



IFRS 16 – Implementation in Practice:

Poll Questions & Results

Background

At the beginning of 2016, the IASB officially issued new guidelines and rules on lease accounting.

The new standard, IFRS 16 Leases, supersedes IAS 17 Leases (and related interpretations) and requires lessees to account for their leases under a single accounting treatment, bringing almost all leases 'on balance sheet' and recognising a right of use asset and a lease liability.

Central to the creation of the new standard was the fundamental aim of improving the transparency of financial statements through the recognition of leases commitment on an entity's balance sheet. The implications of which is set to have a significant impact on many companies' financial operations.

It is estimated around 1:2 listed companies will be impacted by the new standard. As it currently stands, listed companies under IFRS and US GAAP jurisdiction have an estimated \$3.3 trillion worth of leased assets and commitments, of which the vast majority (85%) are not included on their balance sheets. This means approximately \$2.8 trillion in lease commitments will have to be accounted on balance sheets worldwide.

The effective date for IFRS 16 is for accounting periods beginning on or after 1st January 2019, with early adoption permitted for companies that also apply the changes to revenue recognition - IFRS 15 Revenue from Contracts with Customers.

At present, IFRS 16 will predominantly affect lessees, as currently, the finance and operating lease distinction and accounting for lessors remains largely unchanged, except for additional disclosures.

To successfully comply with the new standards, many large organisations may have to implement new accounting processes and policies, deploy new IT systems and infrastructure, as well as develop effective controls.

Overview

During a recent two-day conference (9th & 10th May 2017) on implementing the new lease accounting standards, hosted by the IFRS Foundation, Innervision polled over 70 finance and accounting professionals on a variety of IFRS 16 related issues.



The poll results highlight several key insights in relation to a company's readiness for compliance, ranging from the current status of companies' transition projects to identifying the most prevalent implementation challenges that have arisen whilst transitioning to the new standard.

Poll Highlights

A majority of **85%** of all respondents said they have **some idea** of what contracts/leases are in existence or will fall under the scope of IFRS 16, but acknowledge that their existing contracts are held in a **decentralised manner**.

Only **9%** of respondents stated that they **have full transparency** of all contracts and leases held in a **dedicated repository**.

Over half (**59%**) of respondents state that currently their lease information is stored '**all over the place**'.

39% of respondents said that they are currently conducting **impact assessments**. Whilst **25%** reported that they are currently setting up a **project team** to manage the implementation.

33% of all respondents are expecting the **collation and validation** of lease data to be the most significant challenge/difficulty of implementation. **22%** anticipate the implementation of **IT systems (including processes and controls)** to be the most significant, while **27%** anticipate an accumulation of challenges.

36% of respondents see improvements to **lease management** as the main business benefit of transitioning to the new standards, followed by **33%** viewing increasing lease **portfolio visibility** as the principal opportunity. Whereas **21%** favour the enhancement of **business processes and controls**.

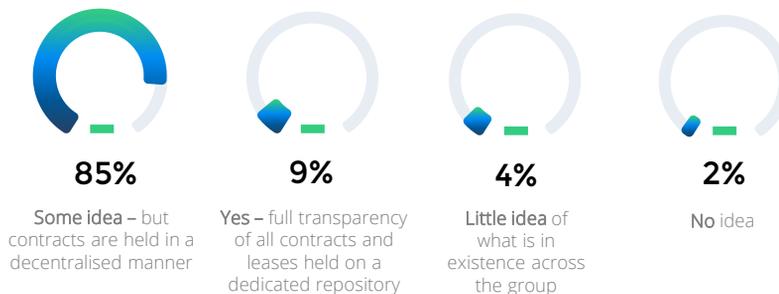
Where technology is concerned, **45%** of respondents said they are currently **researching** potential software vendors. Whereas **33% have yet to start** their search for a systems vendor and only **10%** of those polled have **already selected a vendor**.

Companies are behind in their preparations

Interestingly, although somewhat concerning, the polling results demonstrate that the vast majority of companies are currently running slightly behind in their preparations for IFRS 16 – especially concerning data collection. It is also apparent that a large percentage of lessees are actively managing their lease portfolios in a devolved way.

