

FUNDAÇÃO GETULIO VARGAS
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**LEASES OF LOW-VALUE ASSETS:
HOW ARE COMPANIES AND JURISDICTIONS APPROACHING THE LACK
OF GUIDANCE IN IFRS 16?**

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Trabalho Aplicado apresentado à Escola de
Administração de Empresas de São Paulo da
Fundação Getulio Vargas, com requisito para
obtenção do título de Mestre em Gestão para a
Competitividade.

Linha de Pesquisa: Finanças e Controladoria

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RESUMO

Esta pesquisa investiga como as entidades abordam a ausência de uma definição no CPC 06 - Arrendamento Mercantil sobre ativos de baixo valor. Desenvolvemos quatro estratégias para coletar e analisar dados. Primeiramente, realizamos uma análise de conteúdo das cartas-comentário enviadas ao *IASB's 2013 Exposure Draft*, com o objetivo de encontrar a origem da isenção de reconhecimento. Em segundo lugar, aplicamos uma pesquisa com autoridades jurisdicionais de países que usam IFRS, com o objetivo de saber como eles têm regulamentado o tema. Em seguida, realizamos uma análise de conteúdo das notas às demonstrações financeiras de 2020 publicadas pelas companhias brasileiras, com o objetivo de identificar como implementaram a isenção e como os auditores reagiram. Por fim, aplicamos uma pesquisa com profissionais de Relações com Investidores. A principal conclusão de nossa pesquisa mostra que o IASB não aplicou conceitos apropriados para justificar os requisitos contábeis para os ativos de baixo valor. Especialmente sua contradição com o conceito de Materialidade, que é uma característica qualitativa fundamental de relevância e é específica para cada entidade. Por outro lado, a avaliação se um ativo é considerado de baixo valor não é afetada pelo tamanho, natureza ou circunstância do arrendatário. A análise das cartas comentário ao ED 2013 permitiu-nos compreender a concepção do conceito. A análise de conteúdo das DFs e a pesquisa mostram que o CPC 06 foi implementado pela maioria das empresas brasileiras. Os resultados de ambas as metodologias também mostram que 96% das empresas pesquisadas usam um limite quantitativo para operacionalizar os ativos de baixo valor e 61% das empresas analisadas divulgaram em dezembro de 2020 o uso da isenção. A maioria das empresas no Brasil não divulgaram a despesa para arrendamentos de ativos de baixo valor. Este é o primeiro estudo a abordar o conceito de baixo valor do IFRS 16 e esperamos que o conhecimento adquirido com esta pesquisa possa ser uma fonte relevante para o IASB quando se dedicar à revisão pós-implementação do IFRS 16 e de materialidade.

Palavras chave: CPC 06 (R2), Arrendamentos, Ativos de baixo valor, Materialidade, vaguidade

ABSTRACT

This research investigates how entities address the absence of a definition for low-value assets in IFRS 16. We developed four strategies to collect and analyze data. First, we performed a content analysis on the comment letters (CL) to the IASB's 2013 Exposure Draft (ED), aiming to find the origins of the exemption. Secondly, we applied a survey with jurisdictional authorities from countries that use IFRS, aiming to learn how they have regulated the low-value assets. Then, we performed a content analysis on the 2020 Financial Statements (FS) published by the Brazilian companies, aiming to identify how they implemented the exemption, and how auditors reacted. Finally, we applied a survey with Brazilian practitioners aiming to fulfill the gaps left by the notes. The main conclusion of our research shows that the IASB did not apply appropriate concepts to justify lease accounting requirements for the concept of the low-value asset. Especially its contradiction to the concept of Materiality, which is an entity-specific fundamental qualitative characteristic of relevance. On the other hand, the assessment of whether an underlying asset is of low value is not affected by the size, nature or circumstances of the lessee. The analysis of CL on the ED 2013 enabled the understanding of the concept. The content analysis of FS and survey shows that IFRS 16 - *Leases* were implemented by a large majority of the Brazilian companies. The results of both methodologies also show that 96% of lessees use a quantitative threshold to operationalize the concept, and 61% of archival analyzed companies used the exemption in December 2020. The majority of Companies in Brazil did not disclose the expense relating of low-value assets. This is the first study to approach the concept of low-value from IFRS16 and we expect that the knowledge gained from this research might be a relevant input to the IASB to the post-implementation review of the IFRS 16 and the revision of Practice Statement number 2 – Making Materiality Judgement.

Keywords: IFRS 16, Lease, Low-Value Asset, Materiality, vagueness

LISTA DE ABREVIATURAS E SIGLAS

B3: Brazilian Stock Exchange

BC: Basis for conclusions

CL: Comment Letter

DP: Discussion Paper

ED: Exposure Draft

FASB: Financial Accounting Standards Board

FS: Financial Statements

IAS: International Accounting Standards

IASB: International Accounting Standards Board

IASC: International Accounting Standards Committee

IFRIC: International Financial Reporting Interpretations Committee

IFRS: International Financial Reporting Standards

IPSAS: International Public Sector Accounting Standards

IPSASB: International Public Sector Accounting Standard Board

IR: Investor Relations

PPF: Professional Practice Function

ROU: right-of-use

SEC: The USA Securities and Exchange Commission

SIC: Standard Interpretations Committee

USA: United States of America

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1. INTRODUCTION

Although the IFRS 16 – *Leases* (IASB, 2016c) is a principle-based accounting standard, it contains some rules-based exemptions to recognition requirements that is either based on the length of the contract (short-term leases) or the fair value of the underlying asset (low-value leases). On the one hand, IFRS 16 clearly explains that a short-term lease is: “A lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.” On the other hand, IFRS 16 is quite vague about low-value leases.

This research aims to investigate how Companies, jurisdictional authorities, auditors, and the accounting profession address the lack of guidance in IFRS 16. In other words, we intend to answer: How much is low-value in the scope of IFRS 16?

Particularly related to low-value assets, the concern of the International Accounting Standards Board (IASB), expressed in the report effects analysis (IASB, 2016b) was to provide substantial cost relief for potentially high volumes of low-value leases without any significant effect on the improvements introduced by IFRS 16. However, the IFRS 16 does not define ‘low-value asset’; simply presents a list of examples of items that can or cannot be classified as low-value assets.

