

**IFRS 16 Technologies**

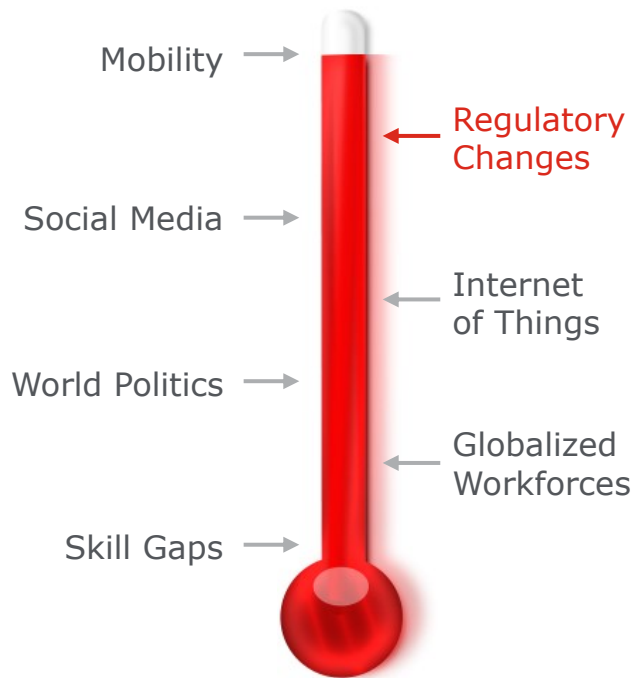
12 June 2018



# How can digital assist your compliance?

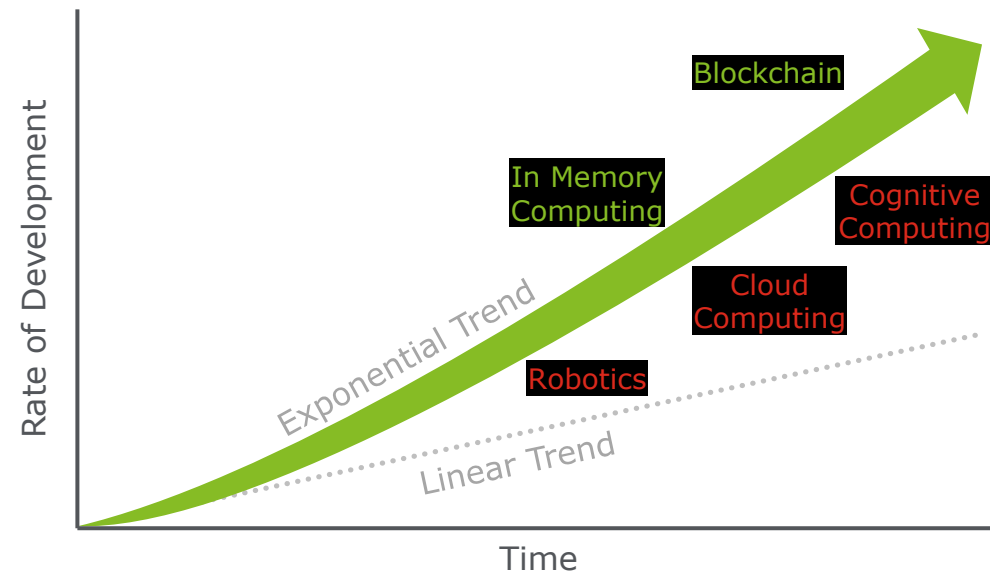
In a business climate driven by powerful digital forces, disruption, and rapid-fire innovation, every company is now a technology company

## Disruption is continually heating up today's business climate...



## ... creating an ideal environment for exponential growth in Digital technologies


Rate of Development for Digital Technologies vs. Time (Illustrative)



# IFRS 16: Implication of the new leasing standard

## A quick glance at the standard

<p><b>What is IFRS 16?</b></p>	<p><b>When will it impact?</b></p>	<p><b>What is the impact?</b></p>
<p>IFRS 16 was issued by the IASB in January 2016.</p>	<p>The effective date for IFRS 16 is annual reporting periods beginning on or after January 1 2019, and interim periods therein.</p>	<p>The standard brings most lessee's leases onto the balance sheet and introduces expansive quantitative and qualitative disclosure requirements.</p>

