Commission Regulation (EU) 2017/1986 of 31 October 2017 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16 (Text with EEA relevance)

COMMISSION REGULATION (EU) 2017/1986

of 31 October 2017

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[(1)], and in particular Article 3(1) thereof,

Whereas:

(1) Commission Regulation (EC) No 1126/2008[(2)] adopted certain international standards and interpretations that were in existence on 15 October 2008.

(2) On 13 January 2016, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 16 Leases. This standard aims to improve financial reporting on lease contracts.

(3) Adoption of IFRS 16 implies consequential amendments to the following standards or interpretations of standards: IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13, IFRS 15, International Accounting Standard (IAS) 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40, IAS 41, Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 1, IFRIC 12, Interpretation of Standing Interpretations Committee (SIC) 29 and SIC-32.

(4) The consultation with the European Financial Reporting Advisory Group confirms that IFRS 16 meets the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(5) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) 2017/1986. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

Article 1

The Annex to Regulation (EC) No 1126/2008 is amended as follows:

(a) International Financial Reporting Standard (IFRS) 16 Leases is inserted as set out in the Annex to this Regulation;

(b) IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13, IFRS 15, IFRIC 1, IFRIC 12, SIC-29 and SIC-32 are amended in accordance with IFRS 16 as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2019.

Article 3

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 31 October 2017.

For the Commission

The President

Jean-Claude JUNCKER

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ANNEX

International Financial Reporting Standard 16*Leases*
International Financial Reporting Standard 16 *Leases*
OBJECTIVE

1. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of *leases*. The objective is to ensure that *lessees* and *lessors* provide relevant information in a manner that faithfully represents those transactions. This information 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 an entity.

2. An entity shall consider the terms and conditions of *contracts* and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.
SCOPE

3. An entity shall apply this Standard to all leases, including leases of *right-of-use assets* in a *sublease*, except for:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

(b) leases of biological assets within the scope of IAS 41 *Agriculture* held by a lessee;

(c) service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements*;

(d) licences of intellectual property granted by a lessor within the scope of IFRS 15 *Revenue from Contracts with Customers*; and

(e) rights held by a lessee under licensing agreements within the scope of IAS 38 *Intangible Assets* for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

4. A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described in paragraph 3(e).
RECOGNITION EXEMPTIONS (PARAGRAPHS B3–B8)

5. A lessee may elect not to apply the requirements in paragraphs 22–49 to:

(a) *short-term leases*; and

(b) leases for which the *underlying asset* is of low value (as described in paragraphs B3–B8).

6. If a lessee elects not to apply the requirements in paragraphs 22–49 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the *lease payments* associated with those leases as an expense on either a straight-line basis over the *lease term* or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

7. If a lessee accounts for short-term leases applying paragraph 6, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:

(a) there is a *lease modification*; or

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(b) there is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).

8. The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity's operations. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

IDENTIFYING A LEASE (PARAGRAPHS B9–B33)

9. At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs B9–B31 set out guidance on the assessment of whether a contract is, or contains, a lease.

10. A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).

11. An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating components of a contract

12. For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 15. Paragraphs B32–B33 set out guidance on separating components of a contract.

Lessee

13. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

14. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximising the use of observable information.

15. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in paragraph 4.3.3 of IFRS 9 *Financial Instruments*.

16. Unless the practical expedient in paragraph 15 is applied, a lessee shall account for non-lease components applying other applicable Standards.

Lessor

17. For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 73–90 of IFRS 15.

LEASE TERM (PARAGRAPHS B34–B41)

18. An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

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(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

19. In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in paragraphs B37–B40.

20. A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

(a) is within the control of the lessee; and

(b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (as described in paragraph B41).

21. An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

(a) the lessee exercises an option not previously included in the entity's determination of the lease term;

(b) the lessee does not exercise an option previously included in the entity's determination of the lease term;

(c) an event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or

(d) an event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

LESSEE

Recognition

22. At the *commencement date*, a lessee shall recognise a right-of-use asset and a lease liability.

Measurement

Initial measurement

Initial measurement of the right-of-use asset

23. At the commencement date, a lessee shall measure the right-of-use asset at cost.

24. The cost of the right-of-use asset shall comprise:

(a) the amount of the initial measurement of the lease liability, as described in paragraph 26;

(b) any lease payments made at or before the commencement date, less any *lease incentives* received;

(c) any *initial direct costs* incurred by the lessee; and