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IFRS 16 vs. FRS 102 Section 20:

Key differences for UK/IE chartered accountancy firms

With the updated FRS 102 Section 20 effective for periods on or after 1 January 2026, UK/IE chartered accountancy firms are navigating a standard deliberately aligned with, but meaningfully different from, IFRS 16. See below for the full breakdown of differences between IFRS 16 and FRS 102 Section 20.

1. Leases of low-value assets

FRS 102 & IFRS 16 allow lessees to elect not to recognise ROU assets and liabilities for low-value asset leases. However, there are some differences between the standards:

FRS 102 Section 20	IFRS 16
Under FRS 102, the low-value asset threshold is not explicitly defined in monetary terms	IFRS 16 suggests ~USD $5,000 as a benchmark
Per FRS102 B20.10, low-value assets can include tablets and personal computers, small items of office furniture, and telephones.	IFRS 16 states that tablets and personal computers, small items of office furniture, and telephones are low-value assets
FRS 102 Section lists 9 categories of assets that would not be low value, including: Cars, vans, buses, coaches, trams, trucks and lorries Cranes, excavators, loaders and bulldozers Telehandlers and forklifts Tractors and harvesters Boats and ships Railway rolling stock Aircraft and aero engines Land and buildings Production line equipment	IFRS 16 does not list examples of what cannot be a low-value asset

The FRC expects that, as a result of the flexibility in defining low-value assets, FRS 102 preparers will be able to apply the on-balance sheet lease accounting model to a smaller proportion of their leases, substantively reducing the impact of applying this new model.

Regardless of the differences above, the core principles are similar, but FRS 102 is deliberately more flexible. Both have the following identical requirements:

- The lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee
- The underlying asset is not highly dependent on, or highly interrelated with, other assets

2. Discount rate used in the initial measurement of the lease liability

FRS 102 Section 20

If the interest rate implicit in the lease cannot be readily determined, lessees may choose on a lease-by-lease basis to apply either the lessee's incremental borrowing rate or the lessee's obtainable borrowing rate.

If the interest rate implicit in the lease is not readily determinable, the additional option offers more flexibility in practice.

IFRS 16

Under IFRS 16, the lease liability is discounted using the interest rate implicit in the lease. If that can't be readily determined, the lessee's incremental borrowing rate is used.

3. Discount rate for lessee modifications

Where a modification is accounted for as a separate lease (per FRS 102 paragraph 20.70), the new lease is measured using an updated discount rate, and the original lease remains unchanged.

Where a modification is not accounted for as a separate lease, both FRS 102 and IFRS 16 require the lessee to remeasure the lease liability using a revised discount rate at the effective date of the modification.

FRS 102 Section 20

Under FRS 120 Section 20.72(a)–(c), a lessee may use an unchanged discount rate in either of the following three scenarios:

1. The additional consideration from the lease modification is insignificant to the total consideration of the original lease
2. The lease modification decreases the scope of the lease by removing the right to use one or more underlying assets, and the consideration for the lease decreases by an amount commensurate with the stand-alone price for the decrease in scope
3. The lease modification decreases the consideration payable for the remaining term of the lease, but does not decrease the scope

IFRS 16

Where a modification is not accounted for as a separate lease, the lessee should remeasure the liability using a revised discount rate at the effective date of the modification.

4. Disclosure requirements

FRS 102 & IFRS 16 have similar requirements for disclosures, with the following notable exceptions.

FRS 102 Section 20

1. Disclosure of ROU Asset values/changes

Requires a reconciliation of the ROU asset by class of underlying asset, including:

- The gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period
- A reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
  - Additions
  - Disposals
  - Acquisitions through business combinations
  - Revaluations
  - Impairment losses recognized or reversed in profit or loss in accordance with Section 27
  - Depreciation
  - Other changes

2. Maturity analysis: Short-term and low-value leases

FRS 102 requires a maturity analysis of short-term and low-value leases. The lessee must disclose that fact and disclose separately the amount of its lease commitments for short-term leases and for leases of low-value assets at the end of the reporting period for each of the following periods:

- Not later than one year
- Later than one year and not later than five years
- Later than five years

3. Small company exception

Section 1A / Appendix C reduced the set that small entities apply. Small entities applying Section 1A are not required to disclose:

- Interest expense on lease liabilities
- Sublease income
- Gain/loss from sale-leaseback
- Cash flows
- Movement in ROU asset by class of underlying asset

4. Sales and leaseback

- Optional simplified approach to recognising gains and losses on sale and leaseback transactions
- Simpler approach is similar to the treatment under the previous edition of FRS 102, reducing the transition burden for entities with existing sale and leaseback arrangements

IFRS 16

1. Disclosure of ROU Asset values/changes

IFRS 16 does not require the same detailed rollforward information above, and instead requires:

- Depreciation charge for right-of-use assets by class of underlying asset
- Additions to right-of-use assets
- The carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset

2. Maturity analysis: Short-term and low-value leases

IFRS 16 only requires the disclosure of future commitments of short-term leases in the following limited circumstance, with no disclosure of future commitments of low-value leases:

1. A lessee shall disclose the amount of its lease commitments for short-term leases if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.

A lessee must also disclose the expense related to short-term leases and low-value leases (IFRS 16 paragraphs 53(c) and 55). The future commitments disclosure for short-term leases is only required where the portfolio at the end of the reporting period is dissimilar to the portfolio to which the short-term lease expense relates. No disclosure of future commitments is required for low-value leases.

3. Small company exception

IFRS 16 has no small entity equivalent.

4. Sales and leaseback

Gain or loss on a sale and leaseback transaction recognized in accordance with IFRS 15 and IFRS 16 — no simplified option.

5. Transition & effective dates

FRS 102 Section 20

- Effective: periods beginning on or after 1 January 2026
- Modified retrospective approach only — **comparatives not restated**
- ROU asset set equal to lease liability at transition date (adjusted for prepaid or accrued lease payments)
- Practical expedient: lessees already applying IFRS 16 (typically subsidiaries in IFRS-reporting groups) may carry forward IFRS 16 carrying amounts at the date of transition rather than recalculating from scratch (IFRS 16 B20.7)

IFRS 16

- Effective: periods beginning on or after 1 January 2019
- Choice of full retrospective (restate all prior periods) or modified retrospective (cumulative effect at transition date, two measurement options)
- No equivalent option to carry forward FRS 102 amounts