

CMAC meeting, 25 February 2016

# IFRS 16 *Leases*

Update on the new Standard

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS® Foundation.

# Purpose of the session

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- To provide an update to CMAC on the new *Leases* Standard, IFRS 16

# Agenda

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- The new *Leases* Standard: IFRS 16
- Lessee—what will change?
- Lessee—performance metrics
- Lessee—disclosure

# The new *Leases* Standard: IFRS 16

- Mandatory for annual periods beginning on or after **1 January 2019**
- Changes **lessee** accounting substantially: assets and liabilities recognised for almost all leases
- Little change for **lessors**; some enhanced disclosures
- **Most affected** sectors: airlines, retailers, travel and leisure

*‘..while a disclosure-only solution might be acceptable to expert users of financial statements, it would not be helpful to the majority of investors who require financial statements to provide them with clear information from the outset.’<sup>1</sup>*

(1) Extract from CMAC’s formal recommendation to the IASB in October 2013: <http://www.ifrs.org/About-us/IASB/Advisory-bodies/CMAC/Documents/CMAC-Formal-Recommendation-on-Lessee-accounting-October-2013.pdf>.

# Lessee—what will change?

- All leases on-balance sheet<sup>1</sup>
- Depreciation and interest presented separately in income statement

|   | IAS 17         |  | IFRS 16            |
|---|----------------|--|--------------------|
|   | Finance leases | Operating leases   | All leases         |
| <b>Assets</b>                                 | ✈️ 🏠           | ---  | ✈️ ✈️ 🚗 🚌<br>🏠 🏠 🏠 |
| <b>Liabilities</b>                            | \$\$           | ---  | \$\$\$\$\$\$\$     |
| <b>Off balance sheet rights / obligations</b> | ---            | <div style="border: 1px solid blue; padding: 5px; display: inline-block;">                     🚗 🚌<br/>✈️ 🏠 🏠                 </div><br>\$\$\$\$\$ | ---                |

|  | IAS 17         |                  | IFRS 16      |
|--|----------------|------------------|--------------|
|  | Finance leases | Operating leases | All leases   |
| <b>Revenue</b>   | x              | x                | x            |
| <b>Operating costs (excl. depreciation and amortisation)</b> | ---            | Single expense   | ---          |
| <b>EBITDA</b>  |                |                  | ↑↑           |
| <b>Depreciation and amortisation</b>                         | Depreciation   | ---              | Depreciation |
| <b>Operating profit</b>                                      |                |                  | ↑            |
| <b>Finance costs</b>   | Interest       | ---              | Interest     |
| <b>Profit before tax</b>                                     |                |                  | ↔            |

<sup>1</sup> With the exception of short-term leases and leases of low-value assets

# Lessee—performance metrics

- New requirements will affect key metrics that are used to analyse a company's financial leverage and performance:

| Metric                  | Measure       | Calculation  | Effect           |
|-------------------------|---------------|--|------------------|
| Leverage                | Solvency      | Liabilities / Equity   | <b>Increase</b>  |
| Asset turnover          | Profitability | Sales / Total assets   | <b>Decrease</b>  |
| EBIT / Operating profit | Profitability | Various methods  | <b>Increase</b>  |
| EBITDA                  | Profitability | Earnings before interest, tax, depreciation and amortisation     | <b>Increase</b>  |
| EBITDAR                 | Profitability | Profit before interest, tax, depreciation, amortisation and rent | <b>No change</b> |

## 1. Quantitative disclosures

- Breakdown of lease costs
  - Total lease cash flows
  - ROU assets by major class of leased asset
  - Additions to ROU assets
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- Maturity analysis of undiscounted commitments
    - as for all other financial liabilities

| Year Ended 31 December 2019                    | 2019<br>CU'm |
|--|--------------|
| <b>Income Statement Disclosures:</b>           |              |
| Amortisation of ROU assets                     | X            |
| Interest on lease liabilities                  | X            |
|  | X            |
| Amortisation of ROU assets comprises:          |              |
| Property                                       | X            |
| Other classes of underlying asset              | X            |
|  | X            |
| Short term lease expense                       | X            |
| Small asset lease expense                      | X            |
| Variable lease expense                         | X            |
| <b>Cash Flow Statement Disclosures:</b>        |              |
| Total cash flow for leases                     | X            |
| <b>Balance Sheet Disclosures:</b>              |              |
| Carrying amount of Property ROU assets         | X            |
| Carrying amount of other classes of ROU assets | X            |
| Total ROU assets                               | X            |
| Additions to ROU assets                        | X            |
| Lease liabilities                              | X            |



## 2. Entity-specific information

Lessee to apply judgement about what is relevant

| Extension and termination options  | Variable lease payments  | Residual value guarantees   | Sale and leaseback transactions   |
|--|--|---|---|
| <p><b>For example....</b></p> <ul style="list-style-type: none"><li>• Why have them?</li><li>• Prevalence within lease portfolio</li><li>• Relative magnitude of optional payments vs committed payments</li><li>• Exercise of options not recognised on balance sheet</li></ul> | <p><b>For example....</b></p> <ul style="list-style-type: none"><li>• Why have them?</li><li>• Prevalence within lease portfolio</li><li>• Relative magnitude of variable payments vs fixed payments</li></ul> | <p><b>For example....</b></p> <ul style="list-style-type: none"><li>• Why have them?</li><li>• Nature of relevant assets</li><li>• Prevalence within lease portfolio</li><li>• Magnitude of exposure to residual value risk</li></ul> | <p><b>For example....</b></p> <ul style="list-style-type: none"><li>• Why use them?</li><li>• Prevalence</li><li>• Key terms and conditions</li><li>• Payments not recognised on balance sheet</li><li>• Cash flow effect</li></ul> |

