FRC Financial Reporting Council

IFRS 16 ‘Leases’

A thematic review of disclosures in the first year of application

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Key to symbols

Represents good practice

Represents an omission of required disclosure or other issue

Represents an opportunity for enhancing disclosures

Examples of better disclosure…

Executive summary

Introduction

This report summarises the key findings of our review of disclosures in companies' first annual report and accounts following their adoption of IFRS 16 'Leases'. It is a follow-up to our report published in November 2019[1] which considered the disclosures made in 2019 interim accounts relating to the implementation of IFRS 16.

In our previous review we concluded that, although interim disclosure requirements are less extensive than those for full year accounts, some companies did not sufficiently explain the impact of adopting IFRS 16.

This review considers how effectively a sample of twenty companies have met the ongoing disclosure requirements of IFRS 16, as well as the adequacy of the transition disclosures relating to adoption of the new standard.

Key findings

We found most of the companies sampled provided sufficient information to enable readers to understand the impact of adopting IFRS 16. We were also pleased that year-end disclosures were generally more comprehensive than the equivalent interim disclosures.

In a number of reviews we identified opportunities for companies to improve their disclosures. We have included a number of examples of better disclosure identified from our reviews throughout this report, highlighting some of the attributes of those better disclosures, to help companies to enhance their IFRS 16 disclosures in future annual reports.

Our key findings are that improvements could be made to the following areas:

Accounting policies

Many companies relied on boilerplate language, with insufficient entity-specific information, when explaining their accounting policy for leases. Better examples explained the policy using language specific to the company's circumstances. In some cases companies did not specify an accounting policy for apparently material items.

[1] https://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews

Judgements

Descriptions of judgements made by management in the application of the company's accounting policy were absent or inadequate. For example, judgements made about the lease term or scope of the standard. In several instances, significant differences were identified from the IAS 17 'Leases' disclosure of lease commitments with little or no explanation for these, even though some appeared to reflect potentially significant judgements.

Disclosures

Few companies provided the broader disclosures required by paragraph 59 to help readers understand the exposure to future cash outflows from leases. Such information includes the nature of variable lease payments, or the impact of extension options not recognised in the lease liability. Explanations were not given even where the exercise of extension options was identified as a significant judgement made by management.

Most of the disclosures mandated by paragraph 53 of the standard, relating to amounts recognised for leases, were provided but these were often not in a single note or cross referenced, as is required by the standard.

We have highlighted several examples in the report which we felt addressed the disclosure objective of the standard well.

We recognise that this is the first full year of application and that disclosures will continue to develop over time. We will, however, continue to review compliance with IFRS 16 through our routine review work. We note that lease disclosures, including the urgent amendment to IFRS 16 introduced to address Covid-19-related rent concessions, will be of particular relevance in future reporting.

We hope that preparers find this report useful when engaging with their external auditors on their proposed leasing disclosures.

Scope and sample

Background and scope of our review

Our review consisted of a limited scope desktop review of the annual report and accounts of entities applying IFRS 16 for the first time. In particular, we focused on those matters which had given cause for concern in the FRC's earlier review of a sample of 2019 interim reports. We reported our findings from the review of interim disclosures in November 2019 so that companies could address the issues raised in their full year accounts.

In this review, we assessed the comprehensiveness and quality of leasing disclosures against the requirements of both IFRS 16 and those for judgements and estimates in IAS 1 'Presentation of Financial Statements'. We also considered the other associated disclosure requirements of IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures'. In addition, we evaluated whether there was sufficient information provided in the full-year accounts to enable a user to understand the impact of adopting IFRS 16.

We focused on:

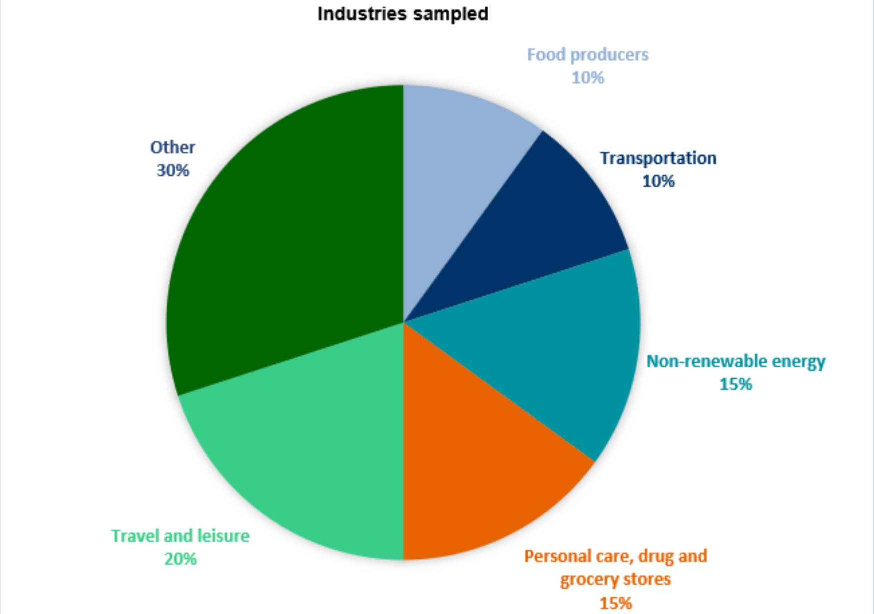
- whether sufficient entity-specific information about significant accounting judgements made, and the factors considered, was included;
- explanations of the specific choices made at transition; and
- the reconciliation between the operating lease commitments under the previous standard and the new lease liability along with the explanations of reconciling items.

We also considered compliance of relevant front-end disclosures with the ESMA Guidelines on Alternative Performance Measures. We consider these codify best practice and we expect preparers to continue to adopt them post the EU exit transition period.

Our review focussed on lessees as the accounting requirements for lessors in IFRS 16 are substantially carried forward from IAS 17.

Our sample

We reviewed the annual report and accounts of 20 entities, nine of which were included in our sample of interim disclosures last year. Our sample included companies from industries in which we would expect the implementation of IFRS 16 to have the most significant impact. As a result, our sample focused on the travel and leisure; personal care, drug and grocery stores; non-renewable energy; food producers and transportation sectors. None of our sample early-adopted IFRS 16.



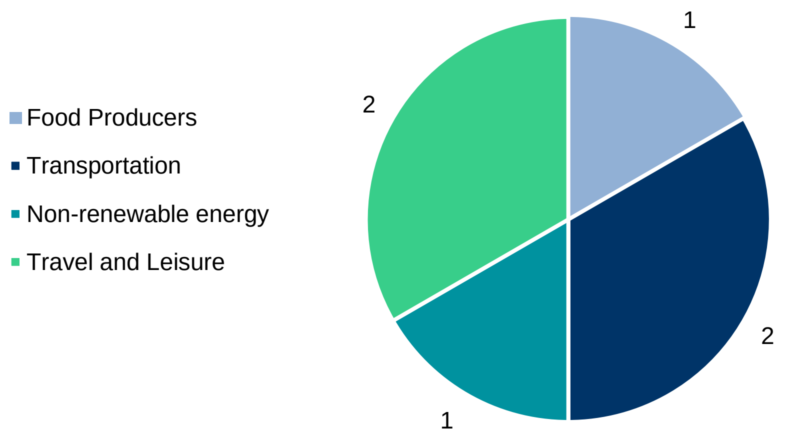
Accounting policies

The better disclosures we reviewed contained clear, entity-specific accounting policy information about the ongoing application of the standard. This gives readers a clear understanding of how the company applied the requirements of IFRS 16 to its circumstances.