In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (IASB, 2003), in the lack of specific guidance, accountants should refer to another IFRS that deals with a similar transaction, the Conceptual Framework for Financial Reporting (Conceptual Framework) or other sources to develop a domestic accounting policy. Specifically, the Basis for Conclusions on Conceptual Framework IASB (2018) presents the fundamental qualitative characteristics of useful financial

information as relevance and faithful representation; and explains that materiality is an aspect of relevance. Indeed, in the Practical Statement Making Materiality Judgments (IASB, 2017), the Board had defined *materiality as an entity-specific aspect of relevance based on the nature or magnitude, or both*, of the items to which the information relates in the context of an individual entity's financial report. (Emphasis added)

However, in the paragraph BC100 of the Basis for Conclusion (BC) of the IFRS 16, “the IASB also decided that the outcome of the assessment of whether *an underlying asset is of low value should not be affected by the size, nature, or circumstances of the lessee* — i.e. the exemption is based on the value when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset” (IASB, 2016a). According to Kabir & Rahman, (2020) such an inconsistency to derive accounting requirements in new IFRSs may endanger the conceptual coherence of IFRSs. (Emphasis added)

Another evidence, in this case, contrary to the common understanding that the US GAAP is a rules-based accounting model, while IFRS is a principle-based one, is that the IASB accepted constituents' demands and inserted the low-value asset exception but the FASB did not. According to the Appendix B (Differences between U.S. GAAP and IFRS Standards) of the roadmap to applying the new leasing standard, regarding the topic of Leases of low-value assets, there is no exemption under U.S. GAAP. However, the FASB believes that an entity will be able to adopt a reasonable capitalization policy based on materiality (Deloitte & Touche LLP, 2020).

Aiming to deeply understand the research question. We revised the academic and technical literature over the IFRS 16, i.e., the IFRS 16, *Leases* (IASB, 2016c) and related documents generated during the due process of IASB, such as the Exposure Draft

ED/2010/9 (IASB, 2010) and the Basis for Conclusions on Exposure Draft *Leases* (IASB, 2013), the Practical Implications of the new Leases Standard (IASB, 2015), the Basis for Conclusions - IFRS 16 Leases (IASB, 2016a), the Effects Analysis (IASB, 2016b), the Project Summary and Feedback Statement (IASB, 2016d) and also the Practice Statement Making Materiality Judgements (IASB, 2017) and the Basis for Conclusions of the Conceptual Framework (IASB, 2018).

This manuscript explored the inconsistency between the IASB' materiality principles and the IFRS 16's low-value asset explanation, and investigates: How much is low-value? We developed four strategies to obtain data to answer this question. First, we examined the Comment Letters (CL) sent in response to the ED of 2013. Then, we applied a survey with Jurisdictional Authorities from 166 countries that permit or require the use of IFRS by listed companies. Third, we analyzed the 2020 financial statements of Brazilian listed companies. Finally, we applied a survey with Investor Relations (IR) managers and accountants from Brazilian listed companies.

We structure the remainder of this manuscript as follows. In the next section, we examined the leasing accounting standard and the related documents issued by the IASB. In section three we describe the methodology utilized to respond to the research question. Section four presents and discusses the results. Finally, we present the implications, limitations, and future research opportunities.

2. BACKGROUND AND PROPOSITIONS

Recent research found evidence that the IASB introduced exemption rules in IFRS 16 responding to demands from constituents, especially lessees and industry trade associations. The main argument toward such exemptions was the need to reduce companies' implementation costs (Kabir & Rahman, 2020).

In addition, the impact of the implementation of IFRS 16 was researched in many countries, using different approaches. Joubert, Garvie, & Parle (2017) examined the key financial ratios of companies in the telecommunications and aviation in Australia. Morales-Díaz, & Zamora-Ramírez, (2018) studied the impact of entities' decisions on financial statements focusing on alternative accounting treatments that IFRS 16 permits, and estimations and analyses of each of these decisions. Magli & Ogliari (2018) analyzed the potential impact of IFRS 16 implementation on financial leverage and performance of lessees; Giner & Pardo (2018) examined whether as-if capitalized operating leases are priced by market FS users examining Spanish listed firm; and Arrozio, Gonzales, & da Silva (2016) analyzed the impact of the IFRS 16 implementation in the retail companies listed on the Brazilian stock exchange.

2.1 IFRS 16

In January 2016 the IASB issued the IFRS 16 *Leases*, which superseded the International Accounting Standards (IAS) 17 *Leases*, issued by the International Accounting Standards Committee (IASC) in December 1997, and its interpretations SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, issued by the Standard Interpretations Committee (SIC) in 2001, and IFRIC 4 *Determining whether an Arrangement contains a*

Lease, issued by the International Financial Reporting Interpretations Committee (IFRIC) in 2004.

The IFRS 16 is the output of a joint project between the IASB and the Financial Accounting Standards Board (FASB), the accounting standard-setter in the United States of America (USA).

In the report *Effects Analysis* (IASB, 2016b), the IASB justifies the need to revise lease accounting policies based on an estimate from the US Securities and Exchange Commission (SEC) that US public companies might had approximately US\$1.25 trillion of off-balance sheet leases (IASB, 2016b) prior to the revision of the accounting standard. According to the *Project Summary and Feedback Statement* (IASB, 2016d), long-term liabilities of heaviest users of off-balance sheet leases were understated by 22% in North America, 45% in Latin America, 26% in Europe, 32% in the Asia-Pacific region, and 27% in Africa and the Middle East.

Since its adoption many empirical studies of the effect of the IFRS 16 in the companies' FS have been published: Kabir & Rahman (2020), Borges (2019), Matos & Murcia (2019). Besides the importance of the lease project, it took almost ten years since its Discussion Paper was published in 2009 until IFRS 16 became effective 1 January 2019. Over this period there was an extensive consultation process.

Such a long process and the concern with the implementation cost of IFRS 16 resulted in the creation of the low-value asset concept, which is a rules-based concept and it is not entity-specific. Both characteristics make the low-value asset concept to be different from other accounting standard concepts issued by IASB, as further explained.

2.2 Low-value asset *versus* materiality

Differently from other accounting standards, IFRS 16 establishes recognition exemptions in paragraphs 5–8 and B3–B8. The Basis for Conclusions (BC) describes the matter:

“Many lessees expressed concerns about the costs of applying the requirements in IFRS 16 to leases that are large in number but low in value, particularly when the aggregate value of those leases would have little effect on the financial statements as a whole.” (IASB, 2016a) (Emphasis added).

The approach to deal with the problem was to include explicit guidance on materiality within IFRS 16. However, IASB noted that other Standards do not have such materiality specifications about particular transactions and events. In addition, the BC also mentions: “IASB concluded that it would be appropriate, and consistent with other Standards, to rely on the materiality guidance in the Conceptual Framework and IAS 1.”