When answering if they know what leases are in existence or will fall under the scope of IFRS 16, a majority of **85%** of all respondents said they have **some idea** but acknowledge that their existing contracts are held in a **decentralised manner**. Only **9%** of respondents stated that they have **full transparency** of all contracts and leases held in a **dedicated repository**. A combined **6%** either have **little** or no **idea**.

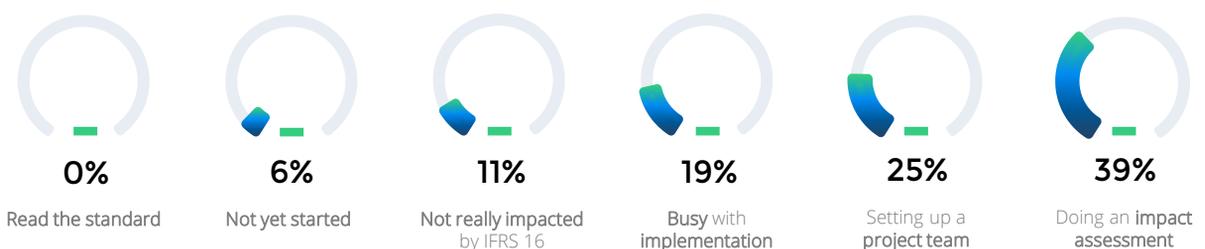
Do you know what contracts/leases are in existence or will fall under the scope of IFRS 16?



However, most companies have at least started the implementation process

With regards to what phase of the implementation project companies are in, **39%** of the respondents said that they are currently conducting **impact assessments** – indicating that many companies have yet to make it past the assessment phase of the project. **25%** reported that they are setting up a **project team** to manage the implementation. Again, highlighting that many companies are currently still in the early stages of the implementation process. While **19%** stated they are busy with implementation.

Which of the following best describes your current IFRS 16 implementation status?

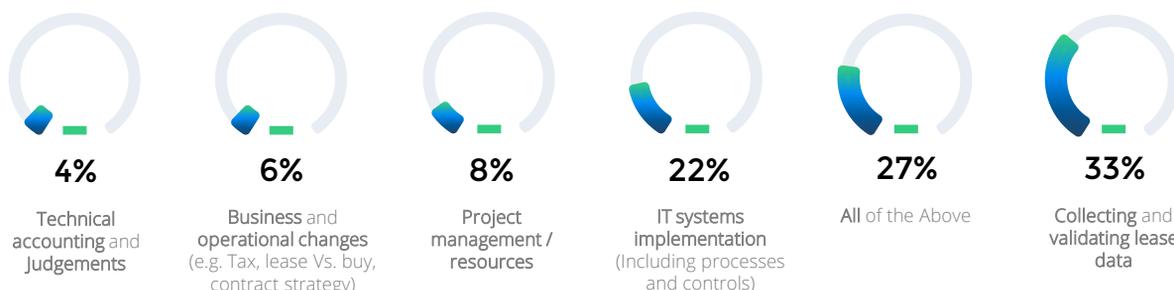


Many challenges to overcome

Transitioning to the new lease accounting standards, unfortunately, isn't just as simple as bringing all off-balance sheet lease commitments (operating lease footnote disclosures) onto the balance sheet. In order to accurately record the appropriate assets and liabilities needed for full accounting compliance, entities will be required to reconsider existing processes, controls and IT systems in order to support a successful transition.

Nevertheless, what remains obvious is that if an organisation is to successfully transition to the new standard in a compliant manner, they must first overcome several complex challenges. When confronting these challenges, **33%** of all respondents expect the collation and validation of lease data to be the most significant challenge/difficulty of implementation. **22%** anticipate the implementation of IT systems (including processes and controls) to be the most significant, while **27%** anticipate an accumulation of challenges ('all of the above'), to be the most challenging aspect.

