
COMMUNIQUE

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Release of IFRS 16 Guidance

The Credit Union Prudential Supervisors Association (CUPSA) has released regulatory guidance for the adoption of International Financial Reporting Standard (IFRS) 16 Leases at Canadian credit unions and caisses populaires.

CUPSA has reviewed interpretation and guidance on IFRS 16. The attached guidance is consistent with international standards and is intended to be scalable to the relative size, nature, scope, complexity and risk profile of a credit union or caisse populaire.

Each CUPSA member jurisdiction may choose to apply this guidance in its current or amended form at their own discretion when developing regulatory frameworks and guidance for their credit unions and caisses populaires.

CUPSA will continue to monitor national and international research and guidance related to IFRS 16, and other standards, in order to continuously enhance and clarify sound practices for financial reporting.

About CUPSA

The Credit Union Prudential Supervisors Association (CUPSA) is an interprovincial association composed of credit union prudential supervisors across Canada. CUPSA works toward maintaining a sound and sustainable credit union sector through joint actions. For more information, visit CUPSA's website at www.cupsa-aspc.ca.

IFRS 16 *Leases* Guidance

Introduction

In January 2016, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard (IFRS) 16 *Leases*, which replaces International Accounting Standard (IAS) 17 *Leases*. Credit unions and caisses populaires are required to implement IFRS 16 for the fiscal year commencing on or after January 1, 2019.

IFRS 16 specifies how a credit union or caisse will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use (ROU) assets and related lease payments, as liabilities, for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

Purpose and Scope

This document outlines key regulatory guidance with respect to interpreting IFRS 16, and measurement of capital. It is intended to assist CUPSA member organizations in their individual communications and guidance on IFRS 16. Each CUPSA member organization may choose to apply this guidance in its current or amended form at its own discretion.

Principles

CUPSA considers the following key principles when determining regulatory guidance relating to IFRS:

1. *Consistency* – responses amongst Canadian regulatory bodies should be consistent, supporting a “level playing field” for credit unions and caisses populaires in the financial industry and facilitate leveraging the work and experience of regulators across the country;
2. *Minimize Regulatory Requirements* – requirements should be minimized and issued only to support identified potential risks to prudential monitoring or regulatory capital; and
3. *Comparable Statements* – financial statements of different credit unions and caisses populaires should be materially comparable, to support prudential monitoring.

Regulatory Guidance

Standard Interpretation

CUPSA will not be issuing regulatory guidance or limitations on the interpretation of IFRS 16. This standard affords a number of options to credit unions and caisses populaires which includes, but is not limited to:

- Early adoption
- Discount rate
- Recognition exemptions and practical expedients
- Transition options

CUPSA is of the opinion that the standard has issued sufficient guidance for interpretation and that interpretive variances amongst credit unions and caisses populaires will not produce a material variance in results.

Capital Measurement

For regulatory capital purposes:

- A tangible ROU asset will be included in risk-based capital and leverage denominators. The tangible ROU asset will be risk-weighted at 100%, consistent with the risk weight applied historically to owned tangible assets and to a lessee's leased assets under leases accounted for as finance leases in accordance with existing accounting standards.
- An intangible ROU asset will be deducted from regulatory risk-based capital, consistent with historical treatment for most intangible assets.

This treatment is consistent with the positions of the Basel Committee on Banking Supervision (BCBS) and the Office of the Superintendent of Financial Institutions (OSFI).