The solution was the Guidance provided in paragraph 4 of the IFRS 16 is as follows:

“The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment in paragraph 6 regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value”. (Emphasis added)

Kabir & Rahman (2020) examined how the IASB had applied the Framework in developing the IFRS 16 and concluded that the IASB introduced rules in IFRS 16 to mitigate concerns relating to high implementation costs. Such demands were received over the course of the IASB’s leasing project.

To achieve such purpose, the IASB made one research using a global sample of 31 lessees from different industries and 21 lessors, the driver was to quantify the value of leases of low-value assets as a percentage of total non-current assets and non-current liabilities. As result, leases of low-value assets from 16 companies out of 17 with a quantifiable response amounted to less than 1 percent of the total noncurrent assets and non-current liabilities.

In the analysis of the Comment Letters received by the IASB after the Revised Exposure Draft (ED/2013/6) showed that many entities which responded to questions raised by both IASB and FASB expressed concerns about the IFRS16's cost of implementation compared to the benefits to the users of financial information. As the result of such concern was the IASB's decision to include the low-value asset exception, we formulate **Proposition 1** - The low-value asset recognition exemption reduces the implementation costs of IFRS 16.

In the Brazilian market, the Securities and Exchange Commission (CVM) publishes annual guidance on interpretations of relevant aspects of accounting standards, legislation, and regulation. In the report (*oficio circular*) n°1 from 2019, issued to clarify aspects in the preparation of FS for the fiscal year ended on 12.31.2018, CVM states: "(ii) low value leasing contracts, when the underlying asset is new, with the pronouncement indicating the limit of USD 5,000, which guided the decisions reached by the Board in terms of magnitude in 2015 (information extracted from the "Basis for Conclusion" section of the standard, in its §BC100)".

We found evidence, from both Analysis of Financial Statements issued in Brazil and from survey with IR managers and accountants that many Brazilian companies use USD 5,000 as the quantitative threshold for low value asset in the context of lease

recognition exemption. It is important to mention that prior to issue the IFRS16 accounting standard, IASB decided to not include any specific amount. However, in practice many companies adopted it, as described in section 4 of the manuscript.

Besides such a conclusion and the justification from the Board that the benefit of such cost relief overweighs the costs of the implementation of the lease standard for all leasing transactions, it brings a conflict to the materiality concept. As defined in the Practice Statement Making Materiality Judgments, the judgment about whether the information is material depends on the facts involved and the circumstances of a *specific entity*.

2.3 Materiality

Following the Conceptual Framework, the *materiality* concept is defined as a fundamental qualitative characteristic of useful financial information, it is an aspect of *Relevance*. Both relevance and faithful representation are fundamental qualitative characteristics of financial information and are components that made it to be useful. In the Conceptual Framework, materiality is defined as:

“Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of those reports, which provide financial information about a *specific reporting entity*. In other words, *materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report*. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.” (Emphasis added) (IASB, 2020), para. 2.11)

However, instead of relying on the conceptual framework, as described in the Basis for conclusion "[...] at the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of USD 5,000 or less. [...] The IASB also decided that the outcome of the assessment of whether an underlying asset is of low-value should not be affected by the size, nature, or circumstances of the lessee—i.e., *the exemption is based on the value when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset.*" (*Emphasis added*) (IASB, 2016a, para. BC100)

Such inconsistency shows that the IASB considered a specific quantitative threshold for the leasing transaction, even though the materiality is a specific reporting entity concept. Indeed, in the context of IFRS 16, the low-value-asset exemption rule is not firm-specific. Therefore, we formulate **Proposition 2** - The term 'low-value asset' is not inherent to the concept of materiality.

Materiality was a topic discussed during the IFRS 16 consultation process mainly due to the implementation costs associated with the adoption of the standard. According to the report Effects Analysis (IASB, 2016b), the likely costs for companies are related to both setting up systems and processes, determining the discount rate, and communication and education.

Accounting standards are subject to political lobbies as demonstrated by Sutton (1984). Ramanna (2013) describes elements of domestic political economies that were shaping IFRS policies. Zeff (2002) studied that one obstacle lying in the IASB's path is the set of political pressures that may be triggered by any board initiative to prescribe specific accounting treatments. He found numerous attempts by industry and other affected parties, both in the U.S. and other countries, to move aggressively to prevent an

accounting standard-setter from imposing an objectionable requirement. More recently, Christensen, B. E et al. (2020) examined the influence of auditors' quantitative materiality threshold disclosure on investors' decision-making. Rey, Maglio & Rapone (2020) studied the lobbying during IASB and FASB convergence due processes, they obtained evidence from the IFRS 16 project on leases.

The exemptions from IFRS 16 are strong evidence of political pressures because the IASB decision focused on the cost constraints raised by the constituents, instead of the Conceptual Framework, which was supposed to be the basis for consistent concepts and decisions.

An additional argument that low-value assets are not an undisputed concept, is that the FASB decided not to include the low-value assets exemption in its lease accounting standard.

Finally, the IASB adopts disclosure transparency for its decision process and the IFRS 16 had a dissenting opinion from Wei-Guo Zhang, an IASB board member. "Mr. Zhang believes that the recognition exemption for leases of low-value assets is unnecessary. This is because, in his view, the materiality guidance in IFRS and the recognition exemption for short-term leases in IFRS 16 should be sufficient to identify those leases for which the costs of recognizing assets and liabilities would outweigh the benefits." (IASB, 2013 para. DO6)

2.4 Enhancing qualitative characteristics

Besides the fundamental qualitative characteristics of financial information, the Conceptual Framework also brings qualitative characteristics that enhance the usefulness of information that is both relevant and provides a faithful representation. The enhancing

qualitative characteristics are comparability, verifiability, timeliness, and understandability.

As defined in paragraph 2.25 of the Conceptual Framework (IASB, 2020) “comparability is the qualitative characteristic that *enables users to identify and understand similarities in, and differences among, items*. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.” (*Emphasis added*)

Another concept that is impaired by the new low-value asset recognition exception is Consistency. Paragraph 2.26 of the Conceptual Framework (IASB, 2020) “*Consistency refers to the use of the same methods for the same items*, either from period to period within a reporting entity or *in a single period across entities*. Comparability is the goal; consistency helps to achieve that goal.” (*Emphasis added*). Considering such qualitative characteristics, we developed **Proposition 3** - The lack of a clear quantitative threshold for “low-value asset” recognition exemption impairs the comparability of financial reports.

