



IFRS 16: *Leases*

A more transparent balance sheet

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Agenda

- ✓ IFRS 16 – an overview
- ✓ Industry specific issues
- ✓ Implementation considerations
- ✓ Discussions and wrap up



IFRS 16 – An Overview



Quotable Quote

*Change is the law of life.
And those who look only to
the past or present are certain
to miss the future.*

~ John F Kennedy



An Overview...

On 13 January 2016, the International Accounting Standards Board (“IASB”) issued a new standard - IFRS 16: Leases, thereby realising its long-standing goal of ensuring that entities that engage in lease transactions present more transparent balance sheets by providing relevant information in a manner that faithfully represents the transactions.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of lease transactions and replaces the following standards and interpretations:

- **IAS 17 Leases**
- **IFRIC 4 Determining whether an Arrangement contains a Lease**
- **SIC-15 Operating Leases - Incentives**
- **SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease**

The \$3 trillion standard

“One of my great ambitions before I die is to fly in an aircraft that is on an airline’s balance sheet...”

**Sir David Tweedie
(Former IASB Chairman)
April 2008**



“Listed companies are estimated to have US\$3.3 trillion of lease commitments, over 85% of which do not appear on their balance sheets...”

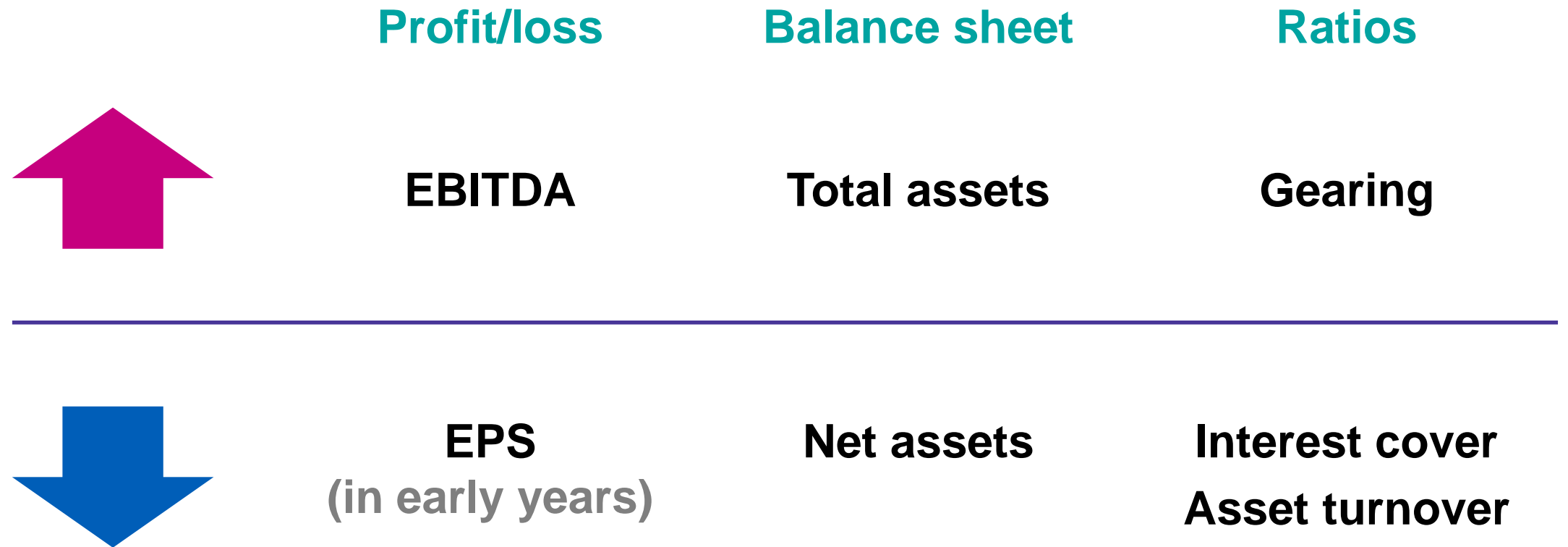
**Hans Hoogervorst
(IASB Chairman)
January 2016**

Why is this important?

