



Implications of IFRS 16 – Leases

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- Recently developed standard, which was issued by the International Accounting Standards Board (IASB) in January 2016; basically supersedes IAS 17
- An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019 - Content: Recognition, measurement, and disclosure of leasing contracts
- At present, differentiation between operate and finance lease and thereby affecting the accounting policy by selected contract terms
- IFRS 16: The lessor accounting basically remains the same as in AS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently
- IFRS 16: Now lessee has to recognize every lease contract as an asset and thereby include every lease contract on the face of the balance sheet
- The intention behind the new standard is that the IASB wants to eliminate the possibility of off-balance sheet transactions to derive a better true and fair view on the assets, financial position and earnings of the company
- Sale-and-leaseback transactions as well as subleases have to be included on-balance
- Exemptions from IFRS 16: Short term lease contracts with a term of less than 12 months / Low-value goods with a value of less than \$ 5,000



The EU endorsement status report
Position as at 6 July 2016

IASB/IFRIC documents not yet endorsed [Revisions to this schedule are marked in bold]	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC Vote	When might endorsement be expected	IASB Effective date	Expected to be endorsed before the effective date
STANDARDS						
IFRS 9 <i>Financial Instruments</i> (issued on 24 July 2014)	✓ 04/05/2015	✓ 15/09/2015	✓ 27/06/2016	* Q4 2016	01/01/2018	▲
IFRS 14 <i>Regulatory Deferral Accounts</i> (issued on 30 January 2014)	The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.					
IFRS 15 <i>Revenue from Contracts with Customers</i> (issued on 28 May 2014) including amendments to IFRS 15: <i>Effective date of IFRS 15</i> (issued on 11 September 2015)	✓ 15/10/2014	✓ 17/03/2015	✓ 11/04/2016	* Q3 2016	01/01/2018	▲
IFRS 16 <i>Leases</i> (issued on 13 January 2016)	* H2 2016	* H2 2016	2017	2017	01/01/2019	▲
AMENDMENTS						
Amendments to IFRS 10, IFRS 12 and IAS 28: <i>Investment Entities – Applying the Consolidation Exception</i> (issued on 18 December 2014)	✓ 11/05/2015	✓ 22/07/2015	✓ 18/04/2016	* Q3 2016	01/01/2016	▼
Amendments to IFRS 10 and IAS 28: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (issued on 11 September 2014)	Postponed				Deferred indefinitely	
Amendments to IAS 12: <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> (issued on 19 January 2016)	✓ 11/04/2016	✓ 08/06/2016	* Q3 2016	* Q4 2016	01/01/2017	▲
Amendments to IAS 7: <i>Disclosure Initiative</i> (issued on 29 January 2016)	✓ 11/04/2016	✓ 06/06/2016	* Q3 2016	* Q4 2016	01/01/2017	▲
<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> (issued on 12 April 2016)	✓ 17/05/2016	✓ 06/07/2016	* Q4 2016	* Q1 2017	01/01/2018	▲
Amendments to IFRS 2: <i>Classification and Measurement of Share-based Payment Transactions</i> (issued on 20 June 2016)	* Q3 2016	* Q4 2016	* H1 2017	* H2 2017	01/01/2018	▲

The information shown is our current best estimate of the latest date for publication or endorsement, assuming endorsement is to occur. This information is provided to be helpful, but it is only an estimate.



Lessee Accounting

Initial measurement

- At the commencement date, a lessee shall recognise a so-called **Right-of-use Asset** at cost and a lease liability according to IFRS 16.22.

RoU-Asset

Initial measurement
of the RoU-Asset

- Lessee shall measure **RoU-Asset at cost**; shall comprise:
 - The present value of the outstanding lease payments (discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate) [16.26]
 - Lease payments made at or before the commencement date, less any lease incentives received
 - Initial direct costs
 - Estimate cost for dismantling and removing the underlying asset, restoring the site on which the lease object is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

Subsequent measurement of the RoU-Asset

- Subsequent measurement by applying a cost model
 - RoU-Asset at cost less accumulated depreciation and impairment losses in accordance with IAS 16 Property Plant and Equipment – basically over the useful life of the RoU asset or the shorter term of the lease (att. purchase options)
 - Adjusted for remeasurements of the lease liability specified in IFRS 16.36(c) (see next slide)
- Exceptions:
 - If lessee applies the fair value model in IAS 40 Investment Property to its investment property, the lessee shall also apply that fair value model to the RoU-Asset that meet the definition of investment property of IAS 40
 - If the RoU-Asset relates to a class of property, plant equipment (PPE) to which the lessee applies the revaluation model in IAS 16, a lessee may elect to apply that revaluation model to all of the RoU-Assets that relate to that class of PPE

Lease Liability

Initial measurement
of the lease liability
(IFRS 16.26, 27)

- Recognition at present value of the future lease payments that are not paid at that date (discounted using the rate implicit in the lease or the incremental borrowing rate)
- The lease payments included in the measurement of the lease liability comprise:
 - Fixed payments less any lease incentives receivable
 - Variable lease payments
 - Amounts expected to be payable by the lessee under residual value guarantees
 - Exercise price of a purchase option
 - Payments of penalties for terminating the lease

Subsequent
measurement of the
lease liability
(IFRS 16.36)

- Increase carrying amount to reflect interest on the lease liability
- Reduce the carrying amount to reflect the lease payments made
- Remeasuring carrying amount to reflect reassessment or lease modifications specified in 39-46:
 - Change in the lease term (using a revised discount rate)
 - Change in the assessment of a purchase option of the underlying asset (using a revised discount rate)
 - Change in the amounts expected to be payable under a residual value guarantee (using unchanged discount rate)

Presentation

- Lessee shall either present in the balance sheet, or disclose in the notes:
 - (a) right-of-use assets separately from other assets.

If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

- (i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
- (ii) disclose which line items in the statement of financial position include those right-of-use assets.

(b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities

- Exception: RoU Assets relating to Investment Property (IAS 40) must be shown as investment property
- In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs.

Disclosures (Extract)

A lessee shall disclose the following amounts for the reporting period in a tabular format:

- depreciation charge for right-of-use assets by class of underlying asset;
- interest expense on lease liabilities;
- the expense relating to leases of low-value assets accounted for applying paragraph
- income from subleasing right-of-use assets;
- total cash outflow for leases;
- additions to right-of-use assets;
- gains or losses arising from sale and leaseback transactions; and
- the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset
- maturity analysis of lease liabilities in accordance with IFRS 7

Impact of IFRS 16 and key issues for clients

- Raise the awareness of your clients and get in touch with them
- Will lead to a balance sheet extension and has an impact on the p&l
- Will thereby lead to alterations of ratios (balance sheet ratios, p&l ratios), can change credit ratings, lending decisions, could lead to violation of financial covenants
- Worst case scenario is a withdrawal of important credit lines or a deterioration of the financing situation that could lead to a impact going concern
- Affected companies should timely identify all lease contracts ideally in databases and simulate the affect on the balance sheet and p&l – there needs to be a process to be implemented (e.g. software based)

Think
ahead

Thank you!



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