HM TREASURY

FRAB 135(02)
4th April 2019

Financial Reporting Advisory Board paper

IFRS 16 *Leases* – Follow Up from November meeting

Issue:	The Board met in November to confirm the FReM interpretations, adaptations and implementation guidance for IFRS 16. There were two areas where the Board was not able to reach a final decision and asked for further analysis to be performed: the subsequent measurement of the right-of-use asset, and whether to include guidance for lease-like arrangements with nil consideration. This paper provides the requested analysis in these areas and gives HM Treasury recommendations. The paper also provides information on a new methodology for discounting lease payments for departments to apply on implementation of IFRS 16, where the implicit rate is not readily available in the lease. The paper then provides an update on leases budgeting.
Impact on guidance:	The 2019-20 FReM will be updated following approval by the Board.
IAS/IFRS adaptation?	An adaptation is proposed for lease-like arrangements with nil consideration.
Impact on WGA?	None. CIPFA/LASAAC have agreed to guidance for both subsequent measurement of right-of-use assets and lease-like arrangements with nil consideration that is consistent with the recommendations made in this paper.
IPSAS compliant?	Prior to IFRS 16, IPSAS and IFRS were broadly consistent in the treatment of leases. IPSASB are consulting on a new IPSAS on lease accounting. The most significant difference with IFRS is the IPSASB's proposal to align lessor and lessee accounting. IPSASB's proposal regarding concessionary leases (including peppercorn leases) also contains some differences from the FReM proposals.
Interpretation for the public sector context?	An interpretation is proposed for the subsequent measurement of right-of-use assets.
Impact on budgetary regime and Estimates?	Yes. Please refer to budgeting section below for proposals in relation to budgets.
Alignment with National Accounts	Yes. Please refer to budgeting section below for potential impacts on National Accounts.
Recommendation:	The Board considers and provides views on the issues discussed in this paper.
Timing:	We ask the Board to make a final decision on these issues at this meeting—this is particularly important to give clarity to those departments applying IFRS 16 from 1 April 2019.

DETAIL

Background

1. The Board met in November 2018 to confirm the FReM interpretations, adaptations and implementation guidance for IFRS 16. There were two areas where FRAB was not able to reach a final decision and asked for further analysis to be performed: the subsequent measurement of the right-of-use asset, and whether to include guidance for lease-like arrangements with nil consideration. The FRAB made final decisions on all other adaptations, interpretations and application guidance in the FReM regarding IFRS 16.

2. In February 2019, an out-of-meeting paper was sent to the Board with planned recommendations on subsequent measurement of right-of-use assets and lease-like arrangements with nil consideration. Board members had the opportunity to provide feedback on this paper.

Purpose of this paper and Board feedback

3. The main purpose of this paper is to provide the Board with HM Treasury's analysis and recommendations regarding the subsequent measurement of right-of-use assets and the treatment of lease-like arrangements with nil consideration. HM Treasury recommend an interpretation for subsequent measurement of right-of-use assets, and an adaptation for lease-like arrangements with nil consideration. A final decision by the Board is essential at this meeting as two departments (the Department for Transport and the Department for Culture, Media and Sport) are adopting IFRS 16 from 1 April 2019 and need certainty over these issues for the start of the financial year.

4. The paper also provides an update on a new methodology for discounting lease payments, for departments to apply based on HM Treasury guidance.

5. The paper then provides an update on budgeting, outlining HM Treasury proposals and the potential impacts on National Accounts.

Subsequent measurement of the right-of-use asset

Background and information gathered since November

6. At the November Board meeting, HM Treasury recommended a FReM interpretation to IFRS 16 to ensure that all right-of-use assets are measured using the cost model (to note, IFRS 16 provides an option between the cost model and the revaluation model). HM Treasury made this recommendation primarily based on the belief that the benefits of revaluation would outweigh the costs (as explained below, the IFRS 16 cost model provides a valuation of the right-of-use asset that is very close to a current value, meaning the benefits of revaluation are limited). Moreover, requiring a cost model represented a simple solution that ensured consistency in the measurement of all right-of-use assets across government.

7. The Board did not agree with the HM Treasury recommendation, expressing the following concerns over mandating cost measurement for right-of-use assets:

- A general concern over moving away from current value, when the merit of current value has been emphasised for owned assets in the public sector;
- Concerns around consistency (between leased and owned assets; among leased assets; and across the government, particularly between central and local government);
- Scepticism around the cost of revaluation;
- An observation proxies for revaluation for owned assets already exist in the FReM;
- A desire to avoid losing the current value information already provided for finance leases; and
- A desire to avoid unnecessary IFRS 16 interpretations or adaptations.