- **Most companies lease assets and there is a radical overhaul of lessee accounting.**
- **Under IFRS 16, both operating and finance leases will be on balance sheet.**
- **On/off-balance sheet test for leases will be based on whether the contract meets the definition of a lease.**
- **Significant changes in key reporting metrics.**
- **Stakeholders/investors will want to understand the impact on their businesses.**



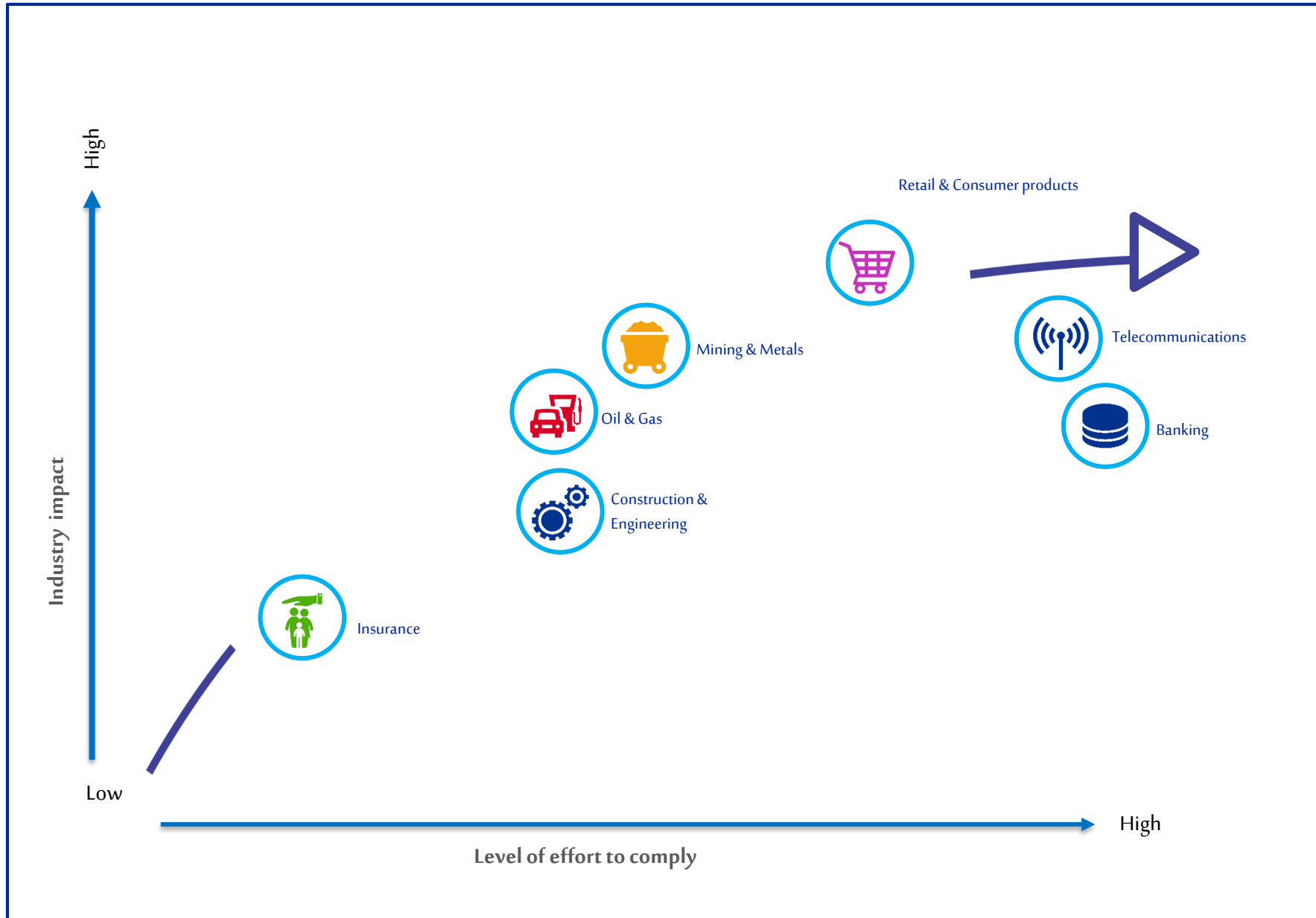
Impact on financial ratios



