lease liabilities [MFRS 16.B50(c)]

These terms are not reflected in measuring lease liabilities in many cases because the options are not reasonably certain to be exercised. This is generally the case when the underlying large equipment has not been allocated for use on a particular customer contract after the exercise date of an extension option.

Notes to the financial statements (continued)

5. DISCLOSURES - LESSEE (CONTINUED)

5.2 Additional entity specific qualitative and quantitative information about its leasing activities (continued)

Relative magnitude of optional lease payments to lease payments [MFRS 16.B50(b)]

Illustrative 3.3 (continued)

The table below summarises potential future rental payments relating to periods following the exercise dates of extension options.

Business segment	Lease liability recognised RM'000	Potential future lease payments not included in lease liabilities (discounted) RM'000	Historical rate of exercise of extension options %
A	569	799	52%
B	xxx	xxx	xxx
C	xxx	xxx	xxx
D	xxx	xxx	xxx
E	xxx	xxx	xxx
	xxx	xxx	xxx

Notes to the financial statements (continued)

5. DISCLOSURES – LESSEE (CONTINUED)

5.3 Maturity analysis of lease liabilities

MFRS 16.58

- Lessee is required to disclose a maturity analysis of lease liabilities in accordance with paragraph 39 and B11 of MFRS 7 "Financial Instruments: Disclosures", separately from the maturity analyses of other financial liabilities.

Key consideration [GN21]

MFRS 16.BC221

Unlike MFRS 117, MFRS 16 does not prescribe the time bands for the maturity analysis of lease liabilities. Accordingly, lessees applying MFRS 7 to lease liabilities are required to apply judgement in selecting time bands for the maturity analysis:

- In a scenario in which disclosing undiscounted cash flows for each of the first 5 years and a total for the periods thereafter provides the most useful information to users of financial statements, the requirements of MFRS 7 should lead a lessee to disclose this level of detail (see Example 1 below).

- In contrast, in a scenario in which an alternative (and possibly more detailed) set of time bands provides the most useful information to users of financial statements, the requirements of MFRS 7 should lead a lessee to disclose that alternative and more useful set of time bands. For example, for a portfolio of 15 -20 year leases, the requirements of MFRS 7 should lead a lessee to provide a more detailed maturity analysis than a single amount of the years beyond the 5th year (see Example 2 below).

MFRS 7.39, B11

Example 1 [GN21]
Undiscounted contractual cash flows: Non-derivative financial liabilities (including lease liabilities) [GN22]

	Total	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Bank borrowings	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	-
Lease liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Trade and other payables	x,xxx	x,xxx	-	-	-	-	-

Example 2 [GN21]
Undiscounted contractual cash flows: Non-derivative financial liabilities [GN22]

	Total	Less than 1 month	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years
Bonds	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	-
Lease liabilities*	x,xxx	-	-	x,xxx	x,xxx	x,xxx	x,xxx
Trade and other payables	x,xxx	x,xxx	x,xxx	-	-	-	-

* Further information about the maturity of lease liabilities is provided in the table below:

	Total	5 – 10 years	10 – 15 years	15 – 20 years
Lease liabilities	x,xxx	x,xxx	x,xxx	x,xxx

Key consideration [GN22]

The maturity analysis of lease liabilities could be presented together in the MFRS 7 maturity analysis table but as a separate item from other financial liabilities as shown in the Examples above. Alternatively, lessee could present the maturity analysis of lease liabilities in a separate table.

Notes to the financial statements (continued)

6. DISCLOSURES – LESSOR

MFRS 16.89

- MFRS 16 enhances the previous disclosure requirements of a lessor in MFRS 117 to meet the disclosure objective of MFRS 16. Specifically, a lessor is required to disclose sufficient information on its leasing activities so as to give a basis for users of financial statements to assess the effects of these activities on the financial position, financial performance and cash flows of the lessor.

6.1 Analysis of lease income

MFRS 16.90, BC252

- MFRS 16 requires a lessor to disclose information about the different component of lease income recognised during the reporting period. This requirement is similar to the requirement in MFRS 15 of which entities are required to disaggregate revenue recognised from contract with customers during the reporting period.