8. Following the November Board meeting, HM Treasury has undertaken extensive additional analysis and stakeholder engagement with departments, valuation experts, CIPFA representatives, and the NAO to discuss the issue. HM Treasury also convened two Technical Working Group meetings and, based on this collective feedback, has developed a revised approach to subsequent measurement as set out in the February FRAB out-of-meeting paper sent to members.

9. In summary, Board members provided positive feedback on HM Treasury's recommendation with some highlighting the importance of providing RICS guidance in a timely manner to valuers.

HM Treasury analysis and recommendation

10. HM Treasury recommend that the subsequent measurement of right-of-use assets generally follow the principles of subsequent measurement as set out in the FReM for owned property, plant and equipment, with new guidance given in the FReM on the application of these principles to right-of-use assets. Appendix A sets out HM Treasury's suggested drafting in the FReM for this approach.

11. This approach:

- Adapts IFRS 16 to specify that the subsequent measurement basis for right-of-use assets shall be consistent with the principles for owned assets set out in the adaptations to IAS 16, and provides guidance on the application of these principles to right-of-use assets;
- States that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value in existing use and fair value, but provides indicators for when revaluation should be used (these indicators centre around the existence and time between rent reviews, lease term and the volatility in value of the underlying asset);
- States that disclosures should be made regarding the use of the IFRS 16 cost model as a proxy for revaluation; and
- Emphasises that entities should bear materiality in mind when applying the guidance.

The analysis underlying this approach is provided below. Please also refer to Annex B for a summary of alternative approaches HM Treasury considered when developing this paper, along with their advantages and disadvantages.

Feedback from stakeholders

12. Following the November Board meeting, HM Treasury aimed to develop an approach to the subsequent measurement of right-of-use assets that addressed many of the concerns that Board members expressed in that meeting, especially around the merit of current value measurement for leases where there is a significant difference between a cost measurement of a right-of-use

asset and a current value measurement of that asset. This could be the case, for example, if a department entered into a longer-term property lease with no, or few, rent reviews. HM Treasury acknowledge that the IFRS 16 cost model could provide a misleading reflection of the right-of-use asset's value in this case.

13. At the same time, as part of our outreach with departments and valuation experts, we received a consistent message that, for most leases (apart from peppercorn leases), there is not expected to be a significant difference between IFRS 16 cost measurement and a current value measurement. This is due to a number of factors:

- Many leases have rent reviews or other forms of indexation reflecting market changes built in, which ensures that changes in the current value of a right-of-use asset will be at least partially captured in the IFRS 16 cost model;
- The current value of many underlying leased assets is not expected to be volatile and will be straightforward to predict (for example, vehicles, lorries, or photocopiers). As a result, depreciated cost is expected to be an accurate reflection of current value throughout the lease term.
- Shorter lease terms help to minimise any difference between the cost and current value of a right-of-use asset (for example, consider a three-year property lease; even if property values change at the end of Year 1, the difference between cost and current value for that right-of-use asset will be much smaller than the difference between cost and current value for the underlying asset).

14. Departments expressed a high level of concern over the cost involved in mandating revaluation for right-of-use assets, given that in most cases there would not be a significant difference between cost and current value. Departments noted that the private sector generally is not expected to opt for revaluation of right-of-use assets, and that, as a result, most accounting systems available to aid implementation of IFRS 16 do not have built in capabilities to handle revaluation. Valuation experts also cautioned against revaluation of all, or a large population of, right-of-use assets as it would not represent good value for money for the public sector due to the expected immaterial difference between cost and revaluation.

15. Departments also raised concern over proposals to revalue a subset of right-of-use assets which would introduce additional judgement regarding which right-of-use assets to revalue and/or require additional work to justify the approach to auditors.

16. HM Treasury has been working closely with CIPFA whilst developing the proposals in this paper. CIPFA/LASAAC is supportive of revaluation in some circumstances—in their November meeting, they tentatively decided to require revaluation for property leases with lease terms of 25 years or longer, and optionally allow revaluation for property leases with lease terms of less than 25 years. They tentatively decided to mandate cost measurement for non-property leases[1]. CIPFA/LASAAC is very aware of the cost-benefit balance of revaluation, and would not support mandating revaluation for all leases (for many of the reasons set out above).