A number of companies used boilerplate language throughout to describe the accounting policies, with little or no entity-specific information. In some examples, it was not possible to identify the nature of the assets leased by the company, even though right of use assets and lease liabilities represented a significant proportion of gross assets and liabilities.

Companies across a range of sectors disclosed, in their transition reconciliations, material contracts as outside the scope of IFRS 16. This was because either the contract did not meet the definition of a lease or it contained non-lease components. These contracts related to rolling stock; access to airports, train stations and depots as well as properties, However, these companies did not specify an ongoing accounting policy for this material expense. The chart below illustrates the prevalence of this issue by sector.

Number of companies with significant contracts / components outside the scope of IFRS 16 where the accounting was unclear



Measurement of lease liabilities

Most companies in our sample repeated the requirements of paragraph 26, that 'lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If the rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate' rather than explaining how the company applied these requirements.

This explanation clearly identifies the limited circumstances where the rate implicit in the lease could be readily determined.

Examples of better disclosure…

'The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. Management uses the rate implicit in the lease where the lessor is a related party (such as leases from joint ventures) and the lessee's incremental borrowing rate for all other leases. Incremental borrowing rates are determined monthly and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on Tesco bond yields; and an entity-specific adjustment where the entity risk profile is different to that of the Group.'

Tesco PLC, Annual Report and Financial Statements 2020, p89

It also explains the inputs used in the determination of the incremental borrowing rate

Accounting policies (2)

Examples of better disclosure…

'Lease liabilities are initially measured at the present value of lease payments that are due over the lease term, discounted using the group's incremental borrowing rate. This is the rate that we would have to pay for a loan of a similar term, and with similar security, to obtain an asset of similar value.'

BT Group plc, Annual Report and Accounts 2019, p154

This clearly explains the interest rate used to discount lease liabilities and what this rate represents.

- We expect companies to clearly explain the accounting policy they have applied to discount their lease liabilities.
- Several of the larger companies in our sample only referred to using the incremental borrowing rate, whereas several smaller companies disclosed a policy of using both the interest rate implicit in the lease and the incremental borrowing rate. If companies are not able to determine the interest rate implicit in the lease, we expect that to be clear from their accounting policy.
- We encourage companies to explain the circumstances where they are able to determine the interest rate implicit in the lease, if this measurement approach is applied.

Separation of non-lease components

Only one company within our sample disclosed that it had applied the practical expedient in IFRS 16.15 to not separate non-lease components from lease liabilities. Our sample included companies where we might expect the presence of large contracts containing lease and non-lease components but the accounting treatment applied to the non-lease component was not clear. We encourage companies to reflect on whether they could be providing additional useful information about this policy.

Examples of better disclosure…

'For lease agreements relating to vessels and properties, non-lease components are excluded from the projection of future lease payments and recorded separately within operating costs on a straight line basis.'

Rio Tinto plc, Annual report 2019, p160

This is a helpful explanation about the accounting treatment applied to non-lease components and the nature of the related assets.

Short-term / low value recognition exemptions

We noted improvements in the clarity of disclosures about the application of the recognition exemptions of IFRS 16.5, with most companies clearly distinguishing between the transition exemption for leases with less than 12 months remaining at transition, and ongoing accounting policy choices for leases of less than 12 months.

This policy clarifies the company's threshold for low value leases.

Examples of better disclosure…

'The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.'

National Express Group PLC, Annual Report 2019, p151

There was scope for minor improvements, including:

- One company did not disclose that it had applied these exemptions, although it appeared to have, with material effect.
- Another company's accounting policy referred to applying both recognition exemptions, but then disclosed an expense of £nil.
- We expect companies to disclose accounting policies only where they are material.

Accounting policies (3)

Sale and leasebacks

A small number of companies in our review included information about sale and leaseback transactions in the most recent accounting period.

This is a clear summary of the sale and leaseback transaction undertaken by the company.

Examples of better disclosure…

'In October 2019, the Group completed a sale and leaseback transaction in respect of a store and mall in Poland. Cash proceeds of £24m were received and a gain of £11m was recognised. The store and mall are being leased back over a three-year lease term at market rentals.'

Tesco PLC Annual Report and Financial Statements 2020, p107

- Two other companies identified material gains from sale and leaseback transactions, without fully explaining the transactions, or disclosing any accounting policy for sale and leasebacks.
- We expect companies to explain such transactions, and how they have been accounted for in the year such transactions take place.

Contracts outside the scope of IFRS 16

As explained on page 5, several companies within our sample reassessed some contracts previously treated as operating leases, and concluded they did not fall within the scope of IFRS 16. Explanations of 'out of scope' items referred to contracts which did not meet the definition of a lease (for example, due to substitution rights) or contained non-lease components.

- One company provided no explanation about items it considered to be out of scope, despite a highly material amount identified as such at transition;
- The accounting treatment applied to material non-lease components by some sample companies was not clear.

Companies with contracts previously accounted for under IAS 17 that are not within the scope of IFRS 16 should consider the adequacy of their accounting policies, and in particular explain:

- any judgements in relation to material contracts previously accounted for as operating leases, that are not considered to be within the scope of IFRS 16;
- The accounting treatment applied to significant non-lease components; and
- the nature of any features of these contracts, such as payments linked to inflation or incentives.

Other points to consider

- While our review focused primarily on the activities of the reporting entities as lessees, we remind companies that where they do have material sub lease income, we expect to see an accounting policy disclosed for that.

We also observe that:

- One company in our sample disclosed that it did not have sub lease income, which contradicted other information in the accounts.
- Another company explained it had no material transactions as a lessor, even though a material revenue stream appeared likely to arise from contracts containing leases.
- A small number of companies in our sample had not fully updated their accounting policies and continued to include IAS 17 terminology, such as referring to finance leases or operating leases, in relation to current year lessee balances.
- Several companies within our sample included long and short leasehold property within property, plant and equipment. It may be helpful, where such labels are used, to give a clear explanation of where the accounting policy distinction lies between in-substance purchases of leasehold property within the scope of IAS 16 'Property, Plant and Equipment', and right of use assets within the scope of IFRS 16. Disclosure of the judgement made by management may also be required by IAS 1.122.

Significant judgements

IFRS 16 does not require additional disclosures about significant judgements on top of those contained in IAS 1. However, the judgements made or sources of estimation uncertainty in relation to leases may assume greater significance upon adoption of IFRS 16. IAS 1.122 requires disclosure of the judgements made that have the most significant effect on the amounts recognised in the financial statements. IAS 1.125 requires additional disclosures in relation to judgements involving estimation uncertainty.