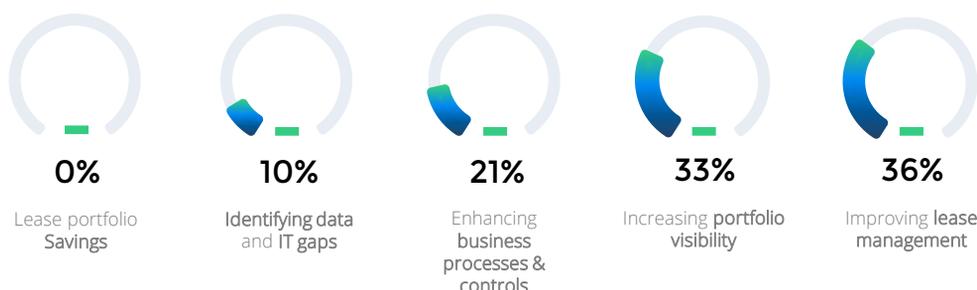
Where do you expect most significant challenges and difficulty in your implementation?



Opportunities do exist

Although many challenges exist, respondents still feel that transitioning to IFRS 16 offers several tangible benefits and opportunities for lessees. With **36%** seeing **improvements to lease management** as the main benefit, followed by **33%** viewing **increased lease portfolio visibility** as the principal opportunity. Whereas **21%** favour the **enhancement of business processes and controls**. Somewhat surprisingly, none of the respondents felt that lease portfolio **savings** warranted any consideration.

What do you anticipate being the biggest opportunity when transitioning to the new standards?

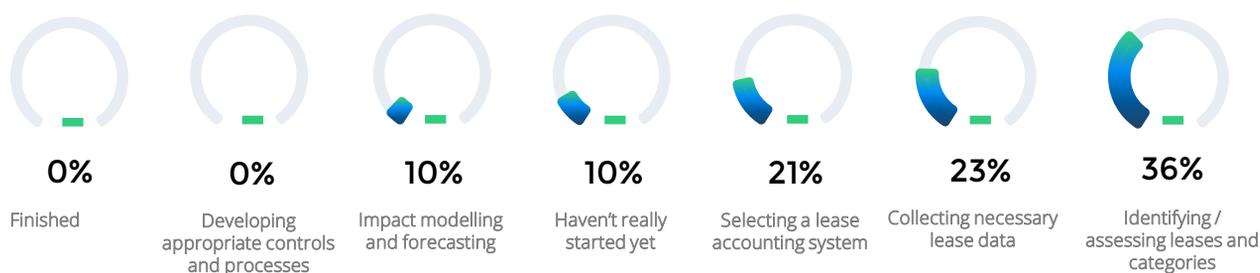


Transition progress

When examining what phase of the implementation process companies are currently at, unsurprisingly none of the respondents stated that they are currently finished and compliant. However, what is surprising is that it appears that none of the respondents polled are in the process of developing adequate controls and processes.

The majority of the respondents are either currently collecting the necessary lease data (23%) or identifying/assessing leases and categories (36%). With the 1st January 2019 deadline for implementation fast approaching, companies should already be making sufficient headway with their IFRS 16 implementation projects. As we progress further into 2017, time is rapidly running out.

What phase of the implementation process is your company currently at?



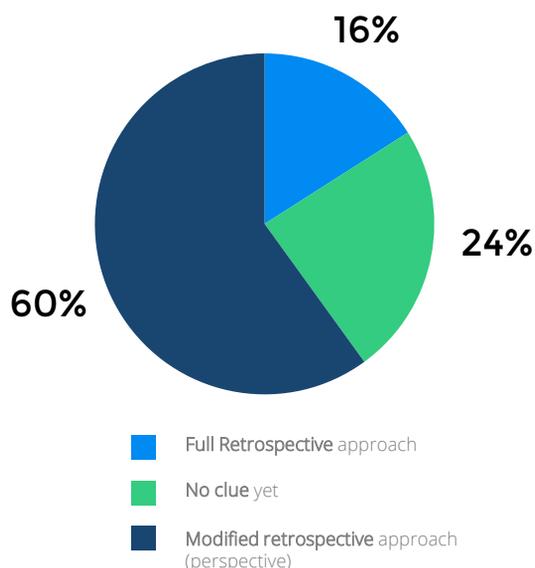
Transition decisions

In an effort to improve the control companies have when balancing the costs of transition and the quality of financial reporting the new standard includes a number of transition options companies can adopt when implementing the new standards. What transition option a company decides upon will not only have a significant impact on a companies financial statements but also on the cost, simplicity and timing (urgency) of their implementation project.