Example [GN23]

Lease income from lease contracts in which the Group acts as a lessor:

		2019 RM'000
MFRS 16.90(a)	**Finance lease**	
	Finance income on the net investment in the lease	xxx
	Income relating to variable lease payments not included in the measurement of the net investment in the lease	xxx
MFRS 16.90(b)	**Operating lease**	
	Lease income (excluding contingent rents)	xxx
	Lease income - contingent rents	xxx

MFRS 16.91

Key consideration [GN23]

A lessor shall provide the disclosures specified in MFRS 16.90 illustrated in Example above in a tabular format, unless other format is more appropriate.

Notes to the financial statements (continued)

6. DISCLOSURES - LESSOR (CONTINUED)

6.2 Additional entity specific qualitative and quantitative information

MFRS 16.92

- A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in MFRS 16. This additional information includes, but is not limited to, information that helps users of financial statements to assess:
  - (a) the nature of the lessor's leasing activities; and
  - (b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits. **[GN24]**

Key consideration [GN24]

MFRS 16.BC254

Uncertainty about the residual value of the underlying asset at the end of the lease is often a lessor's primary risk. Accordingly, MFRS 16 requires a lessor to disclose information about how it manages its risk associated with any rights it retains in the underlying asset.

The IASB also noted that disclosing information about residual asset risk will also provide users of financial statements with useful information about the distribution of risk for a lessor between credit risk relating to lease payments receivable and residual asset risk relating to the interest in the underlying asset.

Example

The investment properties are leased to tenants under operating leases with rentals payable on a monthly basis. Lease payments for some contracts are linked to sales generated from the stores, but there are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Group may obtain bank guarantees for the term of the lease.

Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases following the expiry of existing operating leases. Expectations about the future residual values are reflected in the fair value of the properties.

Notes to the financial statements (continued)

6. DISCLOSURES - LESSOR (CONTINUED)

6.3 Changes in the carrying amount of net investment in finance leases

MFRS 16.93
MFRS 16.BC259

- MFRS 16 requires a lessor to provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases during the reporting period to allow users of financial statements to understand these significant changes. This disclosure was not required by MFRS 117.

Example

During the financial year, the increase of finance lease receivables are due to the following reasons:

	2019 RM’000
Balance as at 1 January 2019	xxx
New leases entered into during the financial year	xxx
Lease payments received during the financial year	(xxx)
Adjustment due to lease modification	xxx
Others	xxx
Balance as at 31 December 2019	xxx

6.4 Information about assets subject to operating lease [GN25]

MFRS 16.95

- MFRS 16 requires lessor to apply disclosures in MFRS 116 for PPE subject to operating lease. In applying MFRS 116, a lessor is required to disaggregate each class of PPE into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by MFRS 116 for each class of asset subject to an operating lease.

MFRS 16.BC256

Key consideration [GN25]

The IASB observed that leased and owned assets are typically used for different purposes, i.e. lease assets generate rental income rather than contributing towards any other revenue-generating activity of the lessor. The users of financial statements would benefit from obtaining information about leased assets under operating leases (i.e. assets not held and used by the lessor) as compared to owned assets that are held and used by the lessor.

MFRS 16.96

- A lessor shall also apply the disclosure requirements in MFRS 136, MFRS 138 “Intangible Assets”, MFRS 140 and MFRS 141 “Agriculture” for assets subject to operating leases.

Notes to the financial statements (continued)

6. DISCLOSURES – LESSOR (CONTINUED)

6.5 Maturity analysis of undiscounted lease payments

MFRS 16.BC257, BC258

- MFRS 16 requires a lessor to disclose, for both finance and operating leases, a maturity analysis of the undiscounted lease payments to be received on an annual basis for a minimum of each of the first 5 years following the reporting date and a total of the amounts for the remaining years.

  This is a change from the previous requirements in MFRS 117, which required a maturity analysis showing in 3 bands: 'not later than 1 year', 'later than 1 year and not later than 5 years' and 'later than 5 years'.

  The IASB is of the view that a more detailed maturity analysis will enable users of financial statements to more accurately forecast future lease cash flows and estimate liquidity risk.