We identified in our last report that there was scope for considerable improvement in companies' disclosures of significant judgements made by management relating to their application of IFRS 16. We identified a prevalence of boilerplate language to describe significant judgements made, or the failure to explain fully policies that appeared to include significant judgements, for example where companies identified certain contracts as outside the scope of IFRS 16, with significant effect. This remains an area where we expect companies to do better.

Common themes where we encourage companies to strive to enhance disclosures in future accounts include:

- Where a significant judgement has been identified, considering whether the disclosure includes sufficient entity-specific detail to help the reader understand the judgement made, for example by referring to the nature of the leased assets. We expect this to go beyond repeating the wording in the standard. We are aware, from our interactions with stakeholders and the work of the FRC's Financial Reporting Lab, that readers appreciate entity-specific information.
- Providing sufficient information to understand why it was necessary for management to exercise its judgement and the factors it considered when making its judgement.
- Explanations of significant judgements made associated with whether contracts do, or do not, contain leases.

As set out in more detail on page 19, the identification of any significant judgement made associated with Covid-19 related modifications may require additional disclosures in the next annual report.

Lease term

The most common judgements made and disclosed by companies in our sample were in relation to the determination of the lease term, and exercise of lease extension or termination options. The better disclosures we saw included:

- ✓ Entity-specific information about the factors that management considered in assessing whether they were highly likely to exercise options, including factors such as those referred to in the November 2019 IFRIC Agenda Decisions on lease term[1],
- ✓ Explanations of the reasoning for the judgement made, and
- ✓ The information required by IFRS 16.59 to help readers understand the potential impact on lease balances of different judgements made about unrecognised options.

However:

- In a number of cases, other disclosures pointed to undisclosed judgements relating to the lease term. For example, in some cases the transitional reconciliation required by IFRS 16.C12 included a material reconciling item in respect of extension options, but there was no explanation of the significant judgement made (such as the factors taken into account in the assessment of the reasonably possible exercise of the options).
- Some companies disclosed a significant judgement relating to the lease term without providing the additional information set out in IFRS 16.59(b) to help convey the impact of this judgement on lease balances.

Other judgements

A number of companies, in their IFRS 16.C12 transitional disclosure, had reconciling items more than 20 times audit materiality which removed lease commitments from the opening liability on adoption of IFRS 16. However, there was no explanation as to why this was done. Even though management may have concluded that these ongoing judgements did not require disclosure in terms of IAS 1.122, we consider that in the year of adoption an explanation was required by IFRS 16.C12(b).

[1] https://www.ifrs.org/news-and-events/updates/ifric-updates/november-2019/#3

Significant judgements (2)

Examples of better disclosure…

'Lease terms:

The Partnership has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Partnership is reasonably certain to exercise a renewal option or reasonably certain not to exercise a break option significantly impacts the value of lease liabilities and right-of-use assets recognised on the balance sheet.

Extension options and break clauses are included in a number of the Partnership's leases. These are used to maximise flexibility in terms of managing the assets used in the Partnership's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not utilise a break clause. Extension options (or periods after break clauses) are only included in the lease term if the lease is reasonably certain to be extended (or break clause not utilised).

For leases of branches, distribution centres, offices and vehicles, the following factors are considered the most relevant:

– If there are significant penalties to break leases (or not extend), the Partnership is typically reasonably certain to extend (or not to utilise the break clause);

– If any leasehold improvements are expected to have significant remaining value, the Partnership is typically reasonably certain to extend (or not utilise the break clause); and

– The Partnership considers other factors including the likely value of future rentals, the importance of the underlying assets to the Partnership's operations, whether the asset is specialised in nature and the costs and business disruption required to replace the leased asset.'

John Lewis Partnership plc, Annual Report and Accounts 2020, p126

This explains why the company has extension options and break clauses.

The type of assets with such clauses are described.

Specific factors considered in applying significant judgement are explained.

Examples of better disclosure…

'… where extension options exist, the Group recognises these as part of the lease liability as invariably these are exercised.'

Signature Aviation plc, Annual Report 2019, p111

This clearly explains the judgement made by management and the reason why judgement was required.

Estimation uncertainty

IAS 1.125 requires the disclosure of major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. Paragraph 129 includes examples of the disclosures companies make to address these requirements, such as the disclosure of key sensitivities or range of reasonably possible outcomes.

Less than half of the companies in our sample disclosed major sources of estimation uncertainty associated with right of use assets or lease liabilities, along with the associated disclosures required by IAS 1.125. We encourage companies to consider carefully whether these disclosures may be required, in particular where impairment of right of use assets may be more likely as a consequence of Covid-19.

Impairment testing of right of use assets

Six companies in our sample identified impairment testing of right of use assets as a source of significant estimation uncertainty, triggering the additional disclosure requirements of IAS 1.125, in addition to those required by IAS 36.

Several companies disclosed a significant estimation uncertainty in relation to the impairment testing of other assets (goodwill, property plant and equipment), but did not refer to right of use assets in the same context. It was not clear whether this omission was deliberate, or whether the disclosures had failed to be updated for the adoption of IFRS 16.

- Given the increased importance of impairment disclosures in the light of Covid-19, we encourage companies to consider the completeness of their disclosures. If other assets are subject to a significant risk of material impairment but right of use assets are not, a brief explanatory sentence may be helpful to readers.
- Companies may find it helpful to refer to CRR's 2019 thematic review of impairment of non-financial assets[1] when assessing the adequacy of their impairment disclosures.

Variable payment features

Some of our sample companies referred to long dated leases with variable payment features, for example, linked to inflation.

- While the remeasurement rules of IFRS 16.42(b) require the use of the most recent value of an index or rate, rather than an assumption of future values, where such features are widespread, they may lead to significant periodic remeasurements of right of use assets and lease liabilities.
- It is important that preparers address the disclosure requirements of IFRS 16.51 to help users understand the potential impact of these features.
- IFRS 16.B49 includes examples of the nature of information which may be needed to satisfy the disclosure objective. This information includes why the lessee uses variable payments, the prevalence of such features, the key variables, and the magnitude of variable lease payments relative to fixed payments.

Examples of better disclosure…

'Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately 72% (2019: 73%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 12% (2019: 12%) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis.'

Tesco PLC, Annual Report and Financial Statements 2020, p107

This explains the extent to which the company's lease liabilities are subject to variable payment features.

The company also helpfully identifies the typical frequency of such remeasurements.

[1] https://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews

Impairment review discount rates

IAS 36 requires the use of a discount rate in impairment tests that reflects current market assessments of the time value of money, and risks specific to the asset. The standard refers to the use of an estimate derived from market transactions for similar assets, or the weighted average cost of capital of similar listed entities. Where such rates are not available Appendix A to IAS 36 identifies possible starting points for estimating the discount rate, including the entity's own weighted average cost of capital.

