



IFRS 16 Leases

A more transparent balance sheet

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kpmg.com/ifrs



More transparent lease accounting

“IFRS 16 will bring most leases on-balance sheet from 2019. All companies that lease assets for use in their business will see an increase in reported assets and liabilities.

This will affect a wide variety of sectors, from airlines that lease aircraft to retailers that lease stores. The larger the lease portfolio, the greater the impact on key reporting metrics.”



Kimber Bascom,
KPMG's global IFRS
leasing standards leader

What's the issue?

Currently analysts adjust financial statements for off-balance sheet leases

Under IFRS 16, companies will bring these leases on balance sheet, using a common methodology





Major impacts for lessees

Lessees face major changes

All major leases on balance sheet

Balance sheet

Asset

= 'Right-of-use' of underlying asset

Liability

= Obligation to make lease payments

P&L

Lease expense

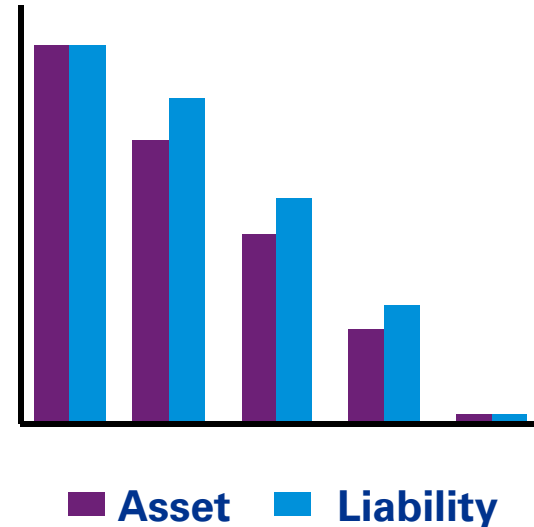
Depreciation

+ Interest

= Front-loaded total lease expense

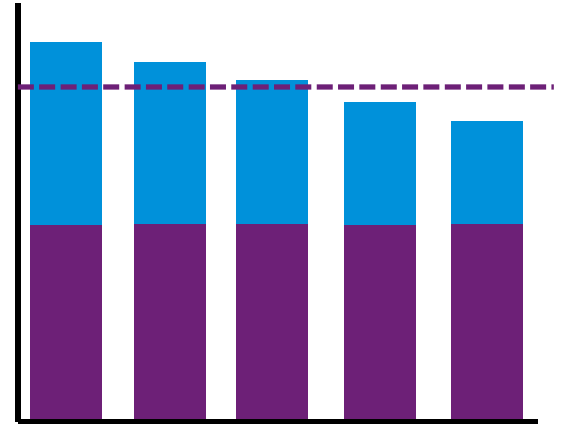
Impact on balance sheet

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



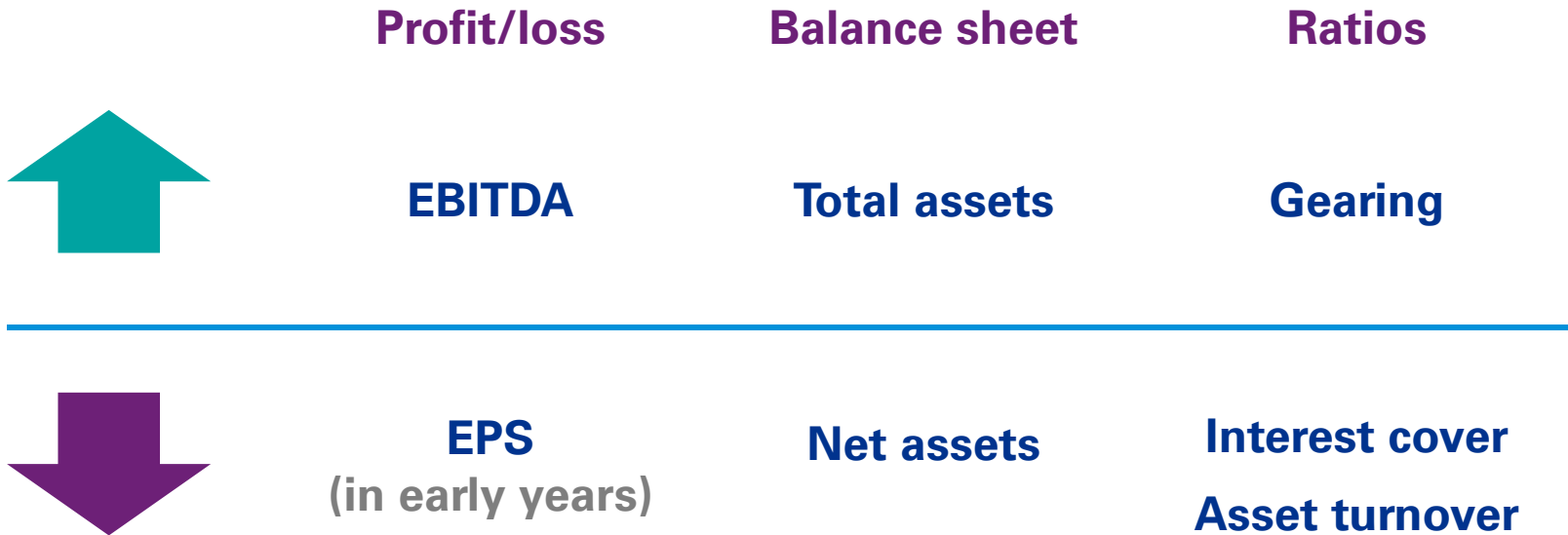
Impact on profit/loss

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



■ Depreciation ■ Interest
-- Cash rental payments

Impact on financial ratios

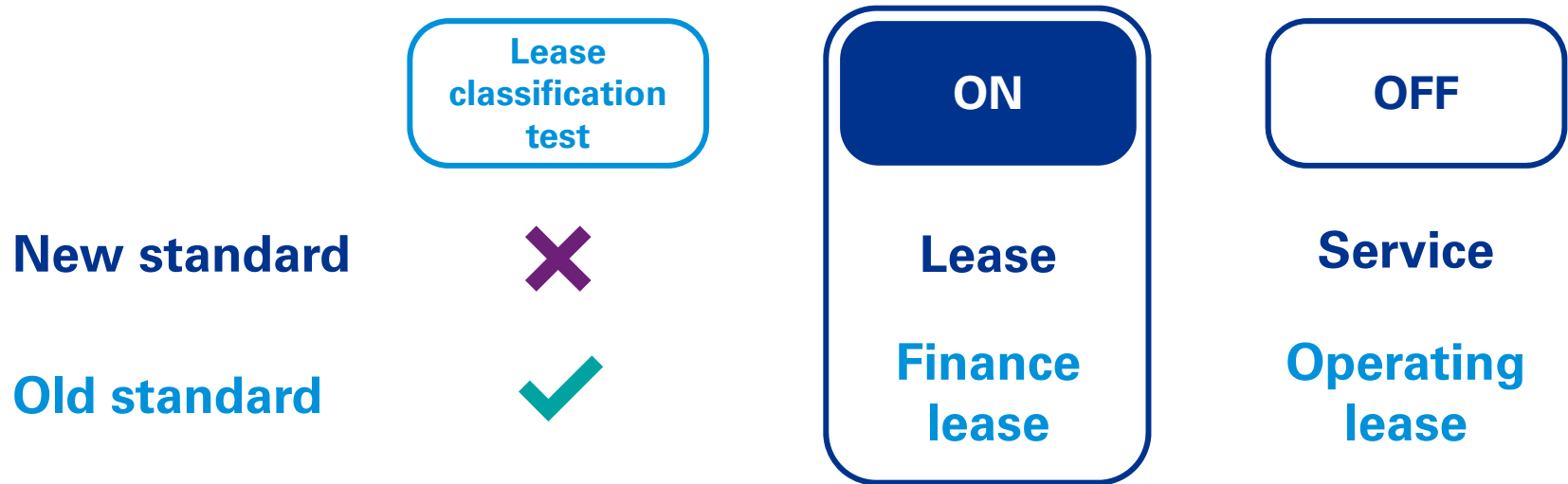




New definition,
new accounting

Lease definition

The new on/off-balance sheet test for lessees – a key judgement area



Lease definition – Control

The new definition increases focus on **who controls the asset** and may change which contracts are leases



Lease ✓



Not a lease ?