What will be your (expected) transition approach?

When asked which transition approach companies expect to adopt, the majority of respondents (60%), have decided to use or intend to adopt the **modified retrospective** transition method. Whereas only 16% have chosen or expect to adopt the **full retrospective** approach.

24% of all respondents have **yet to decide** which transition method they will adopt.



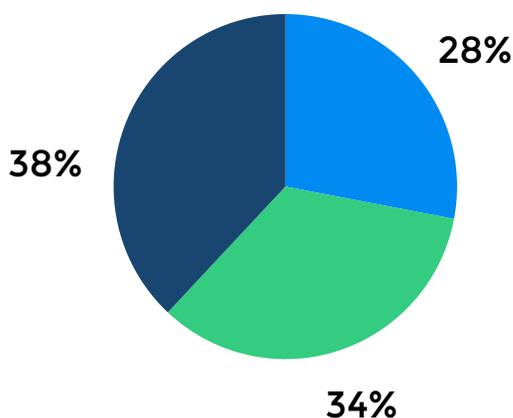
Stakeholder awareness

Aside from implementing and updating controls, IT infrastructure, processes and procedures there is also a requirement for organisations to ensure investors, internal/external stakeholders and those with a vested interest in the company's performance are educated and informed about what impact IFRS 16 will have on the company.

To achieve this, companies will have to assess and evaluate the possible impacts the new standards will have on financial statements, critical performance indicators and other financial metrics and KPIs that reflect a company's financial performance. This information then needs to be clearly reported to the relevant investors and external stakeholders.

Intriguingly, although somewhat concerning, this is a process that the majority of respondents have yet to put into action.

Have you started communicating with stakeholders (finance providers, shareholders, customers, suppliers) as to the implications of IFRS 16?



Although some respondent (34%) have begun educating key stakeholders, a combined 66% of respondents have yet to consider stakeholder implications or have started to consider the impacts but have yet to communicate with stakeholders.

- We have yet to consider stakeholder implications
- We have begun to talk with stakeholders
- We have started to consider the impacts but have yet to communicate with stakeholders

Resources a big concern

Implementing the new lease accounting standards will require a significant investment of planning, time and resources, as well as bringing forth several business and operational risks. It will also come at a significant cost both in terms of the financial balance sheet implications and the costs associated with implementation.

When asked what the biggest concern companies have in respect of IFRS 16, 36% of all respondents are most concerned about the volume of resources required to successfully implement the new standards. Other chief concerns include the financial impact of IFRS 16 – (26%) as well as the time it will take to transition to the new standards – (26%).

What is your biggest concern in respect of IFRS 16?



Lease accounting software to play a pivotal role

In an effort to support a successful transition to the new accounting standard and to simplify compliance with IFRS 16, many organisations will need to evaluate and review the suitability of any existing lease accounting systems and processes. To accelerate the transition, they may also consider implementing new systems that allow them to automate elements of the lease accounting process that currently may be managed manually on antiquated applications such as spreadsheets.

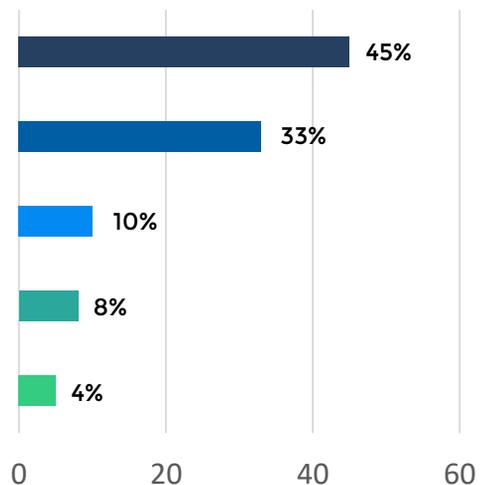
The best lease accounting solutions, such as LOIS Lease Accounting by Innervision, are programmed to perform all the calculations required to comply with the new accounting standards, for either IFRS 16 or FASB ASC 842.