Where a company calculates its discount rate for impairment reviews using its weighted average cost of capital, its market assessment of the time value of money should include consideration of whether the adoption of IFRS 16 has an impact on that figure.

- Only two companies in our sample (as illustrated on this page) made it clear that they considered the impact of IFRS 16 on the discount rate used in their impairment test.
- One company in our sample indicated it was continuing to monitor market practice in this area, without a clear statement of whether they had reflected any impact of IFRS 16 on the discount rate.

We expect companies to:

- Clearly explain in their accounting policy whether they have included lease liabilities when determining the discount rate used in the impairment review, if they consider more than one treatment possible.
- Consider whether the inclusion or exclusion of IFRS 16 liabilities from the determination of the discount rate used in the impairment review, may represent a significant judgement made that requires additional explanation.

Examples of better disclosure…

'The value in use calculation is based on three-year cash flow projections using the latest budget and forecast data. In John Lewis different growth expectations are applied to online and store sales. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the three-year period using a long-term growth rate of 1.5% for Waitrose and 0.5% for John Lewis; the different rates reflect the different expectations of growth in grocery and general merchandise. A pre-tax discount rate of 7% for Waitrose (2019: 8%) and 7% for John Lewis (2019: 8%) has been used, calculated by reference to the Partnership's Weighted Average Cost of Capital (WACC) which now includes Partnership lease debt under IFRS 16. '

John Lewis Partnership plc, Annual Report and Accounts 2020, p116

These are clear explanations that the impact of IFRS 16 lease debt has been reflected in the calculation of the discount rate used in impairment testing.

Examples of better disclosure…

'The discount rate applied in First Rail reflects the significant level of IFRS 16 Right of Use asset funding within the First Rail CGU, principally in respect of franchise rolling stock agreements.'

FirstGroup plc, Annual Report and Accounts 2020, p163

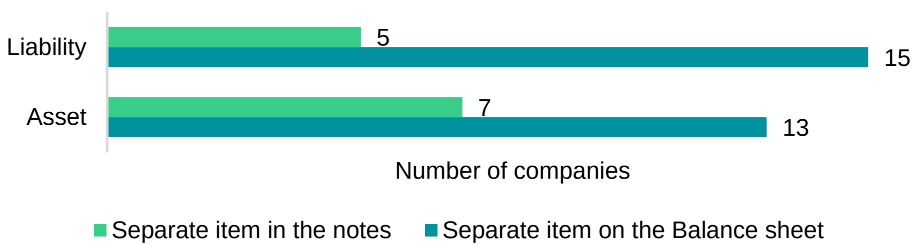
Presentation

Balance sheet

IAS 1.55 requires presentation of separate line items on the face of the balance sheet where such presentation is relevant for the reader's understanding of the financial position (determined by reference to an item's size, nature or function).

Most companies in our sample presented right of use assets and lease liabilities as separate items on the face of the balance sheet, reflecting their significance in the overall context of the balance sheets of those companies. As 85% of companies in our sample adopted the modified retrospective method of transition, this presentation also helped readers to clearly understand the significant movement in gross assets and gross liabilities as a result of adopting the new standard.

Presentation of right of use asset and lease liability



In some cases, a clearer presentation may have been achieved through separately presenting the right of use asset and lease liabilities on the face of the balance sheet due to their size and nature. We noted:

- In 80% of the instances where lease liabilities were presented in the notes, they accounted for at least 12% of gross liabilities.
- In 85% of the companies sampled where right of use assets were presented in the notes, those assets were more than 5% of gross assets, and in one example, the right of use asset was more than 200 times audit materiality. However, each of these companies had separately presented significantly smaller line items on the face of the balance sheet.

We expect preparers to consider the materiality of amounts in the context of the IAS 1.55 requirements and whether they should present right of use assets and lease liabilities on the face of the balance sheet.

Cash flow statement

In all cases our sample companies clearly presented the repayment of lease principal amounts as financing cashflows. In 90% of cases it was also clear that interest cashflows on leases had been included within interest paid – either within operating or financing cashflows, consistent with the company's accounting policy.

This helpful analysis of the total cash flow for leases explains where each of the items are presented in the cash flow statement.

Examples of better disclosure…

Description of payment	2019 US$ m	Included within
Principal lease payments	315	Cash flows from financing activities
Interest payments on leases	53	Cash flows from operating activities
Payments for short-term leases	327	Net operating costs
Payments for variable lease components	15	Net operating costs
Payments for low value leases (>12 months in duration)	1	Net operating costs
Total lease payments	**711**	

Rio Tinto plc, Annual Report 2019, p187

In a small number of cases it was not clear where lease interest cashflows had been presented. In one instance, lease interest and principal cashflows appeared to have been presented as financing cashflows, contrary to the company's policy for interest.

We expect leasing cash flows to be classified consistently with the requirements of IAS 7 as well as an entity's existing accounting policy for similar items such as interest payments.

Income statement

Income statement presentation was more straightforward. Lease interest expense was clearly identified as a component of interest expense / finance costs in all cases we reviewed.

Disclosures

The disclosure requirements for lessees in IFRS 16 include a disclosure objective (16.51), guidance on how this information should be presented (16.52, in a single note, or through cross reference), specific information which is required to be disclosed (16.53), and guidance on the additional qualitative and quantitative information that may be required to meet the disclosure objective (16.59).

In general the year end accounts we reviewed contained more detailed disclosures than the interim accounts we considered in last year's review.

Most companies addressed the required disclosures of paragraph 53, although very few of the companies we reviewed appeared to have addressed all of them using a clear tabular format. In some cases there was clearly room for improvement in addressing the disclosure objective of the standard.

- Some of the companies in our sample included the main leasing disclosures in a single note, or provided effective cross referencing to help the reader identify where this information was disclosed. We remind companies that IFRS 16.52 requires the use of a single note, or a cross reference to where the disclosures are included.

The range of quality in the disclosures we reviewed was mixed, with even the larger companies in our sample failing to address some of the requirements of IFRS 16, or of other standards in relation to lease balances. Companies are reminded to provide the following required disclosures:

- Information addressing the requirements of IFRS 16.59, such as exposure to lease extension options, variable payment features, and lease commitments, as demonstrated in the better examples on page 11.
- More granular information for certain time bands in the liquidity disclosures for lease liabilities required by IFRS 7.39 and B11 (see page 15).
- Information about changes in lease liabilities arising from financing activities required by IAS 7.44A disclosures (see page 16).
- It was helpful as a one off in the year of transition that several companies provided details of the scale of components such as variable lease payments, even where these were immaterial amounts.