Industry specific issues



Potential industry impact



Lessees face major changes

Leases on balance sheet

Balance sheet

Asset

= 'Right-of-use' of underlying asset

Liability

= Obligation to make lease payments

P&L

Lease expense

Depreciation

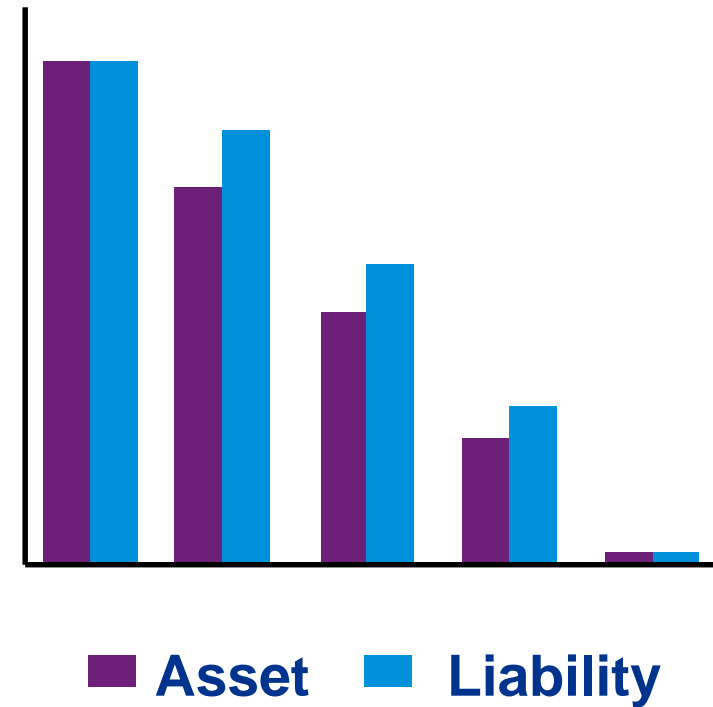
+ Interest

= Front-loaded total lease expense

Improved comparability between companies that lease and companies that borrow to buy assets.

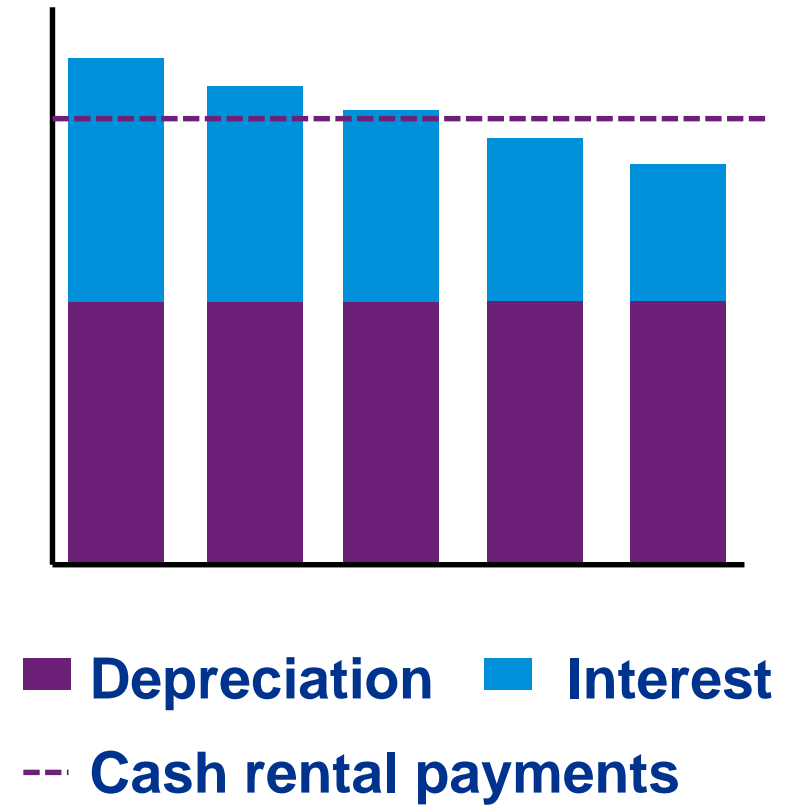
Impact on balance sheet over lease period