Among polled respondents, when asked how far they are in identifying a lease accounting solution, **45%** of respondents reported that they are currently **researching potential vendors** in the effort to implement a new system. **33%** have **not yet started** their search for an appropriate vendor/solution. Only **10%** of respondents reported that they had **already chosen a lease management and accounting system**, while **8%** responded that they are in the **RFP stage of vendor/system selection**. Only **4%** of respondents intend on **developing their own internal system**.

These findings are consistent with earlier conclusions indicating that companies are currently still stuck in the early assessment and data collation phase of the implementation process and have yet to properly consider the important role technology will play at every phase of compliance – from collation and identification lease data and contract information, all the way through to producing the required calculations and accounting reports.

Note: Implementing a lease accounting solution may include a period of configuration that can take anywhere from 1 week to over 12 months depending on such factors as the vendor, the structure of the lessee i.e. the number of instances of ERPs, number of legal entities and the complexity of the lease portfolio. With this in mind, companies intending on implementing a lease accounting engine should look towards conducting early assessments and select an appropriate vendor as quickly as possible, so the implementation process can be accelerated.

How far advanced are you in identifying a lease accounting solution?



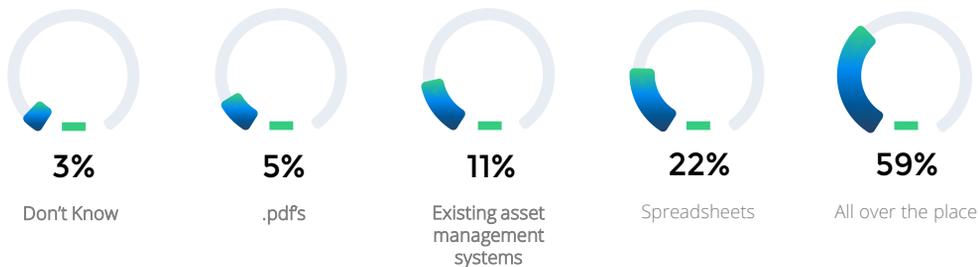
- Researching potential vendors
- Not started yet
- System already chosen
- RFP stage
- Developing internal system

Centralisation of lease data a challenge

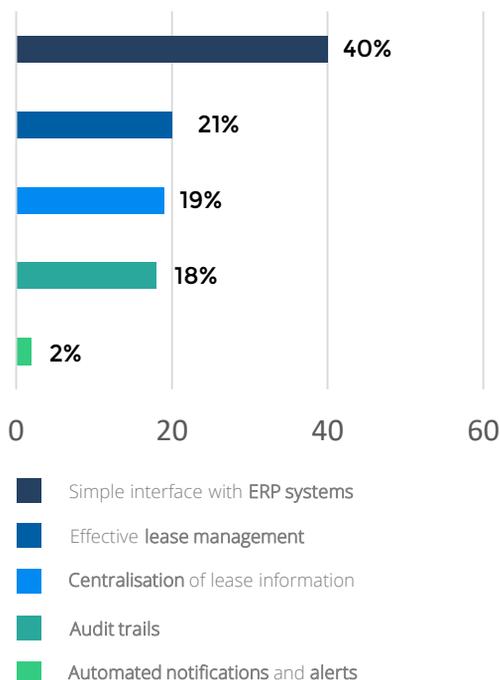
Implementing the new lease accounting standards will present significant challenges when it comes to collating and centralising the lease data and contract information needed to accurately bring the relevant lease commitments and liabilities on to the balance sheet.

For the **11%** of respondents whose lease data is currently stored and centralised on **existing asset management and administration systems**, this process will be relatively straightforward – simply requiring them to evaluate whether the data stored on the existing system is accurate and complete before it is fed into the corresponding ERP system or general ledger application. However, for the remaining **89%** of respondents whose data is stored either **'All over the place'**, on **spreadsheets**, **.pdfs** or they simply **'don't know'**, the effort and resources involved in locating, centralising and validating this information on automated data repositories will be substantial.

Where is your lease data and contract information currently stored?



Beyond compliance, what are the main features you look for in lease accounting software?