Thus, two different entities, which are different in size, nature and circumstances of their business, using a similar threshold in the assessment of whether an underlying asset is of low-value will impair the comparability between both entities. Consequently, leasing information is likely not to be compared with similar information of other entities. Another concern is that consistency might also be impaired, as the same low-value asset lease that would not be recorded for two companies with different sizes. On the other hand, if the decision was to rely only on the materiality concept, the outcome would be different. We encounter such situations in the analysis of the financial statements of Brazilian public companies, as demonstrated in section four.

Aiming to mitigate the comparability matters, the IASB decided to include some specific disclosure requirements in IFRS 16. As demonstrated in paragraph BC207 (c) (IASB, 2016) the expenses related to short-term leases and leases of low-value assets accounted for applying paragraph 6 of IFRS 16, and the expense related to variable lease payments not included in the measurement of lease liabilities. These disclosures provide information about lease payments for which assets and liabilities are not recognized in the balance sheet.

However, our analysis of the published FS in Brazil shows that only by 19% of the companies required to apply IFRS 16 disclosed such information, as further explained in section four.

3. METHODOLOGY

This is a multimethod research; each research step is described below.

3.1 Analysis of the comment letters on the Exposure Draft 2013:

We first analyzed the comment letters from the constituents' feedback on the Exposure Draft 2013, we focused on the National and Regional Standard Setters, as the purpose of this analysis was to find the conception of the low-value exemption and the justification of it.

The 2013 ED was a response from feedback received for the 2010 ED. Most of the Standard setters and jurisdictional authorities responded to the questions in 2013 ED supported the IASB efforts to change the prior leasing accounting model. On the other hand, the dual approach, segregating the leases into Type A and Type B leases, considering the nature of the asset being leased was controversial. The main argument used to criticize the model was the complexity, the lack of conceptual basis and the cost of implementation.

3.2 Survey with Jurisdictional Authorities:

In addition, we developed a survey to identify the research question from the Jurisdiction perspective. We first asked about the Jurisdiction's accounting policies over the leases (IFRS 16), the second part covers other accounting policies, such as Property, plant, and equipment – PP&E Policies (IAS 16), and finally Part III covered specifically the Low-Value concept and recognition exemptions.

The target audience of this survey research is the Jurisdictional Authority of the 166 Countries that permit or require the use of IFRS by its public or other domestic companies.

The first questionnaire was sent to 198 e-mails and we received 11 responses. In addition, from the contact list from the comment letters analyzed we sent 15 additional e-mails and receive 2 responses, totaling 13 responses (1 Africa, 4 Asia, 4 Europe, 2 Latin America, and 2 North America).

3.3 Analysis of Financial Statements issued in Brazil:

An important aspect of this manuscript is to analyze the practical implication of the recognition exemption in the first year of adoption of IFRS 16 in Brazil. To achieve this goal, we search 433 Financial Statements of Public Companies in Brazil. As expected, 326 Companies were required to apply IFRS 16 as lessee, which represents 75% and agrees with the 82% of responses from the survey, where we asked about the requirement to apply the IFRS 16.

We performed a qualitative analysis of the FS in the annual report of the Brazilian public listed companies, we focused at the accounting policies and also the leasing footnote, such analysis was divided into two main parts:

Financial Statements: The primary step was the requirement to apply IFRS 16, we reviewed the Balance Sheet and Statement of profit and loss aiming to identify leasing transactions recorded. The second step was to analyze the presentation of FS and significant accounting policies footnote, such review was searching how the companies were disclosing leasing and specifically how they were reporting the low-value exception. Finally, we reviewed if the companies were disclosing the threshold used and the expense relating to leases of low-value assets accounted as required in paragraph 53 of IFRS 16.

Independent Auditor's Report: The revision of the auditor's report had two objectives, the primary one was to review if the auditors included a qualified opinion over the FS, specifically regarding leasing transactions and the low-value exception. We then

read the key audit matters to identify if the same aspects aforementioned we cited by the auditors.

Management bias and measurement imprecision by the auditors threaten the accurate reporting of complex accounting estimates was already being researched by academics. Landuyt (2020) examined whether directing auditors' attention towards management bias can come at the expense of insufficient auditor sensitivity to measurement imprecision, potentially threatening overall audit quality.

3.4 Survey with IR managers and accountants

The survey was structured in three parts, seeking to identify the research question from the practitioner's perspective and aims to analyze the correlation of other accounting policies with the leasing one. We asked in the first part about the Entity's accounting policies over the leases (IFRS 16), after that, we made questions about their property, plant, and equipment – PP&E Policies (IAS 16), and finally, Part III covered other accounting policies.

The questionnaire was conducted online using the Survey Monkey software (www.surveymonkey.com), which allows participants to submit their responses online, using either a computer or a mobile device. The target audience of the research was the Investor Relations (IR) directors/managers of publicly-held companies listed on the Brazilian (B3) stock exchanges.

Sample selection

The sample was composed of two main groups of respondents: i) Brazilian public listed companies, representing approximately 430 listed companies respectively (32 responses by e-mail from 458 invitations sent and telephone calls made); ii) Companies

associated in ABRASCA, an association of public Brazilian Companies; (24 responses by a link sent by the association);

To increase our response rate, we contacted the participants over the phone. Out of the original list of 677 contacts, we excluded 21 companies there were bankruptcy and 60 securitization companies. In this phase, we made approximately 400 phone calls, as some of the original contacts were duplicated and as result 26 participants provided their e-mail addresses to respond, 8 agreed to respond to the survey over the telephone, 3 did agree to participate and for 64 numbers the contact was not possible after we tried 2 attempts.

Before submitting the survey we applied a pilot test with MBA students and practitioners; and adjusted the questionnaire accordingly to their suggestions. The survey was anonymous and does not require responders to disclose their names or companies. To analyze the answers, we utilized quantitative methods, such as Dispersion analysis of answers; simple correlation (i.e., lease answers vs. PPE answers) and partial correlation.

4. RESULTS

4.1 Analysis of the comment letters on the Exposure Draft 2013:

Many constituents sent feedbacks to the IASB arguing that it was unclear whether the benefits to users would outweigh the costs of applying the right-of-use (ROU) model. Another argument raised in the comment letters was that many lease contracts contain service components and it would be difficult to discern lease components from service components.