 <p>Scope of IFRS 16</p>	<p><b>Right to control the use</b></p>	<p>A lease conveys the <b>right to control the use</b> of an identified asset for a period of time in exchange for consideration.</p>
	<p><b>Identified asset</b></p>	<p>An <b>identified asset</b> may be explicitly or implicitly specified in a contract. If the supplier can substitute the asset and has both the practical ability to do so and the supplier would benefit economically from doing so, such right is a substantive substitution right and thus the contract is not or does not contain a lease.</p>
	<p><b>Right to control</b></p>	<p>Contract must convey a <b>right to control</b> the identified asset, which is conveyed through the entity's right to <sup>(1)</sup> obtain substantially all of the economic benefits from the asset's use and <sup>(2)</sup> right to direct the use of the identified asset.</p>
	<p><b>Short-term and low value lease exclusion</b></p>	<p>Lessees can elect <b>not to recognize a lease liability</b> and right of use asset for leases <sup>(1)</sup> with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset; and <sup>(2)</sup> where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis</p>

Note: The standard applies to all leases, including subleases, except for leases to explore for or use non-regenerative resources, leases of biological assets, service concession arrangements, licenses of intellectual property granted by a lessor, rights held by a lessee under licensing agreements for items within the scope of IAS 38 Intangible Assets.



# Compliance with IFRS 16 - Is this more than a simple spreadsheet?

## What are the drivers of complexity?

01

### Portfolio approach

Grouping leases together needs to be considered very carefully as this assumes consistent characteristics

04

### Complexity of the standard

IFRS 16 requires the company to make key judgements (e.g. intercompany leases, incremental borrowing rate, etc...)

02

### Renewals

The lease portfolio today is not the portfolio at transition or at steady state

05

### Indexation

The liability is proportional to future expected cashflows where the asset is a function of the historical cashflows

03

### Subleases

What were operating lessees (lessor perspective) may now be finance leases

06

### Calculation engine

Excel is no real "Calculation Engine" and requires a lot of calculation power/time as from 100 leases.

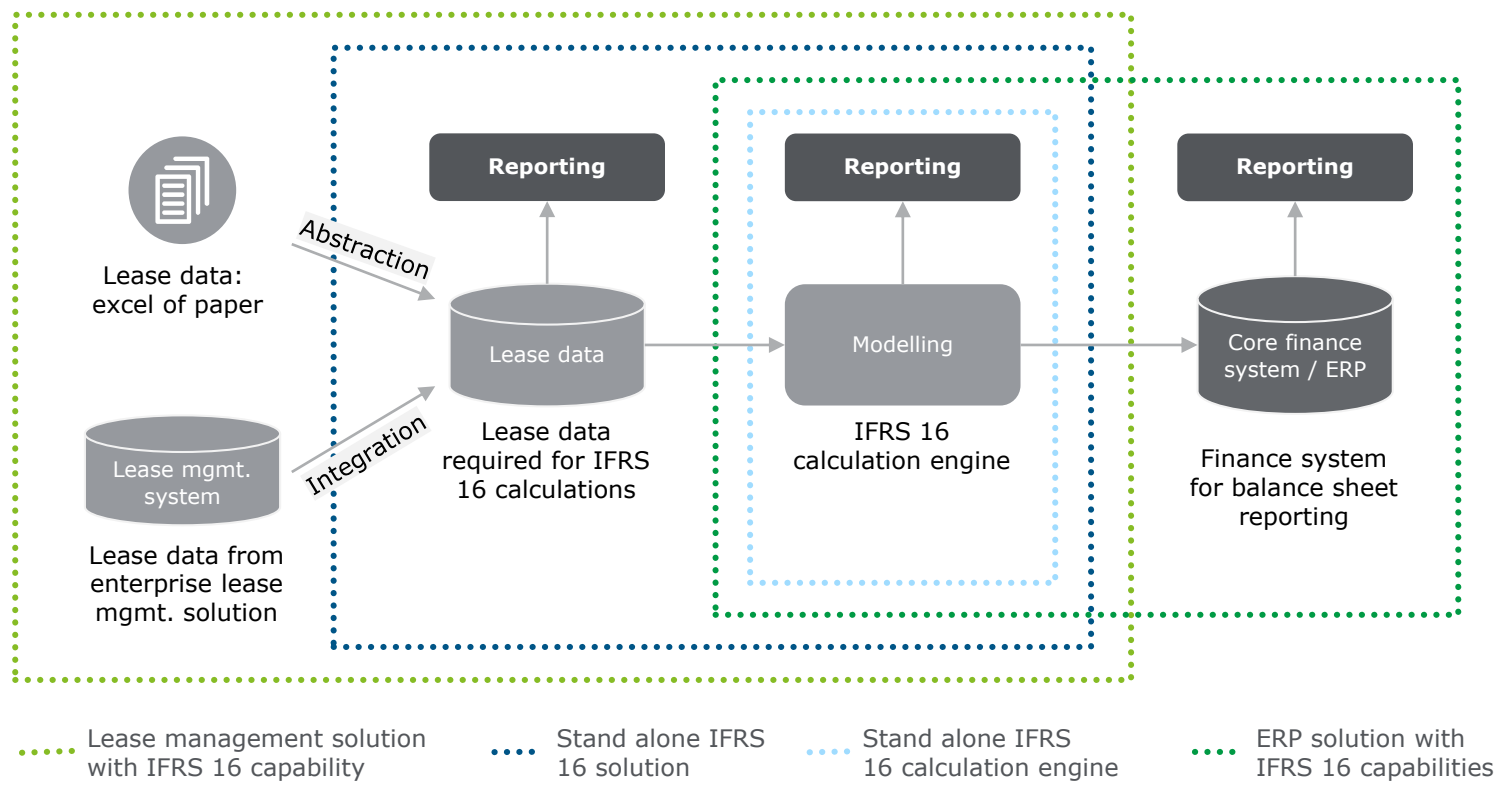
# Compliance with IFRS 16 - Lease Tools & Technologies