Companies with operating leases will appear to be more **asset-rich**, but also more **heavily indebted**

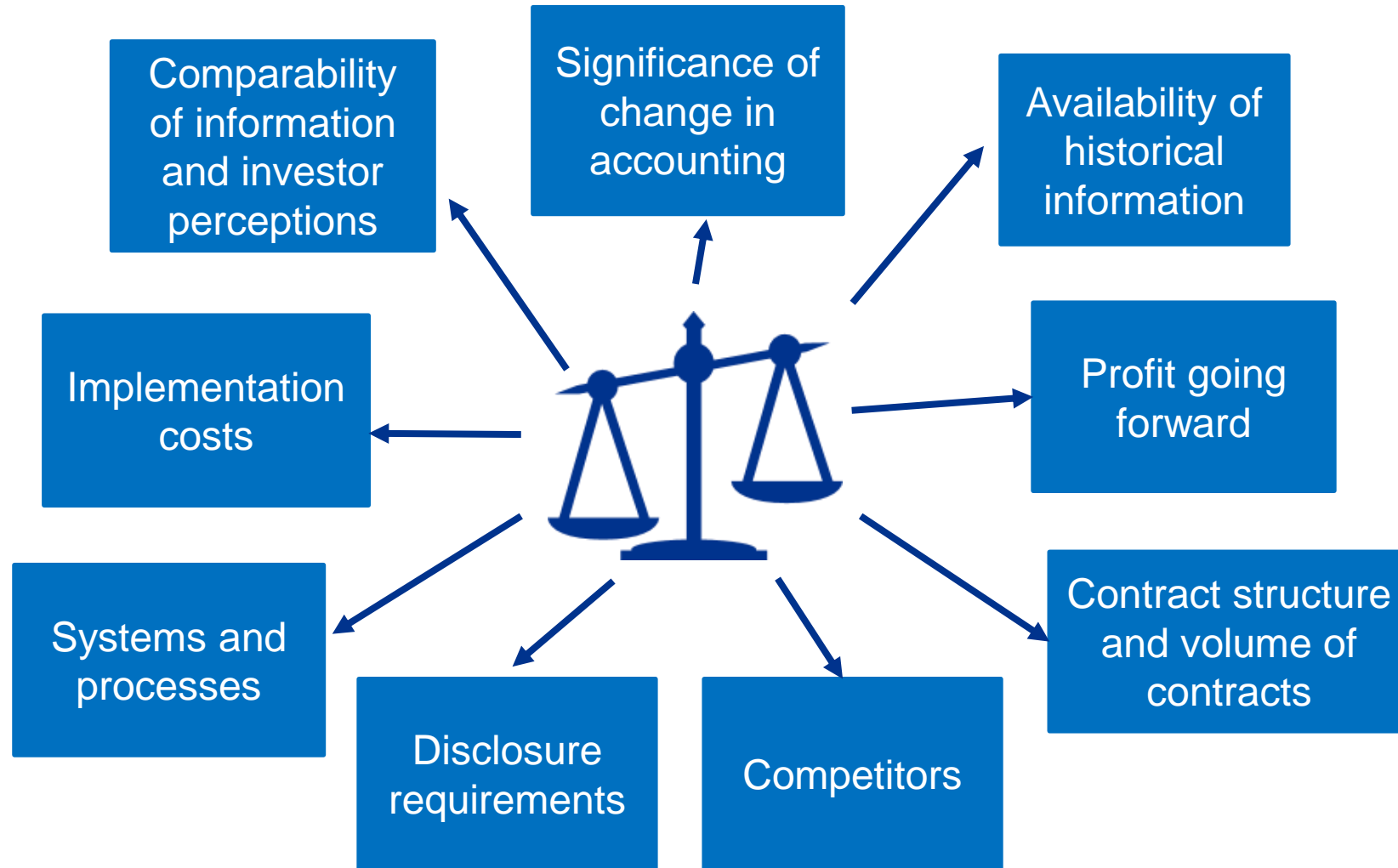


Impact on profit/loss

Total lease expense will be **front-loaded** even when cash rentals are constant



Additional factors to be considered by lessee

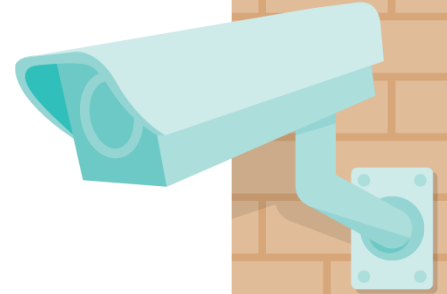


Implementation considerations