17. Finally, many stakeholders noted that, ideally, guidance on subsequent measurement on right-of-use assets should promote consistency across right-of-use assets, between owned and leased assets, and across government. In response to this, HM Treasury considered existing FReM guidance regarding revaluation for owned fixed assets, particularly the requirement to measure

[1] In their March 2019 meeting, CIPFA/LASAAC changed their tentative decisions on subsequent measurement of the right-of-use asset to align with the HM Treasury proposal in this paper—see paragraph 24.

these assets at current value in existing use or fair value and the ability to use cost as a proxy for fair value or current value in existing use for assets that have short useful lives or low values (or both).

Development of the approach

18. In developing the recommended approach to subsequent measurement, HM Treasury sought to address many of the important concerns put forward by the Board and other stakeholders (i.e. the desire to reflect current value when there is a significant difference between cost and current value; concerns regarding the cost/benefit balance of revaluation; concerns regarding unnecessary judgement to decide upon a subsequent measurement approach; the desire for consistency across the public sector; and the principles underpinning the subsequent measurement of owned fixed assets).

19. In response, HM Treasury proposes an approach based on existing FReM principles of subsequent measurement of owned fixed assets; namely, that assets should be measured at current value and that cost can be used as a proxy for current value. Whilst the FReM limits this to low-value assets and owned assets with short economic lives, HM Treasury propose that, given the nature of leased assets and the IFRS 16 cost model, it is also appropriate to use cost as a proxy for current value for most right-of-use assets.

20. However, the approach does acknowledge that, in some cases, cost is not an appropriate proxy for current value measurement, and sets out indicators to help entities assess instances when this is the case. The first of these indicators addresses the lease term, and provisions to adjust rental payments to reflect market conditions—this acknowledges that, the longer a lease goes on without an adjustment to reflect market conditions, the greater the risk that a cost measurement will no longer reflect current value. The second indicator addresses the nature of the underlying asset, and captures when the current value of the underlying asset is subject to volatility because of changes in market prices.

21. These indicators describe the substantive characteristics that longer-term property leases possess that make it more likely that cost will not be an appropriate proxy of current value and address concern raised by the Board and stakeholders.

23. The application of indicators to identify where revaluation is appropriate should accurately identify the leases where cost measurement is likely to be significantly different from current value, in a way that manages departments' concern around making unnecessary judgements or doing unnecessary work to justify the choice between cost or revaluation. This approach has been discussed at the Technical Working Group and departmental representatives agreed it is a practical operational means of implementing a revaluation requirement. However, a concern does remain over the cost of revaluation, and the cost of any judgements required to determine whether revaluation would be necessary.

24. Finally, HM Treasury would like to note that we have worked closely with CIPFA staff and valuation experts in the formulation of this proposal, and they agree with this proposal. CIPFA/LASAAC have tentatively agreed to this approach for the Code in their March 2019 meeting.

Detailed points in the proposal

25. There are other points in the proposal that HM Treasury would like to highlight to the Board:

- The proposal clarifies that the current value in existing use of a right-of-use asset should be calculated on a 'replacement cost' basis. This is consistent with the guidance in the FReM on owned assets. It represents a change from existing RICS guidance on the valuation of leasehold interests, which focusses on the proceeds that could be achieved from selling a leasehold interest. We have spoken to valuation experts who have confirmed that new RICS guidance would need to be added to ensure that right-of-use assets would be revalued on a replacement basis, but this methodology would not be any more costly or onerous than a 'sales proceeds' basis. We are aware that the focus on replacement cost may represent a change from the valuation of some existing finance leases valued on a 'sales proceeds' basis, but consider it more consistent with the principles for owned assets.
- The proposal also includes a requirement to disclose where cost has been used as a proxy for current value, including the classes of right-of-use assets within which cost has been used and the reasons why. This is consistent with the disclosure requirements for owned fixed assets in the FReM.

Peppercorn leases

26. At the November Board meeting, HM Treasury proposed that right-of-use assets in peppercorn leases would initially be measured at current value in existing use or fair value, but would not be subsequently revalued, consistent with the subsequent measurement proposals that were made for 'typical' (non-peppercorn) right-of-use assets at that meeting.

27. Given feedback from the Board, and the new proposal made for subsequent measurement in this paper, HM Treasury recommend that subsequent measurement of peppercorn leases is consistent with the subsequent measurement proposals made earlier in this paper. Therefore, peppercorn leases will be subsequently measured at current value in existing use or fair value (except for those peppercorn leases qualifying as heritage assets). This is also consistent with the treatment for owned donated assets.