System requirements will need to be assessed on a business by business basis

There are many potential technology solutions to support IFRS 16 requirements, covering different parts of an overall technology architecture and differing in complexity and volume of leases.

The right solution will require understanding of the current landscape and broader IT strategy.

## Solution capabilities



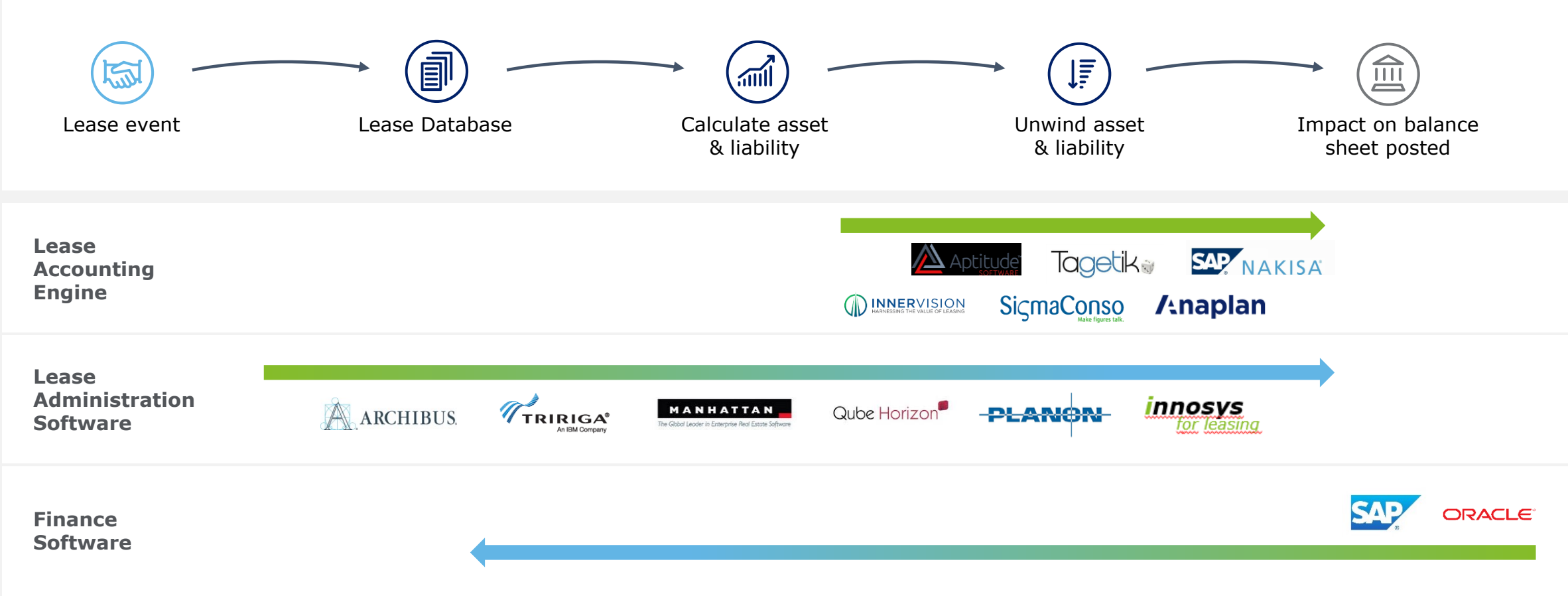
# Compliance with IFRS 16 - Lease Tools & Technologies