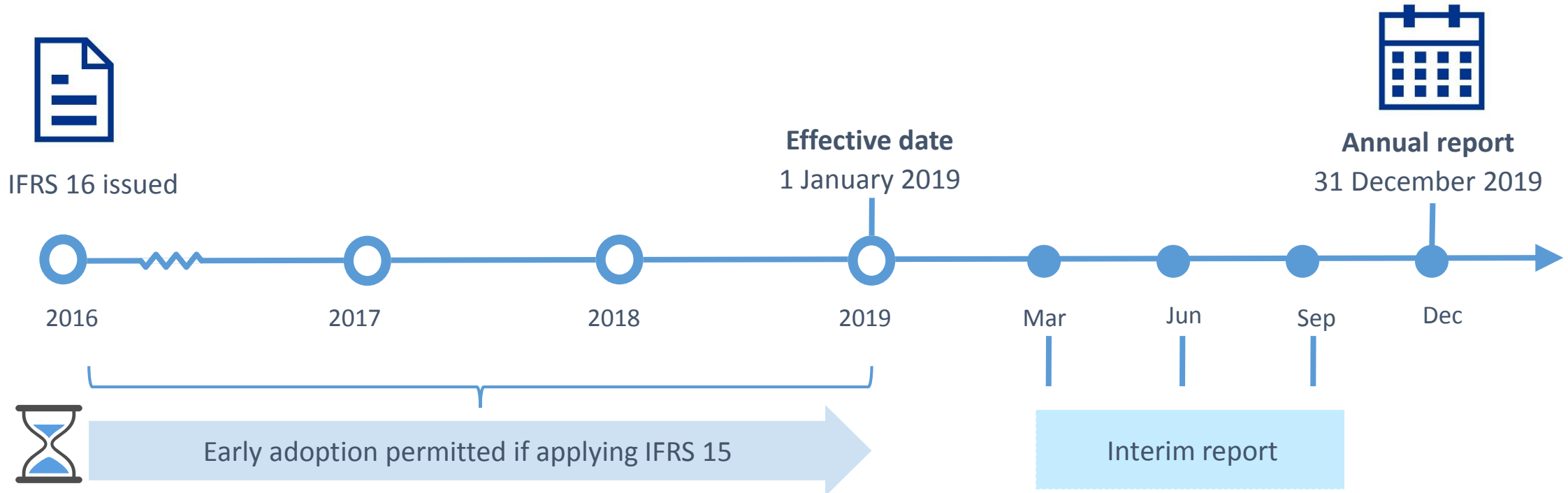


Why is this important?

- Multiple transition options are available.
- The choice of transition option impacts:
 - *Opening balance sheet.*
 - *Income statements in subsequent years.*
 - *Information required.*
 - *Implementation costs.*
- An early decision is key to a successful implementation project!!!