Examples of better disclosure…

'The following amounts are included in the Partnership's consolidated financial statements in respect of its leases:

	2020 £m	2019 £m
Depreciation charge for right-of-use assets (excluding impairment) (see note 3.2)	(134.7)	–
Interest expense on lease liabilities	(104.2)	–
Expense relating to short-term leases	(0.8)	–
Expense relating to leases of low value assets that are not shown above as short-term leases	(1.8)	–
Expense relating to variable lease payments not included in lease liabilities	(5.5)	–
Total cash outflow for leases comprising interest and capital payments (see note 5.2)	(196.9)	–
Additions to right-of-use assets (see note 3.2)	80.5	–
Carrying amount of right-of-use assets (see note 3.2)	1,854.9	–
Gains/(losses) arising from sale and leaseback transactions	14.8	–
Income from sub-leasing right-of-use assets	5.7	–

John Lewis Partnership plc, Annual Report and Accounts 2020, p127

All the disclosures required by paragraph 53 are presented in the tabular format suggested by paragraph 54. In the first year of adoption, it was also helpful to present separately certain immaterial amounts relating to leases recognised in profit and loss .

Disclosures (2)

Additional information to meet the disclosure objective

We saw relatively few good examples of companies addressing the additional disclosure requirements of paragraph 59. As noted on page 8, in a number of cases companies identified the exercise of lease extension / termination options as a significant judgement, yet did not provide any detail about the extent to which the effect of exercising such options had been, or had not been, recognised.

This provides additional information to enable a reader to understand the impact of the judgement made about lease term (disclosed elsewhere in the accounts) on amounts not recognised in lease balances.

Examples of better disclosure…

'Future possible cash outflows not included in the lease liability

Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £11.8bn (2019: £12.0bn).

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately 72% (2019: 73%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 12% (2019: 12%) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis.'

Tesco PLC, Annual Report and Financial Statements 2020, p107

It also explains the scale and nature of variable payment features in the company's leases.

This clearly sets out the company's potential unrecognised exposure in relation to extension and termination options.

Examples of better disclosure…

'The Group has several lease contracts that include extension and termination options. Set out below are the undiscounted future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease liability.

	2020 £m	2019 £m
Extension options expected not to be exercised	**782.2**	727.4
Termination options expected to be exercised	**3.3**	3.3
	785.5	730.7

Whitbread PLC, Annual Report and Accounts 2019/20, p164

Approximately half our sample did not include information about unrecognised lease extension / termination options, where we would have expected such information to be disclosed.

We remind companies to consider the adequacy of their disclosures of additional information. Among our sample we identified the following areas as potentially material where relevant disclosures had not been provided:

- Information about the nature and extent of significant variable lease payment features,
- Disclosure of material commitments in respect of leases which have not yet commenced,
- Explanations of material sale and leaseback transactions during the period.

We expect companies to consider the application guidance to the standard in paragraphs B48 to B52. We also encourage preparers to stand back and consider whether, as a whole, their leasing disclosures address the disclosure objective of the standard, and give a clear picture of the company's activity as lessee.

Disclosures (3)

IFRS 16.58 requires a maturity analysis of lease liabilities to be provided in accordance with the requirements of IFRS 7.39 and B11.

IFRS 7 Liquidity risk disclosures

Liquidity risk disclosures will be a key area of interest for investors in forthcoming annual reports in the ongoing economic environment. Companies need to ensure that the liquidity risks associated with leases are clearly explained.

The time bands disclosed need to be consistent with the information provided internally to key management personnel. While the appropriate level of disaggregation of time bands may differ between companies, we expect companies to consider whether a greater degree of disaggregation is required in the current Covid-19 environment.

The presentation of information in one-year time bands provides detailed information about a significant proportion of the company's exposure to leasing cash outflows in the shorter term.

Some companies in our sample disclosed aggregated figures in one time band for years 1-5. In the current economic environment management may be monitoring liquidity risk for material financial liabilities of this nature in greater detail than this disclosure suggests.

In some other examples within our sample, companies' lease portfolios were weighted towards longer term leases. We observed good use of wider time bands by presenting 5-10 years, 10-15 years, and 15 years plus. This was particularly informative where more than 50% of the lease balance fell due after more than 5 years.

By including the amount for discounting, the undiscounted future cash flows are reconciled to the balance sheet lease liability.

In another example lease liquidity disclosures did not convey any additional information about the 75% of lease commitments greater than 5 years. Other information indicated some of these extended beyond 50 years. We expect better qualitative or quantitative information in such circumstances to explain liquidity risks.

Examples of better disclosure…

'Lease liabilities

The Group's lease liabilities are disclosed in note 21 "Borrowings". The maturity profile of the Group's lease liabilities is as follows:

	2020 €m
Within one year	3,172
In more than one year but less than two years	1,998
In more than two years but less than three years	1,523
In more than three years but less than four years	1,328
In more than four years but less than five years	1,127
In more than five years	4,443
	13,591
Effect of discounting	(1,528)
Lease liability (note 21 "Borrowings")	**12,063**

At 31 March 2020 the Group has entered into lease contracts with payment obligations with an undiscounted value of €67 million that had not commenced at 31 March 2020.'

Vodafone Group Plc*, Annual Report 2020, p191

* This disclosure was identified as part of our Covid-19 thematic review

Disclosures (4)

Changes in liabilities arising from financing activities

While the introduction of IFRS 16 did not result in a consequential amendment to IAS7.44A, leases are liabilities arising from financing activities, and thus fall within the disclosures required by this paragraph.

Several companies in our sample did not provide any information about leases in their disclosure of changes in liabilities arising from financing activities, which is required by IAS 7.44A.

While we saw several good examples of these disclosures where our sample companies gave them, such as Rio Tinto plc, we identified several other opportunities for companies in our sample to enhance this disclosure by:

- Separately presenting leases from other balances, such as borrowings, which generally gives more meaningful information.
- Identifying the components of material ‘other non-cash movements’ to allow a reader to distinguish movements arising from new leases from remeasurement of existing balances, for example.
- Providing additional information about lease liabilities to meet IAS 7 disclosure requirements where a company presents a net debt reconciliation on a non-GAAP basis (i.e, excluding leases)
- Considering the illustrative examples accompanying IAS 7, which highlight the disclosures expected from companies.

Separately presenting lease liabilities in this net debt reconciliation enables it to also meet the requirements of IAS 7.44A.

Examples of better disclosure…

	Financing liabilities	
Year ended 31 December 2019	Borrowings excluding overdrafts US$m	Lease liabilities US$m
Analysis of changes in consolidated net (debt)/cash		
Opening balance	(12,707)	(44)
Adjustment for transition to new accounting standard (see note 45)	—	(1,248)
Foreign exchange adjustment	(5)	(9)
Cash movements excluding exchange movements	123	315
Other non-cash movements	(217)	(323)
Closing balance	**(12,806)**	**(1,309)**

Rio Tinto plc, Annual report 2019, p188

‘Other non-cash movements’ were below the level of audit materiality in this example but presenting them separately from other changes provides helpful information for readers.

Strategic report and alternative performance measures ('APMs')

Better examples of disclosures by our sample companies provided clear discussion in the strategic report about the adoption of IFRS 16, and the impact of the adoption on the current and prior period results. This clear communication was particularly important among the 17 modified retrospective adopters, to ensure clarity for readers that the current and prior period results were not directly comparable.

This clearly explains that comparative amounts have not been restated following the adoption of IFRS 16 and that certain measures are not directly comparable.