Q1. Does the Board agree with the HM Treasury recommendation that subsequent measurement of right-of-use assets (that is, that the subsequent measurement of right-of-use assets generally follows the principles set out in the FReM for owned property, plant and equipment, and that new guidance is given on the application of these principles to right-of-use assets)?

Lease-like arrangements with nil consideration

Background

28. At the November Board meeting, HM Treasury raised the issue of lease-like arrangements with nil consideration (i.e. instances similar to peppercorn leases, which have nominal consideration). There was a question of whether, since the definition of a contract requires consideration to be exchanged, a further adaptation to IFRS 16 was needed to ensure that these arrangements would be in scope. HM Treasury agreed to undertake further analysis to determine how widespread these arrangements are across government and therefore whether an adaptation was necessary.

29. Feedback from departments, including the Department for Culture, Media and Sport; Department for Transport; and Department for Education, found that a number of lease-like arrangements with nil consideration exist and that they meet the definition of a lease in IFRS 16,

other than the requirement for consideration. These departments requested clarity on the accounting for these arrangements and supported an adaptation that would include them in the scope of IFRS 16.

30. HM Treasury recommend that a further adaptation be introduced to ensure that these arrangements are included in the scope of IFRS 16 and accounted for consistently with peppercorn leases. We note that the February 2019 out-of-meeting paper contained this recommendation and Board members broadly supported this recommendation. We also note CIPFA/LASAAC have tentatively agreed to this approach in their March 2019 meeting.

Q2. Does the Board agree with the HM Treasury recommendation for nil-consideration lease-like arrangements (that is, these arrangements should be in the scope of IFRS 16 for the public sector and should be treated as peppercorn leases)?

Discounting lease liabilities

31. IFRS 16 sets out the requirement for lessees to discount lease payments using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee should use the lessee's incremental borrowing rate (IFRS 16: 26). FReM compliant bodies do not generally undertake external borrowing and, therefore, HM Treasury will issue discount rates as a proxy for their incremental borrowing rate. FReM compliant bodies should use HM Treasury rates, unless they can demonstrate that another discount rate would more accurately represent their incremental borrowing rate (for example, if they do undertake external borrowing independently of the Exchequer). This was an interpretation of IFRS 16 agreed by the Board in previous meetings (FRAB 134 (02)). HM Treasury also issues discount rates on an annual basis to apply to provisions, financial instruments and employee benefits.

32. HM Treasury had initially proposed that the discounting of lease payments would follow the same methodology as applied to provisions. This proposal was included in papers provided to FRAB in November (FRAB 134 (02)). As a reminder, the methodology for provision discounting requires different rates to be applied to cash flows dependent on whether the cash flows fall within the short, medium, long and very long-term time frames.

33. It has become clear, however, that the application of the multiple year provision discount rate methodology to calculate lease liabilities will lead to the unwinding of the lease liability which does not net to zero. This issue does not affect provisions in the same way as they may not have cash flows every year, are remeasured annually using updated discount rates and can be over or under-utilised when crystallised.

34. Therefore, HM Treasury will issue new guidance to departments outlining an updated methodology, specifically for lease discounting, which sets out a single rate. This single rate will be a nominal rate based on the Bank of England gilt yield curve. The yield curve is indicative of government borrowing. The point, on the yield curve, from which the rate will be derived will be determined by further analysis, in time for issuance in December

35. HM Treasury did consider the application of the existing short, medium, long and very long-term rates applied to provisions – but that only one of these rates would be applied dependent on the lease term (i.e. if the lease was medium term, the medium-term rate only would be applied,

or, if the lease was long term, a long-term rate only would be applied). This alternative methodology was not deemed workable, primarily due to, although not limited to, the following:

i) Departmental feedback indicated the alternative methodology would be more difficult to apply, cause confusion and lead to error; and
ii) Should lease liabilities be remeasured, and the remaining life of the lease term has changed so that a different time frame discount rate is applied, this could lead to volatility and a material change in the present value of the liability (i.e. if a 50 year lease is remeasured at 40 years, with 10 years remaining, the discount rate applied would change from very long term to medium term).

36. Additionally, HM Treasury will make one further clarification to the discount rate guidance regarding the inflation of variable lease payments, tied to an inflation index, on measurement of the liability. We will clarify that these cash flows can be inflated, using HM Treasury inflation rates provided in the annual PES paper. We have discussed this with IASB staff who have confirmed this clarification is consistent with IFRS 16.