In response to this argument, the IASB board has concluded that leases create rights and obligations that are different from those that arise from service contracts. That is because the lessee obtains and controls the right-of-use asset at the time that the underlying asset is delivered to (or made available for use by) the lessee as paragraph BC20 – Basis for Conclusions on Exposure Draft 2013 (IASB, 2013).

In addition, the Board argues that when the lessor delivers (or makes available) the underlying asset for use by the lessee, the lessor has fulfilled its obligation to transfer the right to use that asset to the lessee—the lessee now controls that right-of-use. Consequently, the lessee has an unconditional obligation to pay for that right-of-use.

4.2 Responses from the survey with Jurisdictional Authorities

Part I – IFRS 16 Leases

Our first question aimed to identify the extent of the application of IFRS in the jurisdictions and only one country responded no, the IFRS profile of such country informs that IFRS is permitted in the jurisdiction, but very few companies use IFRS.

Table 1: Does your jurisdiction require or permit domestic companies to apply the IFRS 16?

Answer	N	%
Yes	12	92%
No	1	8%
TOTAL	13	

The second question asked the jurisdiction about its participation in the IASB / FASB discussion process during the IFRS 16 project. We also included two options for participation, sending a comment letter or participating in the public round tables. Most of the respondents, with 8 responses (62%) did not participate and 5 countries representing 38% did participate.

The last question of Part 1 was regarding the extent of the application of IFRS 16 in the jurisdiction. Out of the 12 responses received, 10 (83%) states that their jurisdiction fully applies IFRS 16 and 2 jurisdictions (17%) apply IFRS 16 together with local specific requirements. No respondents choose the alternative to fully apply ASC 842 (US GAAP guidance).

Questions from Part II – Other accounting policies for your jurisdiction

Aiming to identify the correlation between answers from the IFRS16 responses (Part I) and other accounting standards, such as IAS 16 *Property, plant, and equipment*, we started part II asking if the local legislation establishes a quantitative threshold for capitalizing fixed assets (i.e., property, plant, and equipment – PP&E) in the scope of IAS 16. Only one jurisdiction answered that requires, and it is a fixed amount, the other 12 responses, representing 92% do not establish a threshold for PP&E capitalization.

Questions from Part III – Low-value asset recognition exemption

Part III focused on low-value asset. We then asked a similar question, about legislation established as a quantitative threshold as guidance, but specifically for the low-value asset recognition exemption in the scope of IFRS 16 (Leases). Like the prior

answer, the response result was the same, 12 jurisdictions do not have established quantitative thresholds, and the only one that defined such a parameter responded USD 5,000. Lastly, the jurisdiction that responded yes to the PP&E question is different from the Lease one.

In addition, we presented three statements and asked the level of agreement of the respondent to each one of them, we classified the responses from 0 to 5, where zero means ‘totally disagree’ and 5 means ‘totally agree’.

Table 2: What is your level of agreement with the statement: The term 'low-value asset' is inherent to the concept of materiality.

Answer	N	%
0: Totally disagree	0	0%
1	3	27%
2	2	18%
3	2	18%
4	2	18%
5: Totally agree	2	18%
TOTAL	11	

The responses show that the level of agreement, represented by responses from 3 to 5, stands as 55% of the responses, in the jurisdiction point of view. The same question was asked to Practitioners, as demonstrated in section 4.4 below. Although the direction of responses is the same as in the other survey, where the level of agreement with the statement represents 85%, there is a fundamental difference, as the results from the jurisdictions are more balanced. Which is more in line with the IASB position. However, the result is also contrary to the **Proposition 2**.

One argument presented by IASB to include the low-value asset exception in the IFRS16 was the cost of implementation, we then asked the following:

Table 3: What is your level of agreement with the statement: The low-value asset recognition exemption brings benefits as it reduces the cost of implementation of IFRS to local companies.

Answer	N	%
0: Totally disagree	1	9%
1	2	18%
2	1	9%
3	3	27%
4	1	9%
5: Totally agree	3	27%
TOTAL	11	

In this case, the jurisdictional responses stand in the same direction as the IASB position as 64% responded agreeing and 27% totally agree about the benefit of the exception in the cost reduction point of view. This result validates **Proposition 1**.

Finally, the last statement was looking at the jurisdiction view of the comparability concept.

Table 4: What is your level of agreement with the statement: The lack of a clear quantitative threshold for "low-value assets" leases recognition exemption impairs the comparability of financial reports.

Answer	N	%
0: Totally disagree	3	27%
1	2	18%
2	3	27%
3	0	-
4	2	18%
5: Totally agree	1	9%
TOTAL	11	

Contrary to our expectation the level of disagreement sums to 73%, which expresses a different view than we expected from topic 2.4 *enhancing qualitative characteristics*. This result is contrary to **Proposition 3**.

Lastly, we asked whether the jurisdiction discussed and published specific Guidance for the Low-Value recognition exemption. Out of 11 responses, 9 representing 82% did not discuss any specific guidance.

One jurisdiction that provided specific Guidance over low-value assets was Canada. The Canadian Accounting Standards Board had a public Discussion Group that

deliberated about *IFRS 16: Guidance on “Low-value” Leases* in October 2018. According to the document analyzed (Accounting Standards Board (AcSB) Canada, 2018), it was discussed that the recognition exemption is not a materiality assessment. However, materiality may come into play when applying for this exemption in IFRS 16.

The result of such discussion was that a substantial majority of the Group members supported the view that leases of office furniture and IT equipment would qualify for the low-value asset exemption in IFRS 16.

4.3 Analysis of financial statements published by Brazilian companies:

Financial statements review: From the 326 companies required to adopt the IFRS 16, 199 mentioned in the notes to its FS the low-value asset exemption, is distributed as follows:

- 169 described in accounting policies the option to not recognize low-value assets;
- 63 comply with the requirements in paragraph 53 C of IFRS 16 and disclose the expense relating to leases of low-value assets accounted;
- 18 companies disclose the quantitative threshold used to define low-value assets, among those, 12 uses USD 5,000 as threshold, five define low-value asset as BRL 20,000, and one BRL 24,000. Either amount is reasonable equivalent to USD 5,000.

Independent Auditor’s Report review:

- We did not identify any qualification in the auditors’ report, neither about leasing transactions nor to low-value assets.
- 11 audit firms considered IFRS 16 first time adoption as a key audit matter in 2019.

The result shows that most preparers use the low-value asset exemption. However, Brazilian companies do not fully comply with the requirement to disclose the expense

relating to leases of low-value assets, and their auditors do not present a qualified opinion in that regard. Such a lack of compliance might be explained because the low-value asset lease expense is not material.