Effective date



Transition options

Approach	2018	2019	Date of equity adjustment
Full retrospective (no practical expedients)	IFRS 16	IFRS 16	1 January 2018
Modified retrospective (with practical expedients)	IAS 17/IFRIC 4	IFRS 16	1 January 2019

- Full retrospective: parallel systems for 2018.
- Modified retrospective approach: additional disclosure.

Applying the new standard

Apply the new definition to **all contracts** (Retrospectively to all accounting periods)

OR

Grandfather existing contracts and apply the new definition **only to new contracts** (*Practical expedient*)

Cost



Comparability



Implementation and transition

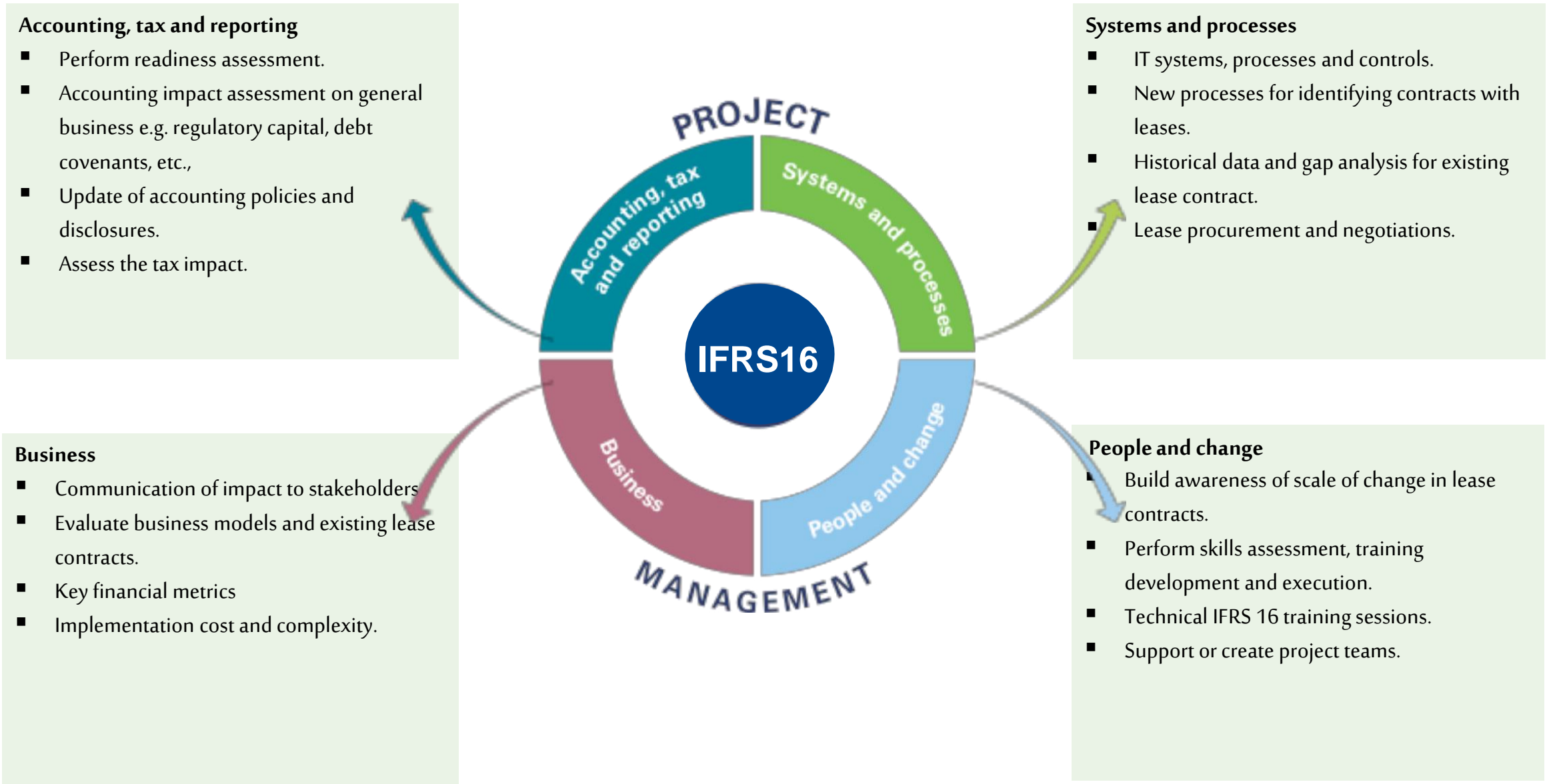


Preparing for an accounting change of this magnitude presents a considerable challenge.

Understanding how the new standard will affect your company is critical. All companies with significant leasing activities should review the new standard and begin thinking about the implications now.

Starting early is the best way to reduce the overall cost of implementation, avoid unwanted surprises and costly mistakes.

