

IFRS 16 Leases:

Fact Sheet



What's changing?

IFRS 16 *Leases*, is the new lease accounting standard that was issued by the IASB in January 2016. The new standard supersedes IAS 17 *Leases* (and related interpretations) and will require lessees to account for their leases under a single accounting treatment. This will bring almost all leases 'on balance sheet' and recognising a right of use asset and a lease liability arising from the agreement.

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.

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 \$2.8 trillion in lease commitments will have to be accounted on balance sheets world wide.

The effective date for IFRS 16 *Leases* 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.



Who will be affected?

The impact of the new standard will differ on a company by company and industry by industry basis, dependent upon factors such as the size of an entity's leasing portfolio or the demands of the industry.

Industries most impacted by IFRS 16 *Leases*



The Chairman of the International Accounting Standards Board, Hans Hoogervorst, has identified the transportation, telecommunications, retail, real estate and travel/leisure industries as those that will be significantly impacted by the new standard – as typically entities within these sectors lease a high concentration of big-ticket assets.

However, any company that leases will be affected by the changes and will need to review the potential impact the new standards will have on their financial statements.



Impacts

- Almost every company who utilises leasing as a form of financing will be significantly affected by the new standard
- The new standard will impact reported profit performance, financial ratios, performance measures and other financial metrics
- IASB estimates that bringing leases onto the balance sheet will increase debt, earnings before interest, taxes, depreciation and amortisation (EBITDA) all by 10%
- With the new definition of a lease, the focus shifts from risk and reward to the control of the asset – in practice, this may result in agreements formerly known as leases to be defined as services; and vice versa
- IFRS 16 effectively operating lease ends sale-and-leaseback as an “off balance sheet” financing structure
- Changes to cash flow presentation, measurements of lease liabilities and recognition of lease expenses
- New guidance for lease variants including sale and leaseback and subleases
- Retrospective reporting will require lessees to review all leases; although transition reliefs are available



Benefits

- Evaluate and improve policies for lease management, procurement and accounting
- Make positive adjustments and pragmatic improvements to leasing processes
- Identify systems gaps and inefficiencies present within IT infrastructure
- Encourages portfolio optimisation – 360° lease portfolio health-check
- Technological evolution - business can use the transition to implement advanced lease management software
- Greater transparency of financial statements
- Drive savings and ROI through effective lease portfolio management and optimisation



Companies are ill-prepared



Under 10% of companies are prepared for the new lease accounting standards



Only 7% have started an inventory of their current leases



Only 11% have started to perform a readiness assessment



83% state they have not started to create a budget for meeting the new standard



60% expect either a moderate or significant impact on their balance sheets and their financial statement disclosures



75% expect to have significant or moderate difficulty developing policies, processes and internal controls, as well as getting through the first year audit



More than 80% still evaluating technology options



29% currently have no system for tracking leases

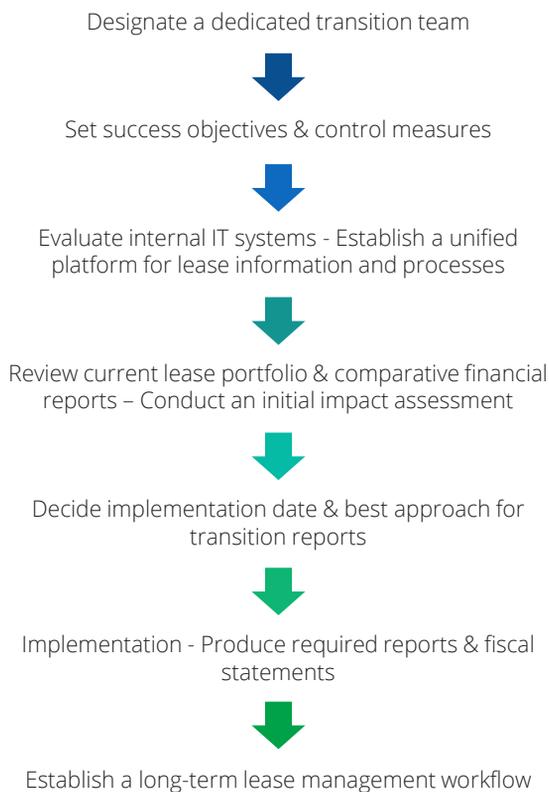


How to prepare?

In order to meet the transition requirements, businesses will need to act now if they are to afford themselves enough time to prepare their lease portfolio. For many entities this will include centralising and extracting the relevant data, conducting initial impact assessments, implementing new control measures processes and software – there is also the additional task of educating and notifying all internal and external shareholders and investors as to the expected impact the new standard will have upon the organisation.

Proactive lessees with the right tools and processes in place will be perfectly positioned to achieve full compliance and leverage the additional benefits and opportunities available from IFRS 16 *Leases*.

Innervision's 7 Step Guide to Compliance



Lease Accounting Software, LOIS

Innervision have developed a solution to lease accounting and management that will significantly reduce the burden of transitioning to the new lease accounting standards.



Compliance made easy

Collate, centralise, analyse and report on all your active lease agreements through Innervision's intuitive lease accounting software, LOIS.

Achieve full compliance to new global lease accounting rules with one unified platform and secure long-term savings.



To find out how Innervision and LOIS will provide you with the keys to unlocking valuable, actionable insights from within your lease portfolio and help you ease the burden of compliance, contact:

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