Example – Finance leases

MFRS 16.94

The Group subleases an office building that it leased in 2014. The Group has classified the sublease as a finance lease because the sublease is for the whole of the remaining term of the head lease. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	2019
	RM'000
Within 1 year	xxx
In the 2nd year	xxx
In the 3rd year	xxx
In the 4th year	xxx
Total undiscounted lease payments receivable	**xxx**
Unearned finance income	(xxx)
Discounted unguaranteed residual value	xxx
Net investment in the lease	**xxx**

Example – Operating leases

MFRS 16.97

The Group leases out its investment property and some machinery. The Group classified these leases as operating lease, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The following table sets out the maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2019
	RM'000
Within 1 year	xxx
In the 2nd year	xxx
In the 3rd year	xxx
In the 4th year	xxx
In the 5th year	xxx
Later than 5 years	xxx
Total undiscounted lease payments	**xxx**

Appendix: MFRS 16 disclosure checklist

		Yes/Not applicable/ Not material	Reference
	1 Transition disclosures		
MFRS 16.C3	*As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:* *(a) to apply this Standard to contracts that were previously identified as leases applying MFRS 117 Leases and IC Interpretation 4 Determining whether an Arrangement contains a Lease. The entity shall apply the transition requirements in paragraphs C5–C18 to those leases.* *(b) not to apply this Standard to contracts that were not previously identified as containing a lease applying MFRS 117 and IC Interpretation 4.*		
MFRS 16.C4	1 If an entity chooses the practical expedient in paragraph C3, it shall disclose that fact.		
MFRS 16.C10(c)(ii)	**Leases previously classified as operating leases** 2 When applying this Standard retrospectively in accordance with paragraph C5(b) of MFRS 16 to leases previously classified as operating leases applying MFRS 117 Leases, a lessee may elect not to apply the requirements in paragraph C8 of MFRS 16 to leases for which the lease term ends within 12 months from the date of initial application. In this case, the lessee shall include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.		
MFRS 16.C12	**Leases previously classified as finance leases** 3 If a lessee elects to apply this Standard in accordance with paragraph C5(b) of MFRS 16, the lessee shall disclose information about initial application required by paragraph 28 of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, except for the information specified in paragraph 28(f) of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Instead of the information specified in paragraph 28(f) of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors,* the lessee shall disclose: (a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and		
	(b) an explanation of any difference between: (i) operating lease commitments disclosed applying MFRS 117 Leases at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a) of MFRS 16; and		

Reference (MFRS)		Requirement	Yes/Not applicable/ Not material	Reference
		(ii) lease liabilities recognised in the statement of financial position at the date of initial application.		
MFRS 16.C13	4	If a lessee uses one or more of the specified practical expedients in paragraph C10, it shall disclose that fact.		
	2	**Consequential amendments to MFRS 140 'Investment Property'**		
MFRS 140.74		*The disclosures in paragraphs 75 to 79 of MFRS 140 apply in addition to those in MFRS 16. In accordance with MFRS 16, the owner of an investment property provides lessors' disclosures about leases into which it has entered. A lessee that holds an investment property as a right-of-use asset provides lessees' disclosures as required by MFRS 16 and lessors' disclosures as required by MFRS 16 for any operating leases into which it has entered.*		
		<u>Fair value model and cost model</u>		
MFRS 140.75	1	An entity shall disclose: (a) whether it applies the fair value model or the cost model.		
		(c) when classification is difficult (see paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.		
		(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.		
		(f) the amounts recognised in profit or loss for: (i) rental income from investment property;		
		(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period;		
		(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period; and		
		(iv) the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 32C).		
		(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.		

			Yes/Not applicable/ Not material	Reference
		(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.		
MFRS 140.76	2	**<u>Fair value model</u>** In addition to the disclosures required by paragraph 75, an entity that applies the fair value model in paragraphs 33–55 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following: (a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;		
		(b) additions resulting from acquisitions through business combinations;		
		(c) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with MFRS 5 and other disposals;		
		(d) net gains or losses from fair value adjustments;		
		(e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;		
		(f) transfers to and from inventories and owner-occupied property; and		
		(g) other changes.		
MFRS 140.77	3	When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease <u>liabilities</u> that have been added back, and any other significant adjustments.		
MFRS 140.78	4	In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in MFRS 116 or in accordance with MFRS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose: (a) a description of the investment property;		
		(b) an explanation of why fair value cannot be measured reliably;		
		(c) if possible, the range of estimates within which fair value is highly likely to lie; and		