In addition to the 19 companies that disclosed the low-value asset threshold, we received 13 responses from the IR managers/directors answering the requested information. We found one duplicated record and excluded three inconsistent answers. Aiming to compare the threshold, we utilized the total assets from the Companies and calculated the percentage of the low-value asset threshold.

Table 5 Comparison between Total Assets and Low-Value Asset threshold of Brazilian publicly-held companies.

Total Asset ('000) BRL	Currency of low-value threshold	Low-value threshold	Low-value threshold BRL*	% of low-value over Total Asset
125.196.579	USD	5.000	25.984	0,00002%
101.862.618	USD	5.000	25.984	0,00003%
101.800.748	USD	5.000	25.984	0,00003%
54.812.845	USD	5.000	25.984	0,00005%
50.418.636	USD	5.000	25.984	0,00005%
49.664.906	BRL	100.000	100.000	0,00020%
45.562.807	USD	5.000	25.984	0,00006%
29.952.137	BRL	50.000	50.000	0,00017%
24.592.358	USD	5.000	25.984	0,00011%
21.653.387	USD	5.000	25.984	0,00012%
11.210.945	USD	5.000	25.984	0,00023%
9.466.313	USD	5.000	25.984	0,00027%
5.296.948	BRL	20.000	20.000	0,00038%
4.482.367	BRL	15.000	15.000	0,00033%
4.406.978	BRL	20.000	20.000	0,00045%
3.761.067	USD	5.000	25.984	0,00069%
3.670.738	BRL	20.000	20.000	0,00054%
2.697.105	BRL	300.000	300.000	0,01112%
2.697.105	BRL	20.000	20.000	0,00074%
2.218.692	BRL	24.000	24.000	0,00108%
2.194.373	USD	5.000	25.984	0,00118%
1.969.262	USD	5.000	25.984	0,00132%
1.535.570	BRL	50.000	50.000	0,00326%
910.721	BRL	25.000	25.000	0,00275%
637.653	BRL	1	1	0,00000%
600.526	USD	5.000	25.984	0,00433%
456.928	BRL	20.000	20.000	0,00438%

8.140	BRL	1	1	0,00001%
* Amount converted using the United States Dollar conversion rate to Brazilian Real on December 31st, 2020. Source: https://www.idealsoftwares.com.br/indices/dolar2020.html				

Such analysis is favorable to **Proposition 3**, as companies from different sizes use the same quantitative threshold for "low-value asset" recognition exemption, which impairs the comparability of financial reports.

One additional analysis was to gather the amounts disclosed by Brazilian companies to comply with paragraph 53 of IFRS 16, which requires the lessee to disclose: "(c) the expense relating to short-term leases account; (d) the expense relating to leases of low-value assets; and (e) the expense relating to variable lease payments; among other requirements", the content analysis on the notes to the FS identified that only 30 companies disclose such information, but 16 of them aggregate the expenses relating to short-term leases, leases of low-value assets and variable lease payments. Hence, only 14 companies separately disclose the expense relating to leases of low-value assets.

As depicted in Table 6, annual expenses relating to leases of low-value assets incurred by those 14 companies in 2020 totaled BRL 70.7 million, we made a comparison to a common materiality threshold of 1% of Total equity of the same period.

The conclusion of such analysis is the same as section 2, demonstrating that the low-value asset concept contradicts the materiality one as some companies recorded as

Table 6 Amounts disclosed as Low-Value Assets, Short-term leases, Variable Payments in the FS of Brazilian Companies as at 31st December 2020 (Amounts in BRL 000').

Company Name	Low-Value Assets (LV)	Short term (ST)	Variable Payments (VP)	Total	1% Equity
Arezzo	1.539	2.829	2.945	7.313	13.486
BRF	3.531	162.313	300.949	466.793	85.858
Eletrobras	23.552	23.452	824	47.828	734.783

CSN	9.563	549	270.449	280.561	99.135
CSN Mineração	4.426	549	253.391	258.366	106.017
COPASA	3.421	75	-	3.496	64.566
Conc Rota Bandeiras	3	80	71	154	8.873
Ferrovial_Centro_atlan	4.911	18.697	2.125	25.733	46.809
Itaú	87	-	66	153	1.365.930
Rumo_Malha_Norte	63	19.083	15.931	35.077	38.029
Rumo_Malha_Paulista	31	3.391	-	3.422	34.067
Rumo	1.547	34.101	24.045	59.693	149.836
Suzano Hold	12.182	7.365	-	19.547	20.234
Suzano S.A.	5.879	3.870	-	9.749	72.318
Total	70.735	276.354	870.796	1.217.885	

expenses amounts that in aggregate would have been material. In addition, Table 6 also validates **Proposition 3**, as companies are not disclosing lease expenses items as required by paragraph 53 of IFRS 16, which also impairs the comparability of financial reports.

4.4 Responses from the survey with investor relations or accountants

(Practitioners)

We segregated the responses according to the three parts, as the survey was structured.

Part I – IFRS 16 Leases:

Table 7: Is your company a lessee required to apply the IFRS 16?

Answer	N	%
Yes	49	88%
No	7	12%
TOTAL	56	

The analysis of financial statements of Brazilian Companies found a similar percentage of companies required to apply IFRS 16.

The second question was regarding the parameter(s) the company use to evaluate whether a leased asset is of low-value in the scope of IFRS 16. Out of 45 responses received, 17 choose the individual underlying asset, representing 38% of responses. Other 15 responses were defining the parameter as the lease contract or approximately 33%, 7

companies (16%) choose a group of similar underlying assets and 2 companies (4%) did not apply for the exemption from recognition of 'low-value assets'.

Although the prevalent answer are consistent with the guidance from the Basis for Conclusion, as it describes the recognition exemption for leases of low-value assets would be easier to apply, and of more benefit to lessees, if applied on a lease-by-lease basis, which point to *the individual underlying asset* term, the majority of responses show companies using different parameters from IFRS16 guidance, as demonstrated above.

The following question was the currency used to determine a quantitative threshold for low value assets. Twenty-four companies (out of 39 that answered, representing 62%) use the local currency (the Brazilian Real – BRL) to determine a quantitative threshold to whether an underlying asset is of low-value. Fourteen companies (36%) use the United States dollar (USD), showing the importance of the USD in the leasing transactions in Brazil. Lastly, one company use Mexican pesos (MXN) to determine the low-value asset quantitative threshold.