37. To summarise the clarifications that HM Treasury will make to the lease discounting guidance, included in the revised IFRS 16 Leases Application Guidance also circulated to FRAB: Lease discounting will use a single nominal rate, rather than multiple nominal rates; inflation of lease cashflows on measurement is only permitted where these are tied to inflation index; and, preparers will be reminded of the requirements of IFRS 16: 39-45, which outlines the circumstances in which lease liabilities are remeasured.

Budgeting

38. A primary reason for deferring the public-sector implementation of IFRS 16 to 20/21 was to allow more time to develop a fuller alignment between Annual Reports and Accounts (ARAs), budgets and National Accounts – consistent with the Clear Line of Sight principle. To achieve this, HM Treasury has continued to work with the ONS, to identify how leases should be treated in National Accounts. This decision has implications on budgeting, as budget data feeds into the National Accounts.

39. Since the November meeting, HM Treasury has obtained a representative sample of government lease contracts, reviewed these against IFRS 16 and ESA standards and completed an analysis of whether IFRS 16 or IAS 17 offers a better proxy for ESA 10. This was provided to the ONS in early January, alongside an evaluation of potential budgeting options and an analysis of the estimated historic restatement of National Accounts required under a switch to IFRS 16. From this work, the ONS committed to making a choice between National Accounts following either IFRS 16 or IAS 17.

40. HM Treasury's proposal is that the budgeting treatment of leases follows IFRS 16, regardless of the ONS decision. This will provide full alignment between, at least, ARAs and budgets. Should National Accounts follow IAS 17, IFRS 16 budget data will be adjusted back to the National Accounts position based on a methodology developed by HM Treasury. To achieve this there will be some extra budgeting requirements placed on departments, although the underlying principle is that budgets would still follow IFRS 16. The HM Treasury proposal for budgeting has been tested with ministers, although not approved at the time of writing.

41. HM Treasury has also issued draft budgeting guidance to departments through the Technical Working Group forum. The guidance was caveated, in that it could change dependent on the

National Accounts decision and any resulting ministerial agreement required. Useful feedback was obtained on the budgeting methodologies proposed and the detailed elements of the guidance. The guidance was specifically shared with DfT and DCMS to facilitate their preparations for IFRS 16 adoption from 19/20.

42. ONS has committed to providing an indicative decision as to whether National Accounts follow IFRS 16, or IAS 17, by 4th April. When HM Treasury receives notification of the ONS decision, draft budgeting guidance will be shared with all departments. The guidance will be final, except for the resolution of two questions: a) how asymmetric intra-governmental leases are treated in budgets; and b) whether new and streamlined OSCAR codes are created for full IFRS 16 adoption by the public sector in 20/21. Dependent on departmental feedback and the resolution of these two questions, we would expect to issue final budgeting guidance by the summer.

43. In addition, we will seek endorsement from the Alignment Review Committee (ARC) and Parliamentary Liaison committee for our budgeting proposals (required regardless of the ONS decision, as the move to IFRS 16 budgets will shift DEL and AME boundaries). We would not expect that endorsement or feedback from these committees would necessarily change the budgeting guidance, however we will ensure endorsement is obtained prior to issuing final guidance in the summer, so that due process is followed. Lastly, should National Accounts follow IAS 17, ministerial approval to the HM Treasury budget proposal will also be sought.

Next Steps and decisions required

44. HM Treasury requires a final response from the board on the following:

> ***Q1. Does the Board agree with the HM Treasury recommendation that subsequent measurement of right-of-use assets (that is, that the subsequent measurement of right-of-use assets generally follows the principles set out in the FReM for owned property, plant and equipment, and that new guidance is given on the application of these principles to right-of-use assets)?***
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> ***Q2. Does the Board agree with the HM Treasury recommendation for nil-consideration lease-like arrangements (that is, these arrangements should be in the scope of IFRS 16 for the public sector and should be treated as peppercorn leases)?***

45. The Board should note the new methodology to apply to lease discounting and the progress made in relation to budgets, but HM Treasury welcomes comments on these parts of the paper.

46. HM Treasury will reflect the decisions made in this meeting in the 2019-2020 FReM and the application guidance for IFRS 16, and will publish both documents as soon as possible after the meeting. Please see Annex A to this paper for a draft of the IFRS 16 Application Guidance that reflects the recommendations made in this paper. Additions since the last version of the Application Guidance the FRAB saw in the November meeting are in track changes.

