

## Accounting Standards for Business Enterprises No. 21 — Leases

### Chapter 1: General Provisions

#### Article 1

These Standards are formulated in accordance with the *Accounting Standards for Business Enterprises — Basic Standards* to regulate the recognition, measurement, and presentation of information related to leases.

#### Article 2

A lease is a contract that conveys the right to use an asset for a period of time in exchange for consideration.

#### Article 3

These Standards apply to all leases except the following:

1. Rights obtained by a lessee through licensing agreements, such as copyrights, patents, or land use rights acquired through transfer, allocation, or assignment, which are accounted for under *Accounting Standards for Business Enterprises No. 6 — Intangible Assets*.
2. Intellectual property licenses granted by a lessor, which are accounted for under *Accounting Standards for Business Enterprises No. 14 — Revenue*.

These Standards do not apply to leases for the exploration or use of minerals, oil, natural gas, and similar non-renewable resources; leases of biological assets by lessees; or concession agreements for public infrastructure construction and operation under build-operate-transfer (BOT) arrangements.

### Chapter 2: Identification, Separation, and Combination of Leases

#### Section 1: Identification of Leases

#### Article 4

At the commencement date of the contract, an entity shall assess whether the contract is, or contains, a lease. If the contract conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration, the contract is, or contains, a lease.

Unless the terms and conditions of the contract change, the entity need not reassess whether the contract is, or contains, a lease.

#### Article 5

To determine whether a contract conveys the right to control the use of an identified asset, the entity shall assess whether the customer has:

1. The right to obtain substantially all the economic benefits from the use of the identified asset during the usage period; and
2. The right to direct the use of the identified asset during that period.

#### Article 6

An identified asset is typically explicitly specified in the contract or implicitly specified when the asset is made available to the customer. However, even if an asset is specified in the contract, it is not an identified asset if the supplier has the substantive right to substitute the asset throughout the usage period.

A supplier has a substantive substitution right if:

1. The supplier has the practical ability to substitute the asset throughout the usage period; and
2. The supplier would benefit economically from exercising that right.

If it is difficult to determine whether the supplier has a substantive substitution right, the supplier shall be presumed not to have such a right.

If a portion of an asset's capacity (or another part) is not physically distinct, that portion is not an identified asset unless it represents substantially all the capacity of the asset, thereby enabling the customer to obtain substantially all the economic benefits from its use.

#### Article 7

When assessing whether the customer has the right to obtain substantially all the economic benefits from the use of the identified asset, the entity shall consider the economic benefits within the scope of the customer's right to use the asset.

#### Article 8

A customer has the right to direct the use of an identified asset if either of the following conditions is met:

1. The customer has the right to direct how and for what purpose the asset is used throughout the usage period.
2. The use of the asset is predetermined, and the customer has the right to operate the asset (or direct others to operate it) throughout the usage period in accordance with its decisions, or the customer designed the asset in a way that predetermines its use.

### Section 2: Separation and Combination of Leases

#### Article 9

If a contract contains multiple separate leases, the lessee and lessor shall separate the contract and account for each lease separately.

If a contract contains both lease and non-lease components, the lessee and lessor shall separate the lease and non-lease components unless the entity applies the accounting treatment under Article 12 of these Standards. The lease components shall be accounted for under these Standards, and the non-lease components shall be accounted for under other applicable accounting standards.

#### Article 10

The right to use an identified asset constitutes a separate lease if both of the following conditions are met:

1. The lessee can benefit from using the asset either on its own or together with other readily available resources.
2. The asset is not highly dependent on, or interrelated with, other assets in the contract.

#### Article 11

When separating lease and non-lease components, the lessee shall allocate the consideration based on the relative stand-alone prices of the lease and non-lease components. The lessor shall allocate the consideration in accordance with *Accounting Standards for Business Enterprises No. 14 — Revenue*.

#### Article 12

For simplification, a lessee may elect not to separate lease and non-lease components by class of underlying asset. If the lessee makes this election, it shall combine the lease and related non-lease components as a single lease and account for it under these Standards. However, embedded derivatives that should be separated under *Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments* shall not be combined with the lease component.

#### Article 13

Two or more contracts with the same counterparty (or its related parties) entered into at or near the same time shall be combined and accounted for as a single contract if:

1. They are negotiated as a package with an overall commercial purpose.
2. The consideration in one contract depends on the pricing or performance of another contract.
3. The rights to use assets conveyed in the contracts form a single lease.

### Chapter 3: Lessee Accounting

#### Section 1: Recognition and Initial Measurement

#### Article 14

At the commencement date of the lease, the lessee shall recognize a right-of-use asset and a lease liability, except for short-term leases and leases of low-value assets accounted for under Section 3 of this Chapter.

A right-of-use asset is the lessee's right to use an underlying asset during the lease term.

The commencement date of the lease is the date on which the lessor makes the underlying asset available for use by the lessee.

#### Article 15

The lease term is the non-cancellable period during which the lessee has the right to use the underlying asset.

If the lessee has an option to extend the lease and is reasonably certain to exercise it, the lease term includes the extension period.

If the lessee has an option to terminate the lease but is reasonably certain not to exercise it, the lease term includes the termination period.

If significant events or changes within the lessee's control affect the assessment of lease options, the lessee shall reassess whether it is reasonably certain to exercise extension or purchase options or not to exercise termination options.

#### Article 16

The right-of-use asset shall be initially measured at cost, which includes:

1. The initial measurement amount of the lease liability.
2. Lease payments made at or before the commencement date, less any lease incentives received.
3. Initial direct costs incurred by the lessee.
4. Estimated costs of dismantling, removing, or restoring the underlying asset or the site on which it is located. Costs related to producing inventory shall be accounted for under *Accounting Standards for Business Enterprises No. 1 — Inventory*.