		Yes/Not applicable/ Not material	Reference
	(d) on disposal of investment property not carried at fair value: (i) the fact that the entity has disposed of investment property not carried at fair value;		
	(ii) the carrying amount of that investment property at the time of sale; and		
	(iii) the amount of gain or loss recognised.		
MFRS 140.79	**Cost model** 5 In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose: (a) the depreciation methods used;		
	(b) the useful lives or the depreciation rates used;		
	(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;		
	(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following: (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;		
	(ii) additions resulting from acquisitions through business combinations;		
	(iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with MFRS 5 and other disposals;		
	(iv) depreciation;		
	(v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with MFRS 136;		
	(vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;		
	(vii) transfers to and from inventories and owner-occupied property; and		
	(viii) other changes; and		
	(e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose: (i) a description of the investment property;		

		Yes/Not applicable/ Not material	Reference
	(ii) an explanation of why fair value cannot be measured reliably; and		
	(iii) if possible, the range of estimates within which fair value is highly likely to lie.		
MFRS 16.47	**3 Accounting by a lessee** **<u>Presentation</u>** 1 A lessee shall either present in the statement of financial position, or disclose in the notes: (a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:		
	(i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and		
	(ii) disclose which line items in the statement of financial position include those right-of-use assets.		
MFRTS 16.48	(b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities. *The requirement in paragraph 47(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.*		
MFRS 16.49	2 In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of MFRS 101 *Presentation of Financial Statements* requires to be presented separately in the statement of profit or loss and other comprehensive income.		
MFRS 16.50	3 In the statement of cash flows, a lessee shall classify: (a) cash payments for the principal portion of the lease liability within financing activities;		
	(b) cash payments for the interest portion of the lease liability applying the requirements in MFRS 107 *Statement of Cash Flows* for interest paid; and		
	(d) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.		

			Yes/Not applicable/ Not material	Reference
		Disclosures		
MFRS 16.51	4	*The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52-60 specify requirements on how to meet this objective.*		
MFRS 16.52		*A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.*		
MFRS 16.53	5	A lessee shall disclose the following amounts for the reporting period: (a) depreciation charge for right-of-use assets by class of underlying asset;		
		(b) interest expense on lease liabilities;		
		(c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;		
		(d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);		
		(e) the expense relating to variable lease payments not included in the measurement of lease liabilities;		
		(f) income from subleasing right-of-use assets;		
		(g) total cash outflow for leases;		
		(h) additions to right-of-use assets;		
		(i) gains or losses arising from sale and leaseback transactions; and		
		(j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.		
MFRS 16.54		*A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.*		

			Yes/Not applicable/ Not material	Reference
MFRS 16.55	6	A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.		
MFRS 16.56	7	If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in MFRS 140 *Investment Property*. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.		
MFRS 16.57	8	Where the lessee measures right-of-use assets at revalued amounts applying MFRS 116, disclose:		
MFRS 116.77		(a) the effective date of the revaluation;		
		(b) whether an independent valuer was involved;		
		(e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and		
		(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.		
MFRS 16.58	9	A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 39 and B11 of MFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.		
MFRS 16.59 MFRS 16.59(a)	10	In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess: (a) the nature of the lessee's leasing activities;		
MFRS 16.59(b)(i)		(b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from: (i) variable lease payments (as described in paragraph B49);		
MFRS 16.B49		*Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:* - *the lessee's reasons for using variable lease payments and the prevalence of those payments;*		

		Yes/Not applicable/ Not material	Reference
	- *the relative magnitude of variable lease payments to fixed payments;*		
	- *key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and*		
	- *other operational and financial effects of variable lease payments.*		
MFRS 16.59(b)(ii)	(ii) extension options and termination options (as described in paragraph B50);		
MFRS 16.B50	*Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:* - *the lessee's reasons for using extension options or termination options and the prevalence of those options;*		
	- *the relative magnitude of optional lease payments to lease payments;*		
	- *the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and*		
	- *other operational and financial effects of those options.*		
MFRS 16.59(b)(iii)	(iii) residual value guarantees (as described in paragraph B51); and		
MFRS 16.B51	*Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:* - *the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees;*		
	- *the magnitude of a lessee's exposure to residual value risk;*		
	- *the nature of underlying assets for which those guarantees are provided; and*		
	- *other operational and financial effects of those guarantees.*		
MFRS 16.59(b)(iv)	(iv) leases not yet commenced to which the lessee is committed.		
MFRS 16.59(c)	(c) restrictions or covenants imposed by leases; and		
MFRS 16.59(d)	(d) sale and leaseback transactions (as described in paragraph B52).		