4th April 2019

Annex A: Suggested drafting on subsequent measurement

Interpretation:
The subsequent measurement basis for right-of-use assets shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in the adaptations to IAS 16. Chapter 7 paragraphs X-X set out how these bases apply to right-of-use assets. The assessment of whether cost is an appropriate proxy for current value in existing use or fair value shall be performed on an asset-by-asset basis.

Guidance in Chapter 7 of the FReM:
When determining a current value in existing use or fair value for right-of-use assets, entities should bear in mind that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value in existing use or fair value. This is because right-of-use assets generally have shorter useful lives and values than their respective underlying assets (see guidance in paragraph 7.1.14 regarding using cost as a proxy for owned assets with shorter economic lives or low values). Additionally, in many cases leases will have provisions to update rental payments for market conditions, which will be captured in the IFRS 16 cost measurement requirements.

However, for some right-of-use assets, the cost model in IFRS 16 will not be an appropriate proxy for current value in existing use or fair value. This is likely to be the case when both of the following conditions are met:

- A longer-term lease has no provisions to update lease payments for market conditions (such as rent reviews), or if there is a significant period of time between those updates; and
- The current value in existing use or fair value of the underlying asset is likely to fluctuate significantly due to changes in market prices. This is more likely to be the case with property assets.

An example of the case described above would be a 30-year lease of property with one rent review at the end of year 15, where the market for the property was active and volatile.

To measure the current value in existing use of a right-of-use asset, a valuer should calculate the full replacement cost of the right-of-use asset by identifying the current market rental value that could be achieved for existing use of the right-of-use asset and capitalise it for the full remaining lease term from the valuation date. This valuation should reflect the terms and conditions of the lease giving rise to the right-of-use asset, and should reflect an assumption that the entity requires the use the entire right-of-use asset. The Royal Institution of Chartered Surveyors (RICS) will publish guidance for valuers consistent with the above.

If the cost model in IFRS 16 is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of right-of-use assets within which it has been used (where appropriate) and the reasons why.

Finally, entities should bear materiality in mind when applying this guidance, just as in other areas of financial reporting. Part of the reason that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value is that there is not a material difference between the valuation produced by the cost model or the valuation produced by the revaluation model.

Annex B: Subsequent measurement approaches considered by HM Treasury

Approach considered	Approach advantages	Approach disadvantages
Approach 1: Requiring revaluation in all circumstances	• Valuations of right-of-use assets reflect current value, enabling better decision-making and asset management • Consistency with owned assets (to some extent), across right-of-use assets, and across government	• Likely that costs would outweigh benefits; revaluation of all right-of-use assets would be very costly and complex, and in most cases not result in a significantly different valuation from the IFRS 16 cost model
Approach 2: Requiring IFRS 16 cost	• Simple and cost-effective • In most cases, IFRS 16 cost model is a close proxy for current value, so this approach could still reap many of the benefits of current value measurement • Consistency across right-of-use assets and across government	• In some cases, IFRS 16 cost is not an appropriate proxy for current value. In these cases, the benefits of current value measurement could not be achieved • Inconsistent with owned assets
Approach 3: Permitting cost or revaluation	• Consistent with IFRS 16 • Cost concerns are mitigated as departments could choose when the benefits of revaluation would outweigh costs and only perform revaluation in those circumstances	• Anecdotal evidence from departments suggests in practice this approach would be no different from Approach 2, as departments would very rarely actively choose to revalue their right-of-use assets (so would have the disadvantages for Approach 2) • Lack of consistency across right-of-use assets, between owned and leased assets and across government
Approach 4: Requiring revaluation in some circumstances, using bright lines	• Valuations of right-of-use assets reflect current value in most cases, enabling better decision-making and asset management • Bright lines would be easy for departments to follow • Cost concerns are mitigated as revaluation is only in certain circumstances • Consistency across government	• Bright lines are easy to structure around and will not always indicate when IFRS 16 cost is not an appropriate proxy for current value • Very similar transactions could have different accounting outcomes • Inconsistent with owned assets
Approach 5: FReM owned asset approach: generally require revaluation, but allow IFRS 16 cost to be used as a proxy for current value when appropriate	• Valuations of right-of-use assets reflect current value, enabling better decision-making and asset management • Cost concerns are mitigated as revaluation is only when IFRS 16 cost is not an appropriate proxy for current value • Consistency with owned assets, across right-of-use assets, and across government	• Departments will have to use judgement to determine when IFRS 16 cost is not an appropriate proxy for current value: this will mean increased work for departments and a risk of inconsistent application