System benefits beyond compliance

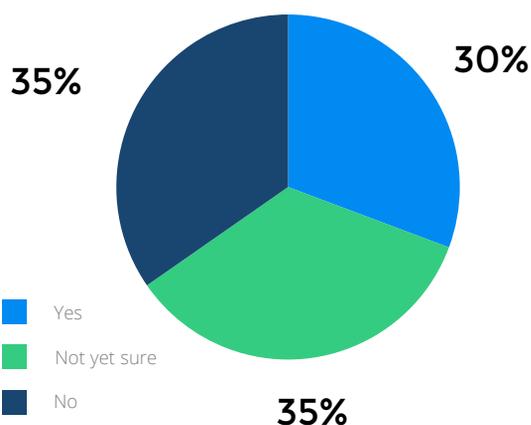
When looking to implement a new lease management and accounting system, companies are searching for solutions that will do more than just help them comply with the new lease accounting standards.

Of polled respondents, beyond compliance, **18%** reported that **full audit trails** were a key feature they look for in a suitable solution. A further **19%** view **centralisation of lease information** as the main purpose of a lease accounting engine. **20%** viewed **effective lease management** and optimisation as a key feature they pursue. While **40%** look for a system with a **simple interface to ERP** and general ledger systems.

Mixed views on contract strategy

Another repercussion of the new lease accounting standards is the impact they will have on lease contracts. Under IFRS 16, the distinction between finance and operating lease is no longer relevant. This will require all lease contracts to be recognised on the balance sheet, barring some exceptions (low-value and short-term leases). With this in mind, lessees must determine what contracts are affected and develop a leasing database which includes all the contract information/terms and conditions. Companies may also have to evaluate their existing and future contract strategy in response to the new standards. A 'business as usual' approach to leasing and lease contracts will no longer suffice.

Will you change your contract strategy?



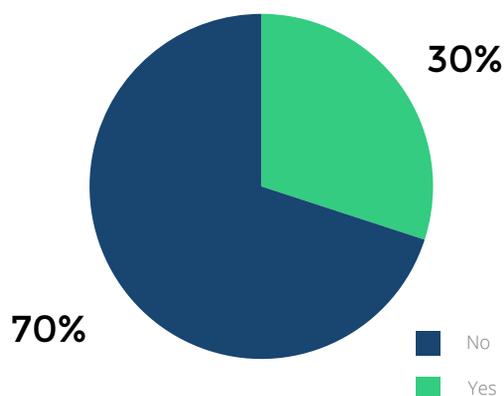
With regard to changes to lease contract strategy in response to the new lease accounting standards, respondents have mixed views. **30%** said that they **will make changes to their contract strategy**, whereas **35%** stated that they **will not make any changes**, whilst a further **35%** are **undecided**.

Lessees have yet to explore lease strategy with lessors

An opportunity existing for both lessees and lessors to explore contracts to obtain favourable accounting treatments. This is something companies may wish to discuss with their lessors when exploring changes to their future contract strategy.

If you are a lessee, have you considered exploring lease strategy with your lessor?

The majority of respondents polled, **(70%)** have **yet to consider exploring lease strategy with their lessor**, while **30%** said that it is something they have considered.



Moving forward

Leasing is a significant alternative form of financing for many organisations. It provides companies with a means of obtaining the right to use an asset without incurring the substantial initial cost associated with buying an asset outright. Almost every company that utilises leasing as an effective method of financing their equipment or property will be significantly affected by the new standards.

With the implementation deadline fast approaching, to reduce business disruption and to help improve a seamless transition to the new accounting standards, companies should already be proactively planning and managing their implementation process. At a minimum, companies should have at least started assessing the business and financial impacts of IFRS 16 and have actively begun collating the necessary lease data/contract information on a centralised data repository.

If the transition to the new standards is managed in an efficient and considered manner, companies will be perfectly positioned to drive organisational improvements, portfolio savings and deliver measurable return of investment (ROI) through the transformation of lease management processes and effective portfolio optimisation.

