

## FACT SHEET—IFRS 16 *Leases*

### The changes

- IFRS 16 *Leases* was issued on 13 January 2016. It replaces IAS 17 *Leases*.
- The new Standard is effective 1 January 2019. Early application is permitted (as long as the recently issued revenue Standard, IFRS 15 *Revenue from Contracts with Customers* is also applied).
- The biggest change introduced by the new Standard is that leases will be brought onto companies' balance sheets, increasing the visibility of their assets and liabilities.
- IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases.
- Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements.

### The benefits

- More faithful representation of a company's assets and liabilities
- Increased transparency
- Improved comparability between companies that lease and companies that borrow to buy assets
- Removes the need for most investors, credit rating agencies and others to make adjustments (analysis shows that common-practice adjustments often over-estimate, but sometimes under-estimate, the value of off balance sheet leases).

### The numbers

- **US\$3.3 trillion<sup>i</sup>**: listed companies around the world currently have around US\$3.3 trillion of lease commitments (future payments).
- **Over 85 per cent<sup>i</sup>**: of those commitments do not appear on the company's balance sheet.
- **US\$1.25 trillion**: in 2005, the US Securities and Exchange Commission estimated that US public companies had approximately US\$1.25 trillion of lease commitments off balance sheet.
- **1 in 2<sup>i</sup>**: almost half of listed companies using IFRS or US GAAP will be affected by the lease accounting changes.
- **66 times value of debt**: analysis of some retailers that have gone into reorganisation/liquidation shows that the value of off balance sheet leases was almost 66 times the value of on balance sheet debt.
- **1,700**: the IASB has received over 1,700 comment letters on its consultations during the standard-setting process (one Discussion Paper, two Exposure Drafts).

## Who will be affected?

- Some industry sectors will be more affected by the new Standard than others:
  - airlines, retailers and travel/leisure are expected to be most affected
  - future payments of off balance sheet leases in these industry sectors equate to almost 30 per cent of the total assets (on average).
  
- There are also considerable variations between companies within an industry sector:
  - for some airlines, the value of their off balance sheet leases is equivalent to more than 100 per cent of the value of the airline’s total assets.
  
- The significance of the missing leases information from the balance sheet also varies by region:

Region	% of listed companies using IFRS or US GAAP who disclose off balance sheet leases	Understatement of long-term liabilities by the heaviest users of off balance sheet leases <sup>ii</sup>
Africa/Middle East	23	27%
Asia/Pacific	43	32%
Europe	47	26%
Latin America	23	45%
North America	62	22%

## Effects Analysis

Further information on the effects and benefits of IFRS 16 *Leases* can be found in the [Effects Analysis](#) accompanying the Standard.

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<sup>i</sup> Information estimated using financial data aggregators (databases compiling financial information available in the financial statements of listed companies) for a sample of about 30,000 listed companies using IFRS or US GAAP.

<sup>ii</sup> Based on analysis of the 1,022 listed companies (out of a total population of about 30,000) that are the heaviest users of off balance sheet leases.