The company reinforced this message by clearly labelling the summarised income statement with IFRS 16 (2020) and IAS 17 for earlier periods.

Examples of better disclosure…

IFRS 16

IFRS 16 'Leases' replaced IAS 17 'Leases' with effect from 1 April 2019. We present current year results on the new IFRS 16 basis but prior year comparatives on an IAS 17 basis. For this reason, certain measures may not be directly comparable. EBITDA has increased under IFRS 16 because operating lease expense has been replaced by interest expense and depreciation. See note 1 to the financial statements for further information.

BT Group plc, Annual Report 2020, p44

Several companies in our sample did not make it sufficiently clear that prior period figures were not comparable.

In general, the better examples we reviewed clearly identified the impact of the new standard on IFRS measures and APMs in the current period. A minority of cases sought to address the effect of applying IFRS 16 through the introduction of new APMs.

Where companies have introduced new APMs, it is important that they continue to address the requirements of the ESMA Guidelines on APMs.

Examples of better disclosure…

Year ended 31 March	2020 (IFRS 16) £m	2019 (IAS 17) £m	2018 (IAS 17) £m
Revenue	22,905	23,428	23,723
Operating costs	(15,348)	(16,461)	(16,828)
Depreciation and amortisation	(4,274)	(3,546)	(3,514)
Operating profit	**3,283**	**3,421**	**3,381**
Net finance expense	(897)	(756)	(764)
Share of post tax profit/(loss) of associates and ventures	(33)	1	(1)
Profit before tax	**2,353**	**2,666**	**2,616**
Tax	(619)	(507)	(584)
Profit for the period	**1,734**	**2,159**	**2,032**

BT Group plc, Annual Report 2020, p45

Among the opportunities we identified for companies to enhance disclosures were:

- If introducing new APMs excluding IFRS 16 alongside existing APMs, companies should be mindful to give sufficient prominence to IFRS figures relative to APMs.
- In some situations companies should have provided a more granular discussion of the impact of IFRS 16 balances on the statement of financial position.
- We expect future strategic reports to discuss all material balance sheet movements, including large movements in right of use asset or lease liability balances.
- Companies should exercise care not to use misleading labels that could imply APMs are IFRS measures.

Strategic report and APMs (2)

This is a clear explanation and presentation of the impact of full retrospective adoption on the balance sheet, and on performance. It also shows the current period impact on statutory results and APMs (identified in this annual report using †).

Examples of better disclosure…

'IFRS 16 – Summary of changes and impacts

Under IFRS 16, lease liabilities and associated 'right-of-use' assets are recognised on the balance sheet using discounted cash flows. As many of Whitbread's leases are long property leases, these changes have significantly increased both total assets and total liabilities, and had a material impact on key performance metrics, including earnings per share. In the income statement, rental charges for operating leases are replaced with depreciation of the newly recognised asset and interest on the newly recognised lease liability. This in turn impacts some of Whitbread's key reporting measures, including adjusted operating profit, which has increased as a pre-interest measure, and profit before tax, which has decreased as a disproportionate amount of interest is applied at the start of a lease.

FY20 IFRS 16 impact on balance sheet

	Pre-IFRS 16	Add lease liabilities*	Add right-of-use asset*	Post-IFRS 16
Total assets	£5,564m	–	£2,262m	£7,826m
Total liabilities	(£1,533)m	(£2,544)m	–	(£4,077)m
Net assets	**£4,031m**	**(£2,544)m**	**£2,262m**	**£3,749m**

*****Includes working capital adjustments, see supplementary information for further detail.'*

Whitbread PLC, Annual Report and Accounts 2019/20, p36

Examples of better disclosure…

FY20 IFRS 16 impact on Income Statement

	Pre-IFRS 16	Remove rent	IFRS 16 adjusted to depreciation and interest	Post-IFRS 16
EBITDAR†	**£753m**	**–**	**–**	**£753m**
Rental income	£3m	£2m	–	£5m
Rent payable	(£188)m	£186m	–	(£2)m
EBITDA†	**£567m**	**£188m**	**–**	**£756m**
Depreciation and amortisation	(£165)m	–	(£104)m	(£269)m
Adjusted operating profit†	**£403m**	**£188m**	**(£104)m**	**£487m**
Net finance costs	(£13)m	–	(£115)m	(£129)m
Adjusted profit before tax†	**£389m**	**£188m**	**(£219)m**	**£358m**

Key performance measures under IFRS 16
Under IFRS 16, EBITDAR will not be impacted and will therefore provide a good indicator for continuing operating performance. In addition, certain adjustments will be required to ensure the important return on capital measure remains a meaningful and consistent metric going forward.

FY20 IFRS 16 impact

	Pre-IFRS 16	Post-IFRS 16	Change
EBITDAR†	£753m	£753m	£0m
Adjusted operating profit†	£403m	£487m	£84m
Adjusted profit before tax†	£389m	£358m	(£31)m
Statutory profit before tax	£311m	£280m	(£31)m
Adjusted basic earnings per share†	210.5p	193.6p	(16.9)p
Statutory basic earnings per share	162.7p	145.9p	(16.8)p

Whitbread PLC, Annual Report and Accounts 2019/20, p37

Covid-19

IASB amendment to IFRS 16

In response to Covid-19, the IASB introduced urgent amendments to IFRS 16, to reduce the reporting burden on lessees for rent concessions.

In May 2020, following an accelerated due process, the IASB published an amendment to IFRS 16 (Covid-19-Related Rent Concessions), providing practical reliefs for preparers accounting for Covid-19-related rent concessions. This amendment is effective for annual reporting periods beginning on or after 1 June 2020, but may also be applied early.

However, the amendment is subject to EU adoption, expected during Autumn 2020, and EU law is still applicable in the United Kingdom during the transition period following EU exit.

To enable companies to adopt the amendment in their 2020 annual and interim reports, we confirmed on 18 August[1] that the FRC will not pursue regulatory action against companies taking advantage of the reliefs permitted by the amendment before adoption by the EU.

- We expect companies to clearly explain the use of any of the reliefs permitted by the amendment, and to consider whether any judgements made, for example relating to scope, need to be disclosed.

- We remind directors of the need to carefully consider the impact of applying this amendment, prior to EU adoption, on the lawfulness of any distributions.

Areas identified in this report which will assume greater significance when reporting during and post Covid-19, are:

- The adequacy of estimation uncertainty disclosures in relation to impairment testing of right of use assets.[2]

- The extent of liquidity disclosures – and in particular shorter term disclosures – if management's assessment of liquidity has an increased focus on short term liquidity – and whether the time bands disclosed need updating.

- Explanations of missed rent payments if these constitute default events impacting other financial instruments or compliance with borrowing covenants.

We encourage you to read our July 2020 thematic review report[3] about the financial reporting effects of Covid-19 .

Covid-19 and lessors

As explained on slide 4, this report has not considered lessor activities, as IFRS 16's rules on lessor accounting are largely unchanged from IAS 17. While the practical reliefs contained within the urgent amendment to IFRS 16 do not apply to lessors, they will need to clearly explain the impact of Covid-19 on lease portfolios – in particular rent concessions, and missed payments.