Technology underpins the process: A variety of software solutions underpin the process



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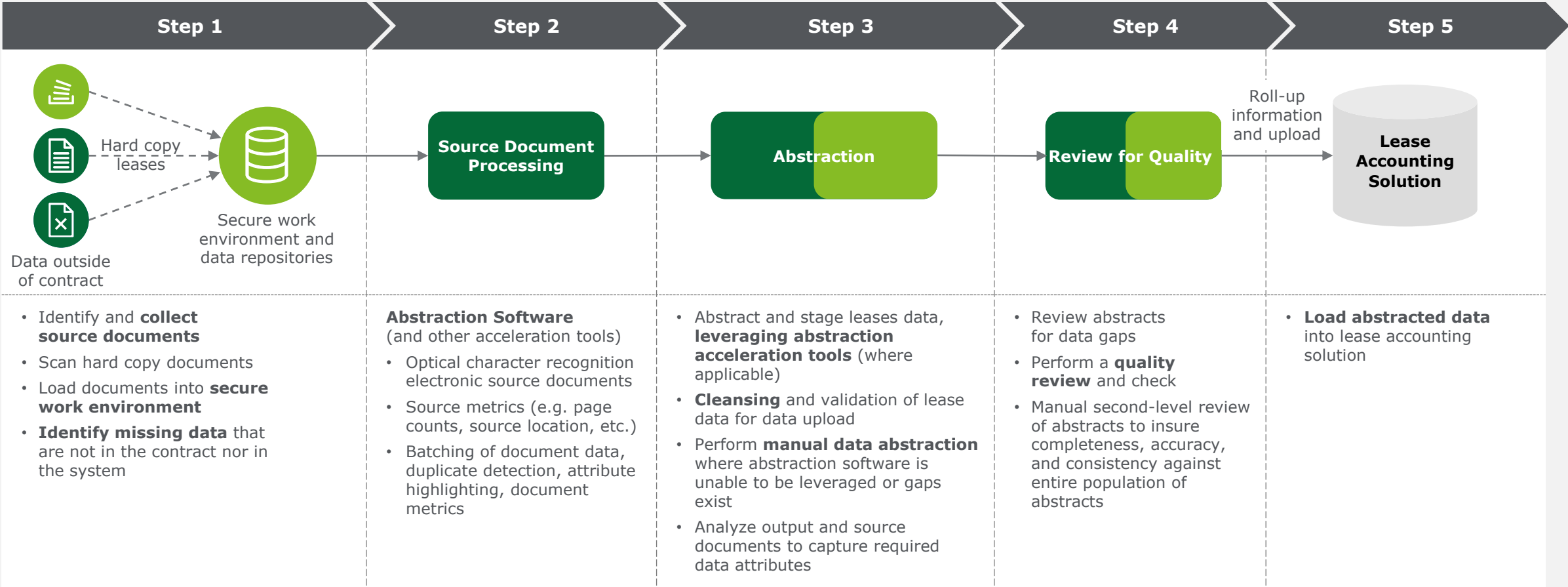