Lease definition – Exemptions

Two major optional exemptions make the standard easier to apply



Short term leases

≤ 12 months



Leases of low value items

≤ USD 5,000 for example

Measuring the lease liability



Variable lease payments

Which variable lease payments are included in the lease liability?



Payments based on an index or rate



Payments based on turnover or usage

Lessor accounting

Lessor accounting remains similar to current practice...

but lacks consistency with new lessee accounting model

Lease classification test



Finance leases and operating leases

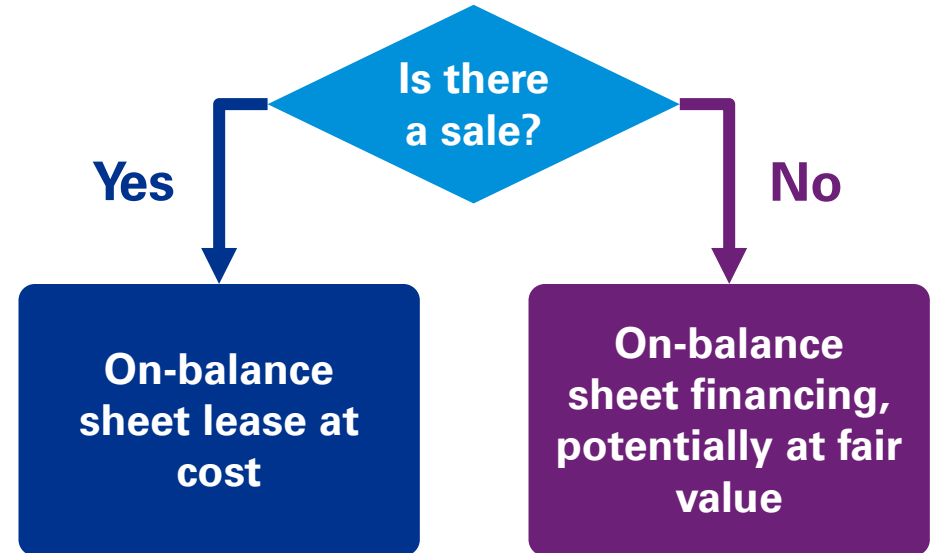


Consistent accounting model for lessors and lessees



Sale-and-leaseback

IFRS 16 essentially kills sale-and-leaseback as an off-balance sheet financing structure





Multiple transition options

Applying the new lease definition

Apply the new definition to all contracts

OR

Grandfather existing contracts and apply the new definition only to new contracts

Cost



Comparability



Applying the new standard

A lessee can choose to apply the standard...

Retrospectively to all accounting periods

OR

As a 'big bang' at the date of initial application

Cost



Comparability






IFRS \neq US GAAP

IFRS vs US GAAP

We expect the FASB to publish its new standard soon

IFRS and US GAAP standards converged?

| | | | |
|---|--------------------------------|---|--------------------------------------|
|  | Lease definition | Leases on balance sheet for lessees | Lessor accounting |
|  | Lessee accounting model | Detailed measurement and transition requirements | Exemption for low value items |



Next steps

Things to think about now

Some questions to assess the impact on your company's financial statements

Which contracts are leases?

Which transition options to choose?

Database of all leases?

Systems and processes in place?

What about ratios and covenants?

Next steps



**Read the new
standard**



**Think about your
implementation
plan**



**Watch out for our
detailed analysis
at kpmg.com/ifrs**



kpmg.com/socialmedia



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