Finally, the last question of Part 1 of this survey was the most important one to discover how much is low-value asset, we asked what is the quantitative threshold established by the companies for low-value assets in the scope of IFRS 16. The 23 responses in Brazilian real ranges from BRL 1 to BRL 300 thousand, with prevalence of BRL 5,000 (4 responses); BRL 50,000 (3 responses) and BRL 100,000, BRL 1,200 and BRL 1 (2 responses each). The alternative BRL 1,200 is the Brazilian tax parameter for capitalization of fixed assets, which may show the influence of tax rules in those company's accounting policies.

However, the most frequently answer is USD 5,000 (12 responses), which shows the influence of the IASB's study during the lease project and the IASB's BC on the

decision of many companies about the threshold definition of low-value assets. The same conclusion was found in the analysis of financial statements published by Brazilian companies (section 4.3 above).

Questions from Part II – Property, plant, and equipment – PP&E Policies

Similarly, to lease, we asked if the company establishes a quantitative threshold for capitalizing fixed assets (i.e., property, plant, and equipment – PP&E) in the scope of IAS 16? From the 46 responses, 31 (60%) responded yes to such a question. Compared to lease, where only 4% do not apply for the exemption from recognition of 'low-value assets', there is 40% of companies which does not define a maximum parameter to capitalize fixed assets.

Regarding the parameter(s) chosen to evaluate whether an item shall be capitalized as a fixed asset (i.e., PP&E) in the scope of IAS 16, 12 companies (41%) pointed to the individual asset as the parameter. On the other hand, 7 respondents (24%) answered that they record as fixed assets all items that meet the general requirements for recognition, regardless of the amount involved. Finally, four companies (14%) responded to a group of similar assets and the other three companies (10%) responded to the purchase contract (aggregate purchase).

The correlation analysis of the fixed asset capitalization threshold versus the leasing recognition parameter shows a prevalence of companies having both parameters to capitalize PP&E and define low-value assets, out of 45 responses to both questions, 30 companies (67%) do have a PP&E threshold and most of them, representing 10 responses choose an individual underlying asset as the parameter. Another common response was the lease contract with 9 responses.

Table 7: Which currency does your company use to determine a quantitative threshold for capitalizing fixed assets (i.e., PP&E) in the scope of IAS 16?

Answer	N	%
Brazilian Real – BRL	15	68%
United States dollar – USD	6	27%
Euro – EUR	1	5%
TOTAL	22	

We also asked about the quantitative threshold companies established for capitalizing fixed assets (i.e., PP&E) in the scope of IAS 16. The 15 responses in Brazilian Real ranges from BRL 10 to BRL 600,000 with the prevalence of BRL 1,200 (7 responses) and the other responses are granular. As we mention in the lease analysis of the question for the low-value asset, the BRL 1,200 alternative is the Brazilian quantitative threshold for capitalizing fixed assets under the tax law, which reinforces the influence of tax rules in those companies' accounting policies

The analysis of leasing versus PP&E currency chosen to define the parameter showed that 11 companies responded BRL for both questions and two companies pointed to BRL 1,200 as the threshold for both circumstances. On the other hand, six companies responded as USD as the currency used for both cases and two of them use USD 5,000 as the capitalization quantitative threshold.

Questions from Part III – Other accounting policies

Most of the respondents adopt IFRS, it was the choice of 40 companies (91%) out of the 44 that responded, 3 companies apply both IFRS and US GAAP and only 1 uses only US GAAP.

Aiming to identify the correlation between materiality and the concept of low-value asset, we asked if the companies have a clear materiality policy for not recognizing immaterial transactions and events. Nineteen over 44 companies (43%) responded yes and twenty-five (57%) did not have a materiality threshold.

Lastly, we included the following statement: *The term 'low-value asset' is inherent to the concept of materiality* and ranged the response by the level of agreement from 0 (Totally disagree) to 5 (Totally agree).

Table 8: What is your level of agreement with the statement: The term 'low-value asset' is inherent to the concept of materiality.

Answer	N	%
0: Totally disagree	1	3%
1	2	5%
2	3	8%
3	7	18%
4	8	21%
5: Totally agree	18	46%
TOTAL	39	

Eighty-five percent of participants agreed (where 46% totally agreed). However, this result is contrary to the IASB position as demonstrated in the BC of IFRS16 where the low-value asset is not entity-specific while the materiality is, and the result is also contrary to the **Proposition 2**.

4.5 Additional analysis: spillover to the public sector

Although this research focuses on the IFRS issued by the IASB and addressed to private sector entities (mainly listed companies), following are some comments on the International Public Sector Accounting Standard (IPSAS) 43 – Leases, issued on January 2022 by the International Public Sector Accounting Standard Board (IPSASB).

Mimicking IFRS 16, IPSAS 43 also eliminated the classification of a lease contract in the perspective of the lessee between operating lease and capital lease and required public sector lessees to recognize all lease liabilities and the respective ROU asset, except by short-term leases and leases of low value assets (IPSAS 43, paragraphs 6 and 7).

The concept of low value asset is further explained in paragraph AG4-AG9 of IPSAS 43 (AG stands for “Application Guidance”); which are much like BC100 of IFRS 16. However, there is a remarkable difference.

On the one hand, BC101 of IFRS 16 states that “The IASB conducted fieldwork to assess the effect that low-value asset leases would have if the right-of-use assets and lease liabilities were recognised in the financial statements of lessees. On the basis of this fieldwork, the IASB observed that, in most cases, assets and liabilities arising from leases within the scope of the exemption would not be material, even in aggregate”.

On the other hand, AG5 of IPSAS 43 states the opposite, that is: “Leases of low-value assets qualify for the accounting treatment in paragraph 7 regardless of whether those leases are material to the lessee”.

Although AG5 of IPSAS 43 and BC101 of IFRS 16 might suggest conflicting guidance, they are aligned with each other. But the IPSASB made it clear that the concept of low value asset is independent from the concept of materiality, reinforcing the IASB’s decision stated on BC100 of IFRS 16: “that the outcome of the assessment of whether an underlying asset is of low value should not be affected by the size, nature, or circumstances of the lessee—i.e., the exemption is based on the value, when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset.”

Therefore, contrary to the preliminary results collected by the IASB of its fieldwork, listed companies, as well as public sector entities, might apply the recognition exemption to many low value assets that are material in aggregate. Hence, material lease liabilities might not be presented on lessees’ financial position (i.e., ‘off balance-sheet’), impairing the comparability of FS; the two problems IFRS 16 intended to solve.