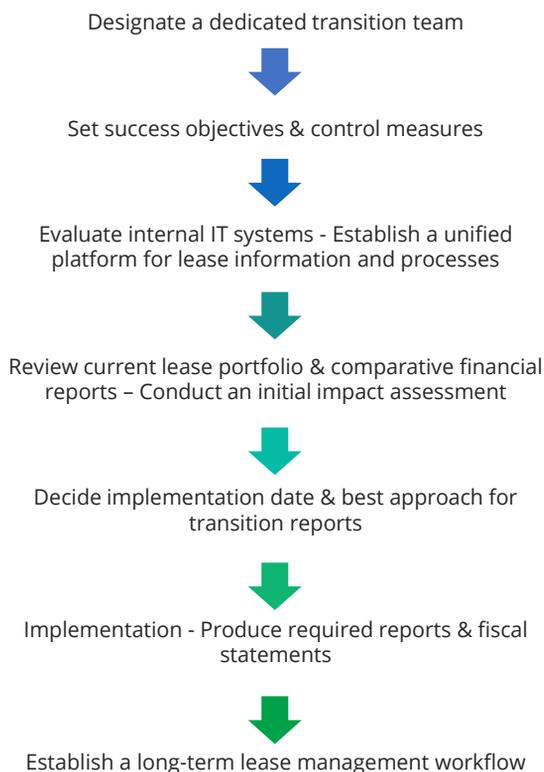
While theoretically, there is still adequate time for companies to comply with the new standard. Many organisation still have a great deal of work left to complete. To help simplify the process and to support a successful transition, many companies will need to implement a dedicated lease accounting system to facilitate full accounting compliance.

The essential steps for compliance

The approach and strategy that lessees take when looking to implement the new accounting standards will require **substantial consideration and planning** and will likely involve the participation and input of **multiple departments and divisions** – from treasury and procurement right the way through to group reporting and finance. Developing a structured and well-thought-out strategy for transitioning to the new standards will be **fundamental to the success** of any implementation process.

To achieve this a company must first outline a number of **measurable and tangible steps** that will form the foundations of an effective lease accounting strategy. These steps should also act as the **guiding principles of compliance**.

7 Steps to lease accounting compliance?



About Innervision

Innervision is a leasing consultancy and specialist lease service supplier, providing Lease Portfolio Management services and SaaS solutions to large corporates since 1992.

Innervision's thorough lease accounting solution, LOIS – Lease Accounting, is the most advanced application available on the market and supports both lease accounting standards, IFRS 16 & FASB ASC 842, as well as existing IAS 17. The system allows users to account for and manage all lease asset types, ranging from IT, plant & machinery to material handling equipment, vehicles and property.

Companies that use LOIS are easily able to comply with the new standards as the application allows them to produce all the accounting information required to accurately complete the financial statements obligatory for compliance; including income statement, cash flow and balance sheet.

With LOIS, users are easily able to run critical amortisation schedules, journal entries and disclosure summaries, as well as centralise lease information on one unified platform, validate lease information and forecast initial balance sheet implications. What's more, users have the ability to account for all lease categories or lease types at an asset level.

In addition to providing a pioneering lease accounting solution, Innervision also offers a revolutionary lease management software, LOIS – Lease Management. This solution provides companies with a central hub for storing critical lease data, intuitive dashboards that provide users with an instant overview of the performance of a portfolio, as well as integrated lease management functionality – such as advanced reporting, end-of-lease management and full audit trails.

The lease management module also provides users with exemplary new lease arrangement capabilities, that alongside Innervision's extensive panel of lessors will ensure organisations have all the tools to negotiate optimal lease terms at the best rates.

Based in the City of London, Innervision helps clients from all over the world, including Capgemini, General Electric Company, XPO Logistics and Amey amongst many other household names. So, whichever solution you choose, Innervision and LOIS will provide you with all the necessary tools to unlock valuable, actionable insight from within your lease portfolio and avoid the complications surrounding lease accounting compliance.

We believe that LOIS is the perfect partner for transitioning to the new standards.

How Innervision can help

Our experience and knowledge with leasing, coupled with over a decade worth of expertise as a lease management and lease accounting software provider puts us in a unique position to not only offer an innovative lease accounting solution, but also allows us to offer guidance on centralising and optimising lease portfolios, maximising efficiency, enhancing lease processes, as well as delivering timely portfolio savings and return on investment (ROI).

By combining our knowledge and expertise in leasing, with our flexible lease accounting software LOIS, we are able to deliver a distinct solution that will enable simplified compliance with the new lease accounting standards.

For more information or to request a software demo, please contact:

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