IFRS 16 implementation solutions



Discussion...



Next steps...

Initial discussion points

- Discuss initial thoughts on the expected impact of IFRS 16.
- Highlight non-accounting areas potentially affected.
- Start reviewing existing lease contracts and inform suppliers (i.e. lessors) of impact of IFRS 16.
- Planned communications with external stakeholders, where relevant.

Next steps



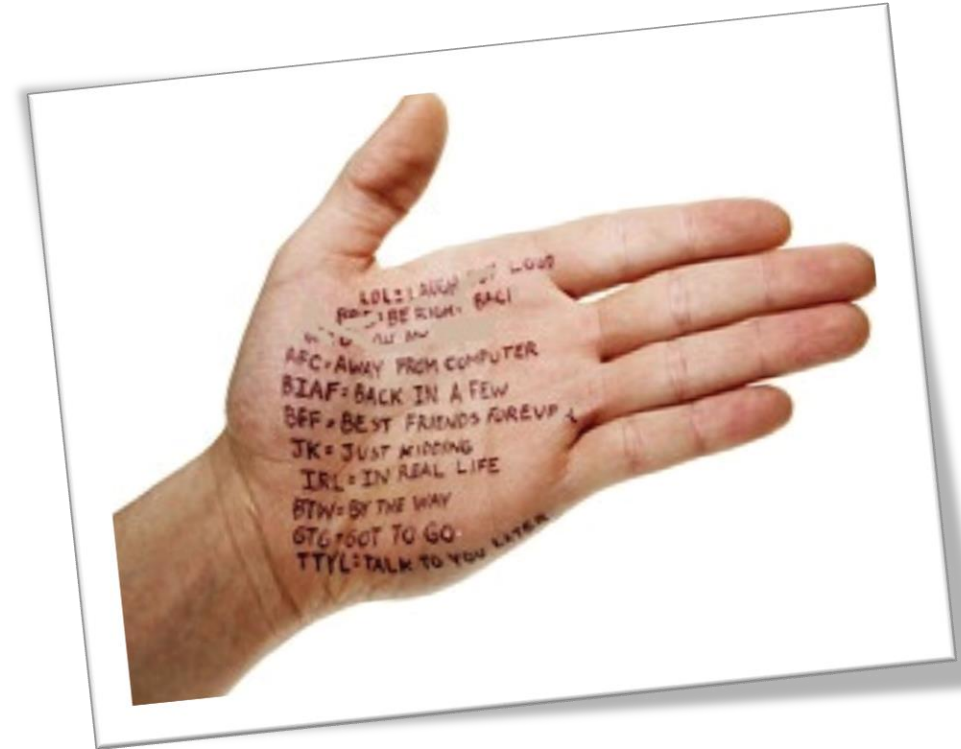
Start impact
assessment

Early
adoption?

Transition
approach?

Key points to remember

- New leases standard will impact most companies.
- Assessing whether there is a lease can be very judgemental.
- There are optional exceptions for short-term leases and leases of low value items.
- IFRS 16 improves comparability between companies that lease and companies that borrow to buy assets.
- Multiple transition options are available.
- Process of assessing impact should start now.



Discussion...



Thank you!

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