Non-exhaustive list of software solutions



# Compliance with IFRS 16 – Technologies on data abstraction

## How can you decrease the manual work linked to data abstraction?



Source systems

■ Manually driven by Lease Reviewer
 ■ Automated by Assisted Extraction Toolset





# Attention points

## IFRS 16 is not only an “accounting” exercise

### Greater financial transparency

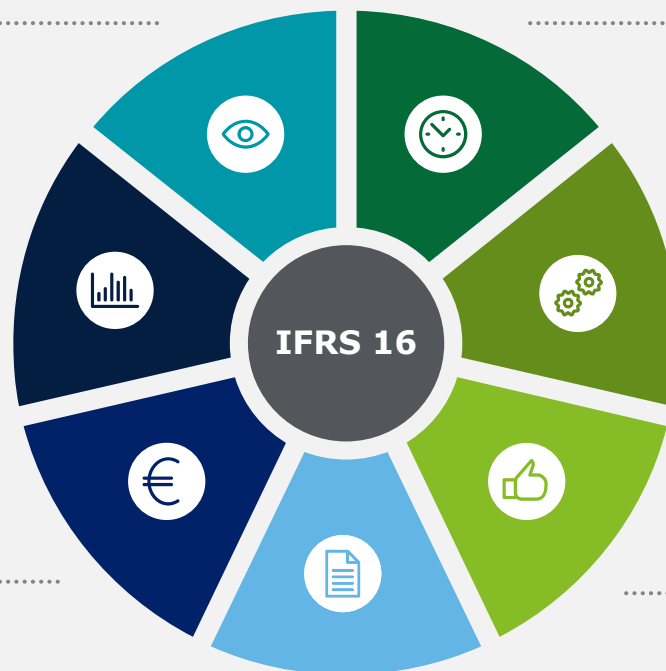
IFRS 16 improves financial transparency between companies, especially between companies that mainly buy the assets versus companies with an operating lease strategy. Future financing might be effected as increased debt is recognized

### Impact on financial metrics

Significant impact expected on EBIT, EBITDA, gearing ratio, leverage ratio, return on invested capital and valuation multiples

### Lease vs buy

Review your lease strategy and verify if you could optimize the leasing strategy to the fullest



### Loan covenants

Are you still compliant with your loan covenants? Calculate the impact of IFRS 16 on your loan covenants and renegotiate if needed

### Timing of profit recognition

IFRS 16 results in a front loaded expense pattern, requiring deferred tax recognition

### P2P process

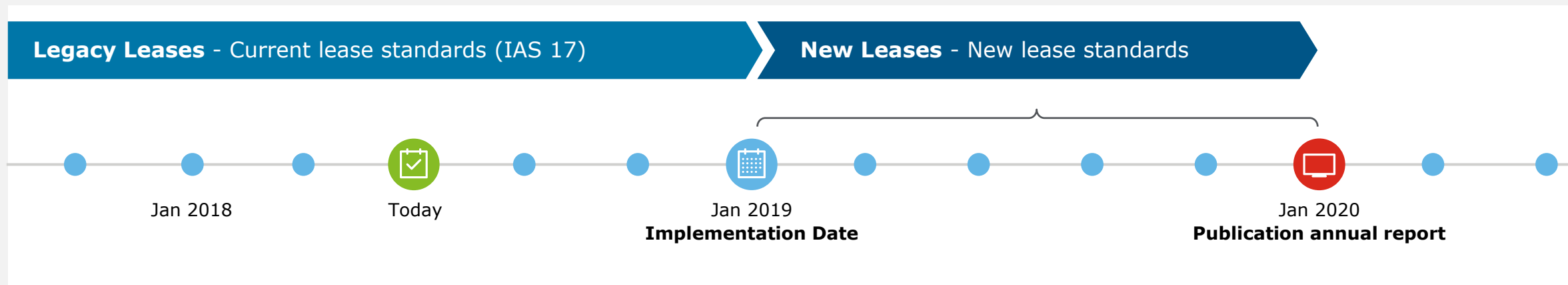
IFRS 16 has a significant impact on creation of PO's and existing automatic booking schemes related to incoming lease invoices. Necessary to create intermediate and/or temporary accounts to match and neutralise recordings proposed by the IFRS 16 tool

### Bonus schemes

Is your bonus calculated based on EBIT or EBITDA? Assess the impact of IFRS 16 on the bonus schemes and revise agreements if needed

# The time to act is now. So get it on balance!

## IFRS 16 emergency kit



### Impact assessment & data collection

**Getting ready and still not selected your tools?**  
Outsource your calculations towards Deloitte



**Inputs**

Provide lease data to Deloitte in format agreed (Excel file with specified fields) on a monthly basis.



**Processing of data**

Determine with Deloitte the account numbers / cost centers on which the leases should be booked.



**Outputs**

Deloitte will provide you a journal entry in the currency of the leasing contract.





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