[1] https://www.frc.org.uk/news/august-2020-(1)/frc-statement-on-accounting-for-lease-modification

[2] As addressed in our 2019 thematic review of impairment, which can be found at the link below.

[3] https://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews

Transition

Most companies in our sample provided a clear explanation of the change in policy from IAS 17 to IFRS 16. It was encouraging to note that the majority also provided a good explanation of the impact of the change in accounting policy upon their primary statements. In some examples, the level of information provided in relation to the balance sheet impact was greater than discussion of the impact upon profit and loss, albeit this reflected the relative magnitude of the change.

Most companies were clear on their transition method, and any practical expedients adopted on transition.

Transition method

17 of the companies in our sample (85%) took advantage of the modified retrospective transition option permitted by the standard, under which the standard is adopted from day one of the new accounting period, subject to certain transitional practical expedients, while three applied the standard on a full retrospective basis, with restatement of comparatives.

Practical expedient – definition of a lease

IFRS 16.C3 permits a lessee not to reassess whether a contract is, or contains a lease at the date of initial application and instead rely on the company's previous assessment under IAS 17 and IFRIC 4 'Determining whether an arrangement contains a lease'. The expedient is available to both full retrospective and modified retrospective adopters.

55% of companies within our sample disclosed that they had taken advantage of the practical expedient. A company applying this practical expedient will have some contracts, which do not meet the IFRS 16 definition of a lease, but are accounted for as such under the standard.

A minority of sample companies neither disclosed the use of this expedient, nor provided any indication they had reassessed their contracts using the IFRS 16 definition of a lease. Where this has not been made clear, we expect companies to clarify this in future annual reports, as the application of this expedient may have a significant impact on the lease population for future reporting.

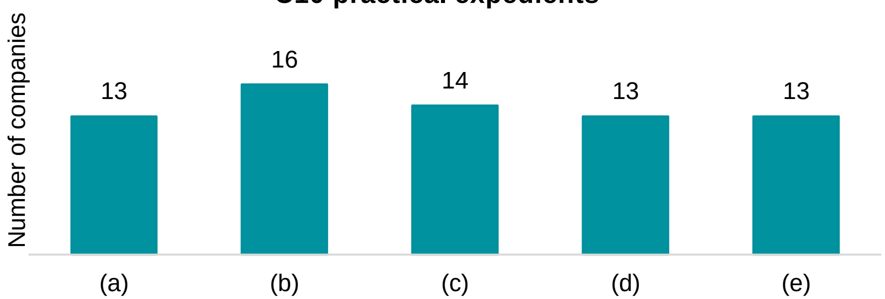
Transition options for modified retrospective adopters

IFRS 16.C10 contains the following transitional expedients, which may be applied by modified retrospective adopters on a lease-by-lease basis:
(a) use a single discount rate for a portfolio of leases;
(b) rely on IAS 37 onerous lease assessment instead of impairment test;
(c) treat leases with less than 12 months remaining at transition as short-term leases;
(d) exclude direct costs from right-of-use asset measurement; and
(e) use hindsight, such as in determining the lease term.

All the companies in our sample that adopted the modified retrospective transition approach applied at least one of the transition expedients in paragraph C10.

We were pleased to note that compared with our previous review, almost all the companies in our sample were clear on whether they were applying **transitional expedients**, or applying the **recognition exemptions** (for short-term or low value leases, IFRS 16.5) as ongoing accounting policy choices. While transition disclosures are of particular relevance in the year of adoption of the new standard, some of these policy choices, such as whether to use the lease definition in IFRS 16 for all leases, will have ongoing relevance to readers of the accounts.

C10 practical expedients



The most commonly applied practical expedient was IFRS 16.C10(b), permitting a lessee to rely on its assessment of whether leases were onerous, instead of performing an impairment review, when measuring the right of use asset on initial recognition .

Transition (2)

Right of use asset accounting policy

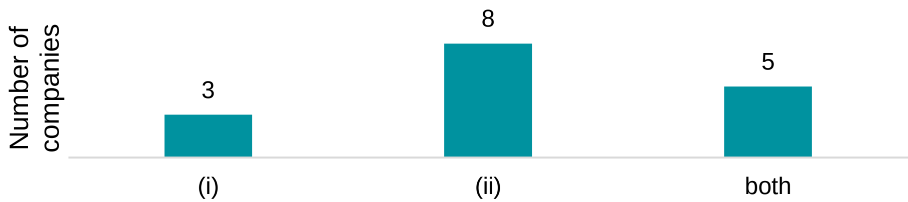
IFRS 16.C8(b) allows companies applying the modified retrospective approach to choose, on a lease-by-lease basis, whether to measure the right of use asset at:

(i) the carrying amount as if the standard had been applied since commencement date of the lease, discounted at the incremental borrowing rate at date of initial application; or

(ii) an amount equal to the lease liability, adjusted for prepaid / accrued lease payments.

Five of the 17 companies disclosed a combination of these approaches, while eight disclosed option (ii), and three option (i). One company failed to disclose the measurement policy applied to right of use assets at transition.

Measurement of right of use asset at transition



We highlighted in our previous report that several companies had incorrectly referred to measuring the asset as though the standard had applied since lease commencement date, without any reference to the use of the incremental borrowing rate at the date of initial application. We remind companies adopting IFRS 16 for the first time:

- Of the importance, when relevant, of referring to discounting at the transition date incremental borrowing rate. The wording used by some companies implied the asset was measured as though the standard had been applied since the commencement of the lease, and

- If adopting a mixture of pre- and post-transition policies, it would be helpful to provide additional detail of when the different policies are applied, as we saw in several companies in our sample.

Initial application disclosures

Companies adopting the modified retrospective approach are required to disclose the transition date weighted average incremental borrowing rate, and explain any differences between the IAS 17 operating lease commitments and the IFRS 16 opening lease liabilities (IFRS 16.C12).

Incremental borrowing rate

- One company in our sample did not disclose the weighted average incremental borrowing rate, as required by the standard, but, helpfully, gave a range of incremental borrowing rates instead.

- Better examples went beyond the minimum requirements of the standard, by disclosing the range of incremental borrowing rates underlying the average, or explaining estimation challenges associated with the calculation of the incremental borrowing rate, in addition to disclosing the weighted average rate.

This helpfully explains the inputs and method used to determine the company's incremental borrowing rate on transition date and in future. It is in addition to the required transitional disclosure of the average rate.

Examples of better disclosure…

'In determining the right-of-use asset and lease liability to be recognised, the Group adopted incremental borrowing rates for its leases as at 1 January 2019. These rates were determined by taking currency-specific interest rates based on five-year external market rates (where available, which reflect the average centre lease duration) on transition and then considering adjustments to reflect subsidiary/country-specific credit ratings and adjustments to reflect the level of collateral. The incremental borrowing rates will be updated annually and applied to leases commencing in the subsequent year.