The lessee shall recognize and measure the costs in (4) above in accordance with *Accounting Standards for Business Enterprises No. 13 — Contingencies*.

A lease incentive is an incentive provided by the lessor to the lessee to enter into the lease, including payments made by the lessor to the lessee or costs borne by the lessor.

Initial direct costs are incremental costs directly attributable to negotiating and arranging the lease.

#### Article 17

The lease liability shall be initially measured at the present value of unpaid lease payments at the commencement date.

The discount rate used shall be the interest rate implicit in the lease (if determinable); otherwise, the lessee's incremental borrowing rate shall be used.

The interest rate implicit in the lease is the rate that causes the present value of lease receipts and unguaranteed residual value to equal the fair value of the underlying asset plus the lessor's initial direct costs.

The lessee's incremental borrowing rate is the rate the lessee would have to pay to borrow funds on similar terms to obtain an asset of similar value.

#### Article 18

Lease payments include:

1. Fixed payments (including in-substance fixed payments), less any lease incentives.
2. Variable lease payments that depend on an index or rate, measured at the commencement date.
3. Exercise prices of purchase options if the lessee is reasonably certain to exercise them.
4. Termination penalties if the lease term reflects the lessee's exercise of a termination option.
5. Payments expected under residual value guarantees.

In-substance fixed payments are payments that appear variable but are unavoidable in substance.

Variable lease payments are payments that vary due to changes in facts or circumstances (other than the passage of time).

#### Article 19

A guaranteed residual value is a guarantee by an unrelated third party that the asset's value will be at least a specified amount at lease end.

An unguaranteed residual value is the portion of the residual value not guaranteed by the lessor or related parties.

## Section 2: Subsequent Measurement

### Article 20

After the commencement date, the lessee shall measure the right-of-use asset using the cost model in accordance with Articles 21, 22, 27, and 29.

### Article 21

The lessee shall depreciate the right-of-use asset in accordance with *Accounting Standards for Business Enterprises No. 4 — Fixed Assets*.

If the lessee is reasonably certain to obtain ownership by the end of the lease term, depreciation shall be over the asset's useful life. Otherwise, it shall be over the shorter of the lease term or the asset's useful life.

### Article 22

The lessee shall assess impairment of the right-of-use asset under *Accounting Standards for Business Enterprises No. 8 — Impairment of Assets*.

### Article 23

Interest expense on the lease liability shall be recognized using the effective interest method.

### Article 24

Variable lease payments not included in the lease liability shall be recognized in profit or loss when incurred.

### Article 25

If lease payments change due to reassessment of options, the lessee shall remeasure the lease liability using a revised discount rate.

### Article 26

Changes in variable lease payments linked to an index or rate shall be remeasured using the original discount rate (unless linked to a floating rate).

### Article 27

Adjustments to the lease liability shall be offset against the right-of-use asset. If the asset's carrying amount is reduced to zero, any remaining adjustment shall be recognized in profit or loss.

### Article 28

A lease modification that adds the right to use one or more assets and increases consideration commensurate with the standalone price shall be accounted for as a separate lease.

### Article 29

For other lease modifications, the lessee shall remeasure the lease liability using a revised discount rate.

## Section 3: Short-Term Leases and Leases of Low-Value Assets

### Article 30

A short-term lease is a lease with a term of 12 months or less at the commencement date.

### Article 31

A lease of a low-value asset is a lease of an asset that is of low value when new.

### Article 32

For short-term leases and leases of low-value assets, the lessee may elect not to recognize a right-of-use asset and lease liability. Instead, lease payments shall be recognized on a straight-line basis or another systematic basis.

## Chapter 4: Lessor Accounting

### Section 1: Classification of Leases by Lessors

### Article 35

At the commencement date, the lessor shall classify leases as either finance leases or operating leases.

#### Article 36

A lease is a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Indicators include:

1. Ownership transfers at lease end.
2. The lessee has a bargain purchase option.
3. The lease term covers most of the asset's economic life.
4. The present value of lease payments approximates the asset's fair value.
5. The asset is specialized for the lessee.

#### Section 2: Lessor Accounting for Finance Leases

##### Article 38

The lessor shall derecognize the underlying asset and recognize a lease receivable at the net investment in the lease.

##### Article 39

Interest income shall be recognized using the effective interest method.

##### Article 42

Manufacturer or dealer lessors shall recognize revenue at the lower of fair value or the present value of lease payments.

#### Section 3: Lessor Accounting for Operating Leases

##### Article 45

Lease income from operating leases shall be recognized on a straight-line basis.

#### Chapter 5: Sale and Leaseback Transactions

##### Article 50

The parties shall assess whether the transfer of the asset is a sale under *Accounting Standards for Business Enterprises No. 14 — Revenue*.

##### Article 51

If the transfer is a sale, the seller-lessee shall measure the right-of-use asset based on the portion of the asset retained.

#### Chapter 6: Presentation

##### Section 1: Lessee Presentation

##### Article 53

The lessee shall present right-of-use assets and lease liabilities separately in the balance sheet.

##### Section 2: Lessor Presentation

##### Article 56

The lessor shall present operating lease assets separately in the balance sheet.

#### Chapter 7: Transitional Provisions

##### Article 60

Entities may elect not to reassess whether existing contracts contain leases at the date of initial application.

#### Chapter 8: Supplementary Provisions

##### Article 68

These Standards shall be effective as of January 1, 2019.

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