Reference to standard	No.	Requirement	Yes/Not applicable/ Not material	Reference
		<u>Sale and leaseback transaction</u>		
MFRS 16.B52	*11*	*Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:* *(a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions;*		
		(b) key terms and conditions of individual sale and leaseback transactions;		
		(c) payments not included in the measurement of lease liabilities; and		
		(d) the cash flow effect of sale and leaseback transactions in the reporting period.		
MFRS 16.B48	*12*	*In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider:* *(a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those users to understand:* *(i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions.*		
		(ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios.		
		(iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments.		
		(iv) exposure to other risks arising from leases.		
		(v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio.		
		(b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.		
MFRS 16.60	13	A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.		

		Yes/Not applicable/ Not material	Reference
	4 Accounting by a lessor		
	Presentation		
MFRS 16.88	1 A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset.		
	Disclosures		
MFRS 16.89	2 *The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.*		
MFRS 16.90	3 A lessor shall disclose the following amounts for the reporting period: (a) for finance leases: (i) selling profit or loss;		
	(ii) finance income on the net investment in the lease; and		
	(iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.		
	(b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.		
MFRS 19.91	*A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.*		
MFRS 16.92	4 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess: (a) the nature of the lessor’s leasing activities; and		
	(b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.		
	Finance leases		
MFRS 16.93	5 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.		

			Yes/Not applicable/ Not material	Reference
MFRS 16.94	6	A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.		
		Operating leases		
MFRS 16.95	7	For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of MFRS 116 *Property, Plant and Equipment*. In applying the disclosure requirements in MFRS 116, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by MFRS 116 *Property, Plant and Equipment* for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.		
MFRS 16.96	8	A lessor shall apply the disclosure requirements in MFRS 136 *Impairment of Assets*, MFRS 138 *Intangible Assets*, MFRS 140 I*nvestment Property* and MFRS 141 *Agriculture* for assets subject to operating leases.		
MFRS 16.97	9	A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.		

Do you have any further questions on MFRS 16?

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Stay up to date with the latest developments in financial reporting and capital markets

IASB proposes amendments to IAS 12 impacting deferred taxes for lessees

- **Key message:** IASB published an exposure draft (ED) clarifying how companies account for deferred tax on leases and decommissioning obligations. According to the ED, the exemption in IAS 12 does not apply to transactions for which companies recognise both an asset and a liability at the same time, e.g. leases. The ED is open for public comments to the IASB until 14 November 2019 or to the MASB until 26 September 2019.

Read more

How would MFRS 16 change sublease accounting for intermediate lessors?

- **Key message:** MFRS 16 requires lessors to classify a lease as either an operating or finance lease. Intermediate lessors will have to assess this classification with reference to the right-of-use asset and not the underlying asset, which is a change from the old lease accounting standard, MFRS 117.
- **Practical impact:** An increased likelihood that intermediate lessors will need to classify subleases as finance leases under MFRS 16.
- **What you should think about:** Where you are an intermediate lessor, re-assessment of lease classification is required upon initial adoption of MFRS 16.

Read more

Companies (Amendment) Bill 2019: 4 key amendments relevant to financial reporting

- **Key message:** Since the Companies Act 2016 came into force on 31 January 2017, the Companies Commission of Malaysia received feedback from stakeholders on the need for several provisions to be amended to ensure good practices and better compliance with the law. The Companies (Amendment) Bill 2019) was passed in the Dewan Rakyat on 10 July 2019 and the Dewan Negara on 31 July 2019 and will soon be gazetted.
- **Practical impact:** There are 4 key amendments that are relevant to financial reporting:

  (i) redemption of preference shares out of capital;
  (ii) power to alter share capital;
  (iii) non-conterminous accounting period of group companies; and
  (iv) appointment and fixing of auditors’ remuneration at the Annual General Meeting of public companies.

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