IWG plc, Annual Report and Accounts 2019, p107

Transition (3)

Explanation of differences from IAS 17 lease commitments

The quality of the explanation of differences between the IAS 17 lease commitment disclosure and the IFRS 16 lease liability recognised on transition was mixed. All companies in our sample included a reconciliation between the two amounts. In some cases this was sufficient to address the requirements of the standard, as any differences were self explanatory, in the context of associated accounting policy disclosures, or transitional practical expedients.

Footnote 1 explains why certain contracts, which had been treated as operating leases under IAS 17, do not meet the definition of a lease in paragraph 9 of IFRS 16.

However, a number of reports reviewed did not adequately explain significant reconciling items. Unfortunately, this included some companies sampled last year. We expect companies who have yet to transition to disclose:

- An explanation for material reconciling items,
- Whether or not management had made a significant judgement relating to the inclusion or exclusion of more unusual or significant reconciling items, and
- Clear explanations of any scope related reconciling items, where the company has applied the practical expedient to rely on the lease definition in IAS 17 / IFRIC 4.

Examples of better disclosure…

'A matter finalised since the release of Premier's 2018 Annual Report and Financial Statements is the determination of the appropriate accounting for a lease arrangement entered into by a lead operator as a sole signatory for the lease of equipment that will be used in a joint operation. The IFRS Interpretations Committee ('IFRIC') issued an agenda decision in respect to this matter in March 2019. Where all partners of a joint operation are considered to share the primary responsibility for lease payments under a lease contract, the Group recognises its share of the respective right-of-use asset and lease liability. This situation is most common where the parties of a joint operation co-sign the lease contract. The Group recognises a gross lease liability for leases entered into on behalf of a joint operation where it has primary responsibility for making the lease payments.'

Premier Oil plc, 2019 Annual Report and Financial Statements, p126

This supplements footnote 3 in the adjacent example by explaining the basis for the transition reconciliation item 'Impact of leases in joint operations' and helpfully refers to the March 2019 IFRIC agenda decision.

This reconciliation, identified from our review of interim disclosures, clearly presents and explains each material line item.

Examples of better disclosure…

'The following table provides a reconciliation of the Group's operating lease commitments as at 31 December 2018 to the total lease liability recognised on adoption of IFRS 16. The Group did not recognise any finance leases under IAS 17.

	US$ million
Operating lease commitments at 31 December 2018	1,002.0
Contracts not in scope of IFRS 16[1]	(85.6)
Effect of discounting[2]	(189.9)
Short-term leases	(3.1)
Impact of leases in joint operations[3]	99.0
Lease extension options[4]	77.6
Other	(0.4)
Lease liabilities recognised on adoption of IFRS 16	899.6

Notes:

[1] Contracts that were considered to be leases under IAS 17 which do not meet the definition of a lease under IFRS 16, principally because the supplier is considered to have substantive substitution rights over the associated assets….

… [3] This represents the gross up of the lease obligations to represent 100 per cent of the liability where the Group has entered into a lease agreement on behalf of the joint operation and its partners and has primary responsibility for lease payments.

[4] Previously, lease commitments only included non-cancellable periods in the lease agreements. Under IFRS 16, the lease term includes periods covered by options to extend the lease where the Group is reasonably certain that such options will be exercised.

Premier Oil plc, 2019 Annual Report and Financial Statements, p127

Transition (4)

Impact of transition

Balance sheet

For a number of companies the impact of transition on the balance sheet required little further explanation, as the only significant adjustments arose in relation to the recognition of right of use assets and lease liabilities. Common adjustments also arose in relation to the derecognition of onerous lease provisions.

In a small minority of cases, adjustments were made to balances such as to goodwill or trade and other payables, but no explanation was given. We expect companies to explain significant transition adjustments where it is not immediately obvious what these relate to.

Income statement

Only those companies that apply the standard on a full retrospective basis, with restatement of comparatives, are required by IAS 8.28 to disclose the amount of the adjustment to each income statement line item affected. The three companies in our sample who were full retrospective adopters all addressed these requirements.

The table clearly shows the impact of IFRS 16 on the prior period income statement and earnings per share.

This is helpful information about some of the smaller effects of transition which might not have been immediately obvious.

Examples of better disclosure…

Consolidated income statement and consolidated statement of comprehensive income	**52 weeks to 28 February 2019 £m**	**IFRS 16 transition £m**	**52 weeks to 28 February 2019 (restated) £m**
Other income	-	5.8	5.8
Operating costs	(1,754.4)	65.6	(1,688.8)
Finance costs	(39.0)	(113.1)	(152.1)
Tax expense	(49.2)	7.9	(41.3)
Profit for the year from discontinued operations	3,520.0	34.6	3,554.6
Subtotals			
Profit before tax	259.8	(41.7)	218.1
Profit for the year from continuing operations	210.6	(33.8)	176.8
Profit for the year attributable to parent shareholders	3,730.6	0.8	3,731.4
Earnings per share			
Basic EPS from continuing operations	115.2	(18.5)	96.7
Diluted EPS from continuing operations	114.6	(18.4)	96.2

– Other income – Rental income of £4.1m was reclassified from operating expenses to be shown separately as other income. In addition, rebates relating to a prior period of £1.7m which had previously been included in operating costs were re-presented in other income to align with current year presentation.

– Operating costs – A net credit of £65.6m was recognised, being the reversal of previously recognised rent expense of £169.7m offset by the depreciation charge on the right-of-use assets of £98.3m and reclassifications to other income of £5.8m. – Finance costs – Interest costs of £113.1m were recognised on IFRS 16 lease liabilities.

– Tax expense – Tax expense has reduced by £7.9m reflecting the tax effect of these changes.

– Profit for the year from discontinued operations – A credit of £34.6m was recognised being an increase in the gain on disposal of Costa of £14.3m and an increase in profit from operating activities, net of tax of £20.3m.

Whitbread PLC, Annual Report and Accounts 2019/20, p130-131

Next steps

Engagement with companies

We are writing to a number of companies included in our sample, where we identified a substantive question relating to their disclosures and/or specific areas for improvement.

Impact on our future reviews

We recognise that this is the first full year of application of the standard and that disclosures will continue to develop over time. We will, however, continue to review compliance with IFRS 16 through our routine review work.

We will continue to question companies during our routine reviews when we do not see:

- Accounting policies tailored to the company's specific circumstances, covering all material aspects of leasing arrangements (eg accounting for non-lease components, sale and leaseback transactions and the company's activities as a lessor).
- Disclosure clearly explaining the significant judgements made by management (particularly to determine the lease term) and estimation uncertainty.
- Adequate presentation of leasing arrangements in primary statements
- Sufficient level of qualitative and quantitative information in respect of the company's leasing arrangements and their financial effects.
- Material balance sheet movements in right of use assets and lease liability balances explained.
- Clear explanation of the circumstances in which the interest rate implicit in the lease can be determined.
- European Securities and Markets Authority guidelines being followed for alternative performance measures (APMs) presented. In particular, we will question companies where APMs are given undue prominence or labelled as 'reported' or other statutory measures.

Financial Reporting Council

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