Before we start…

• You can download the slides by clicking on the button below the slides window

• To ask a question, type into the designated text box on your screen and click submit

• A recording of the webcast will be available after the presentation at http://www.ifrs.org/Current-Projects/IASB-Projects/Leases

• The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation.
Session overview

- The need for change
- What's changing for lessors and lessees?
- Lessee's balance sheet
- Lessee's income statement
- Lessee's performance metrics
- Effective date and transition
- Further information
- Questions
The need for change

Leases are an important and flexible source of financing—listed companies using IFRS Standards or US GAAP estimated to have around **US$3.3 trillion** lease commitments.

**Over 85% of these lease commitments do not appear on balance sheet today**

Therefore, it is difficult for investors and others to:

- Get an **accurate** picture of a company’s lease assets and liabilities
- **Compare** companies that lease assets with those that buy assets
- Estimate the amount of off balance sheet obligations: often **overestimated**
### What’s changing for lessors and lessees?

#### Changes to lessor accounting
Substantially carry forward IAS 17 accounting requirements; some additional disclosure requirements

#### Changes to lessee accounting
Former operating leases capitalised. All* leases accounted for similarly to today’s finance leases.

<table>
<thead>
<tr>
<th>Balance sheet:</th>
<th>Income statement:</th>
<th>Cash flow statement:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>lease assets</td>
<td>operating expenses</td>
</tr>
<tr>
<td></td>
<td>financial liabilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>equity</td>
<td>finance costs</td>
</tr>
</tbody>
</table>

**Effect on reported information, but no effect on a lessee’s economic position or commitments to pay cash**

* Exemptions for short-term leases and leases of low-value assets
Lessee’s balance sheet: what’s included?

- Increase in lease assets and financial liabilities—all leases reported on balance sheet (other than short-term leases and leases of low-value assets)

**Included in lease liabilities:**
- Fixed payments (including inflation-linked payments)
- Optional payments if lessee is reasonably certain to extend beyond non-cancellable period
- Expected amount of residual value guarantees
Lessee’s balance sheet: what’s excluded?

- Leases of low-value assets
- Short-term leases
- Variable lease payments linked to sales or use
- Optional payments (not reasonably certain)

Not required to be included in lease liabilities

Excluded from lease liabilities
Lessee’s income statement

- **Decrease in operating expenses**
  - no operating lease expense
  - depreciation of all leased assets

- **Increase in financing costs**
  - interest on all lease liabilities
Lessee’s performance metrics

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

<table>
<thead>
<tr>
<th>Metric</th>
<th>Measure</th>
<th>Calculation</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage</td>
<td>Solvency</td>
<td>Liabilities / Equity</td>
<td>Increase</td>
</tr>
<tr>
<td>Asset turnover</td>
<td>Profitability</td>
<td>Sales / Total assets</td>
<td>Decrease</td>
</tr>
<tr>
<td>EBIT / Operating profit</td>
<td>Profitability</td>
<td>Various methods</td>
<td>Increase</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Profitability</td>
<td>Earnings before interest, tax, depreciation and amortisation</td>
<td>Increase</td>
</tr>
<tr>
<td>EBITDAR</td>
<td>Profitability</td>
<td>Profit before interest, tax, depreciation, amortisation and rent</td>
<td>No change</td>
</tr>
</tbody>
</table>
Effective date and transition

- IFRS 16 effective for annual periods beginning on or after **1 January 2019**
- Early application permitted if IFRS 15 *Revenue from Contracts with Customers* applied
- If cumulative catch-up transition method elected:
  - **No restatement** of comparatives
  - No need to apply IFRS 16 to leases ending within 12 months
  - Simplified measurement option on transition
Further information

• Leases website
  http://www.ifrs.org/Current-Projects/IASB-Projects/Leases

• Effects analysis
  http://go.ifrs.org/Leases/effects-analysis

• Project summary and feedback statement
  http://go.ifrs.org/Leases/project-summary

• Register for email alerts
  http://eifrs.ifrs.org/eifrs/Register