5. CONCLUSION

The main conclusion of our research agrees with Kabir & Rahman (2020) in the sense that IASB did not apply appropriate concepts to justify lease accounting requirements. We point out to the low-value asset concept and especially its contradiction to the concept of materiality, which is an entity-specific fundamental qualitative characteristic of relevance. In addition, the Conceptual Framework defines characteristics that enhance the quality of the financial information. Indeed, the low-value asset concept impairs both comparability and consistency.

Although the IASB included disclosure requirements in IFRS 16 to mitigate the lack of consistency and comparability derived from the low-value asset recognition exemption, as required in the paragraph 53(d) of IFRS16 Leases, in practice the FS analysis showed that only 19% of Brazilian companies disclosed the required information and such lack of disclosure was not mentioned by auditors in their reports.

The literature review shows a clear difference between low-value asset and materiality concepts, especially because the first *concept does not take into account the size, nature or circumstance of the reporting entity* and the second one is an *entity-specific aspect of relevance based on the nature or magnitude*. Based on survey evidence from both companies' IR directors and jurisdictions' standard-setters, they have presented a high level of agreement with the statement: *The term 'low-value asset' is inherent to the concept of materiality*; the responses were 85% (IR directors) and 55% (standard-setters). Such a result is contrary to **Proposition 2**. Most probably, the IASB's decision to define 'low-value asset' and not relying on the materiality as defined in the Conceptual Framework has created a confusion on the implementation of low-value asset recognition exemption.

Additionally, such confusion might also explain why so many companies do not disclose “the expense relating to leases of low-value assets accounted for applying paragraph 6” apart from “the expense relating to short-term leases accounted for applying paragraph 6”, as required by paragraph 53 (d and c, respectively) from IFRS 16. In other words, managers, accountants and auditors might consider the expense relating to short-term leases and leases of low-value assets as not material; hence, they do not disclose it.

The analysis of the comment letters on the Exposure Draft 2013 enabled us to understand the inception of the low-value asset concept. Prior to ED 2013, the model proposed by the Board was the dual approach, segregating the leases into Type A and Type B leases, considering the nature of the asset being leased. Such a model was abandoned, and the argument used to criticize the model was the complexity, the lack of conceptual basis, and the cost of implementation. On the other hand, the “Feedback on the Discussion Paper generally supported the ‘right-of-use’ model for lessees, by which a lessee would recognize a right-of-use asset and a lease liability at the commencement date of the lease.” (IASB, 2016a)

Although the ROU model was supported, the argument presented by the stakeholders analyzed also confirmed concerns about the costs of applying the requirements of IFRS 16 to leases that are large in number but low in value. They suggested that such an exercise would require a significant amount of effort with potentially little effect on reported information. Therefore, we were able to identify when the low-value asset concept was created and the rationale behind it.

Responses from jurisdictions’ standard-setters also result in a different direction from accounting literature review, when we asked “*what is your level of agreement with the statement: The lack of a clear quantitative threshold for ‘low-value assets’ leases*

recognition exemption impairs the comparability of financial reports”, 73% somehow disagreed and 27% totally disagreed with such statement, the result is contrary to the **Proposition 3**. On the other hand, this result reinforces the IASB objective to provide substantial cost relief for potentially high volumes of low-value leases without any significant effect in the Financial Statements as a whole.

Leases accounting standard (IFRS 16) has been implemented by 82% of the Brazilian companies surveyed and 75% of the companies which financial statements we analyzed, which reinforce the importance of leasing as a source of finance of companies across segments and justify the necessity of the revision of the prior guidance.

According to the BC 2016 “IFRS 16 permits a lessee to elect, on a lease-by-lease basis, not to apply the recognition requirements of IFRS 16 to leases for which the underlying asset is of low”. (IASB, 2016a). However, the survey from Companies (Section 4.4) demonstrated inconsistencies in the application of the exception, because when we asked the parameter used to evaluate whether a leased underlying asset is of low value because only 38% use the underlying asset as required by the standard and 33% and 16% uses the lease contract or a group of similar underlying assets, respectively. The result shows a lack of consistency in the application of the standard.

The results show that 96% of surveyed companies use a quantitative threshold to operationalize the low-value asset recognition exemption, and 61% of archival analyzed companies disclosed in December 2020 the usage of low-value asset recognition exemption. It is aligned with the IASB’s argument that the costs of IFRS 16 implementation for many low-value assets overweight the benefits to the users of financial statements. Jurisdictions’ standard-setters also agree (55%) with the statement:

“The low-value recognition exemption brings benefits as it reduces the cost of implementation of IFRS to local companies.” These results validate **Proposition 1**.

The unbalance between the frequency of usage of a quantitative threshold to operationalize the concept of low-value asset in the context of lease recognition exemption and to not capitalize an item of PP&E is intriguing. On the one hand, 96% of surveyed companies use a quantitative threshold to operationalize the low-value asset recognition exemption. On the other hand, only 60% establish a quantitative threshold for capitalizing fixed assets.

Table 9: Summary of results & Propositions

	4.1 Analysis of the comment letters	4.2 Survey with Jurisdictional Authorities	4.3 Analysis of financial statements	4.4 Survey with Investor Relations
Proposition 1	✓	✓	✓	✓
Proposition 2	N/A	✗	N/A	✗
Proposition 3	N/A	✗	✓	✓

The originality of this paper is that it combined different research strategies, merging a review of IASB literature with the survey sent to practitioners and jurisdictions’ standard-setters and together with the analysis of Comment Letters and Financial Statements to investigate the new concept of the low-value asset established by the IFRS 16.

Finally, the limitations of this study are that it contains responses for the survey and analysis of financial statements only for Brazil. Future research may also examine whether reporting entities for other jurisdictions apply the recognition exception.

We expect that the knowledge gained from this research might be a relevant contribution to the IASB when it commits to the post-implementation review of the IFRS 16 and the revision of Practice Statement number 2 – Making Materiality Judgement.

Indeed, the International Public Sector Accounting Standard (IPSAS) 43 – Leases, replicates IFRS 16 entirely, including the low-value assets lease recognition exemption. Hence, there are implications both for private and public sector entities. Consequently, governmental accounting local standard-setters might also face the same dilemma private sector accounting local standard-setters faced, deciding whether they should establish a clear quantitative threshold for low value assets, aiming to obtain a minimum level of comparability among entities' FS within the jurisdiction or at list provide additional guidance – as the standard-setter from Canada did; or they should let each entity to interpret and implement the concept of low value asset in the absence of any quantitative guidance – as the Brazilian standard-setter did.

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