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Gearing up for change

New IFRS on Leases



In a nutshell

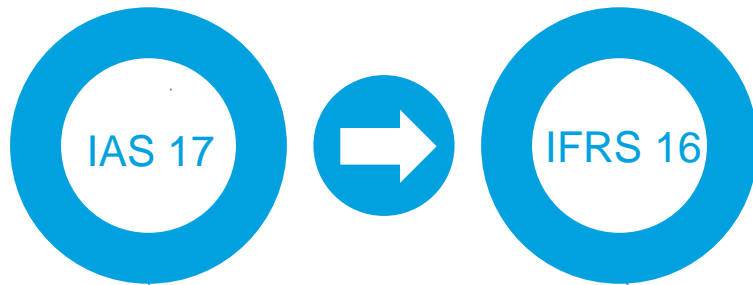
The changes

Effective date: 1 January 2019

Limited changes to scope of IAS 17
Enhanced guidance on identifying a lease

Lessee accounting

Lessor accounting



In a nutshell

Lessee accounting model

Balance sheet



Assets and liabilities



Impact on gearing

- Recognise lease assets and liabilities on balance sheet.
- Initially measured at the present value of unavoidable lease payments.

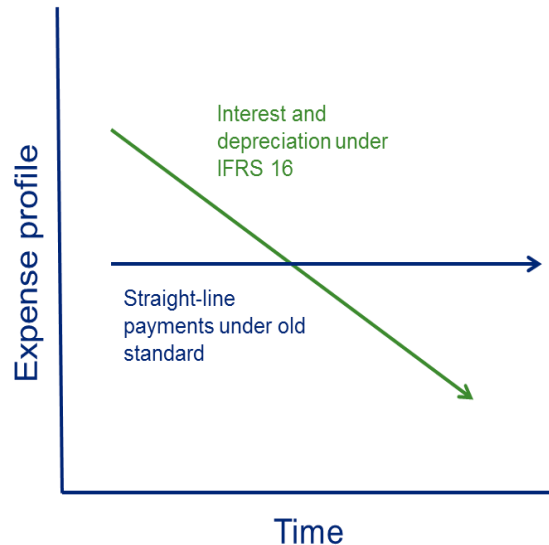
Income Statement



EBITDA



Profit profile (lower in earlier years of lease)



Cash flow statement



Operating cash inflows



Financing cash outflows

- Repayment of principal: **finance activities**
- Repayment of interest: **finance or operating activities** (depends on accounting policy for interest).
- Some variable payments, payments from short-term leases and from assets of low value: **operating activities**

Scope

IFRS 16 applies to all leases, except...

... leases of
(or rights to):



licensing agreements for motion picture films, patents etc.



Licenses of intellectual property by **lessors**

Lessees choice: Intangible assets



explore for (or use) minerals, oil, natural gas, etc.



biological assets held by **lessees**



Service Concession arrangements

...subsequent
measurement of:



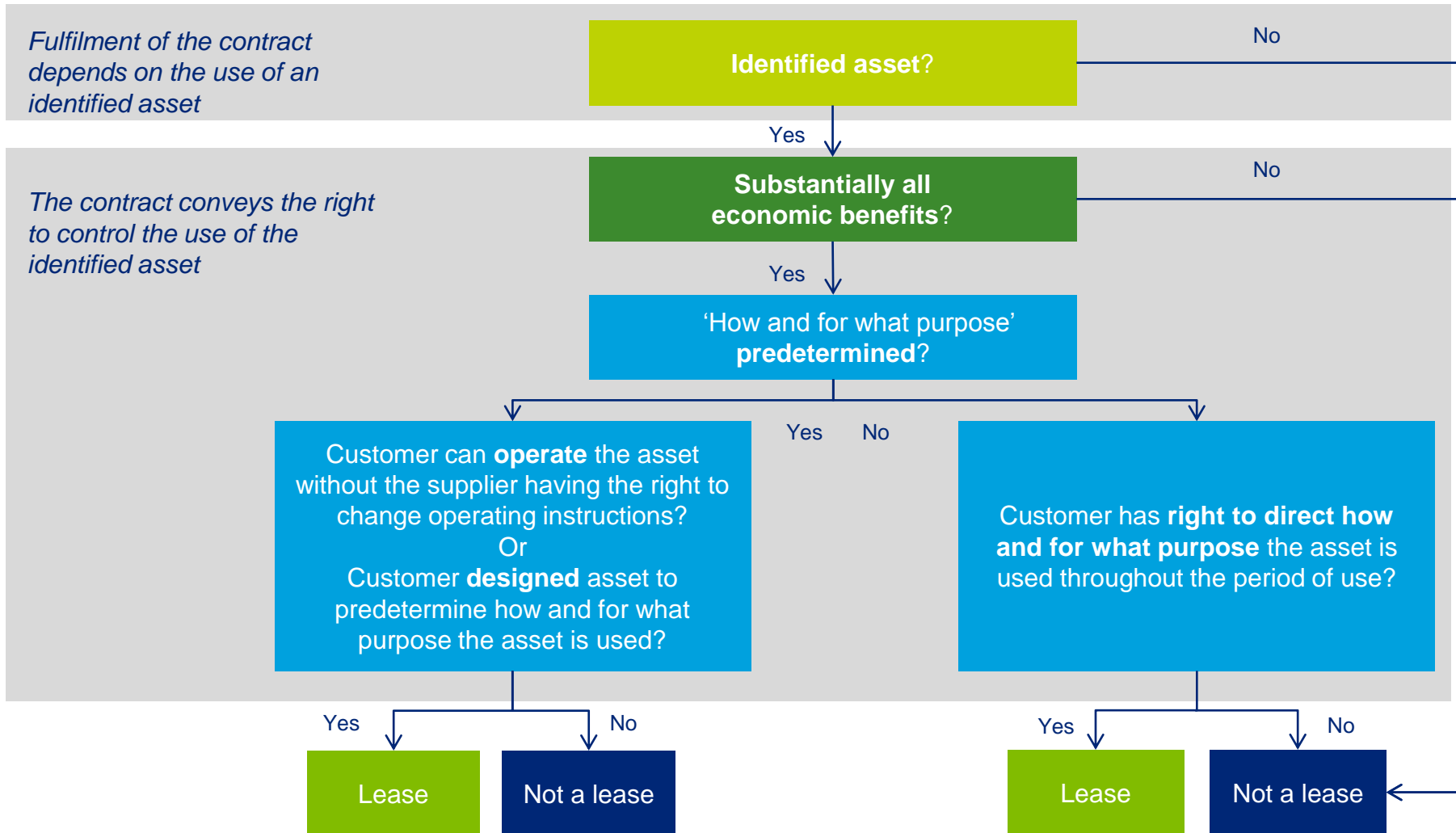
Right-of-use assets of PPE measured at a revalued amount



Investment property held by **lessees** under fair value model

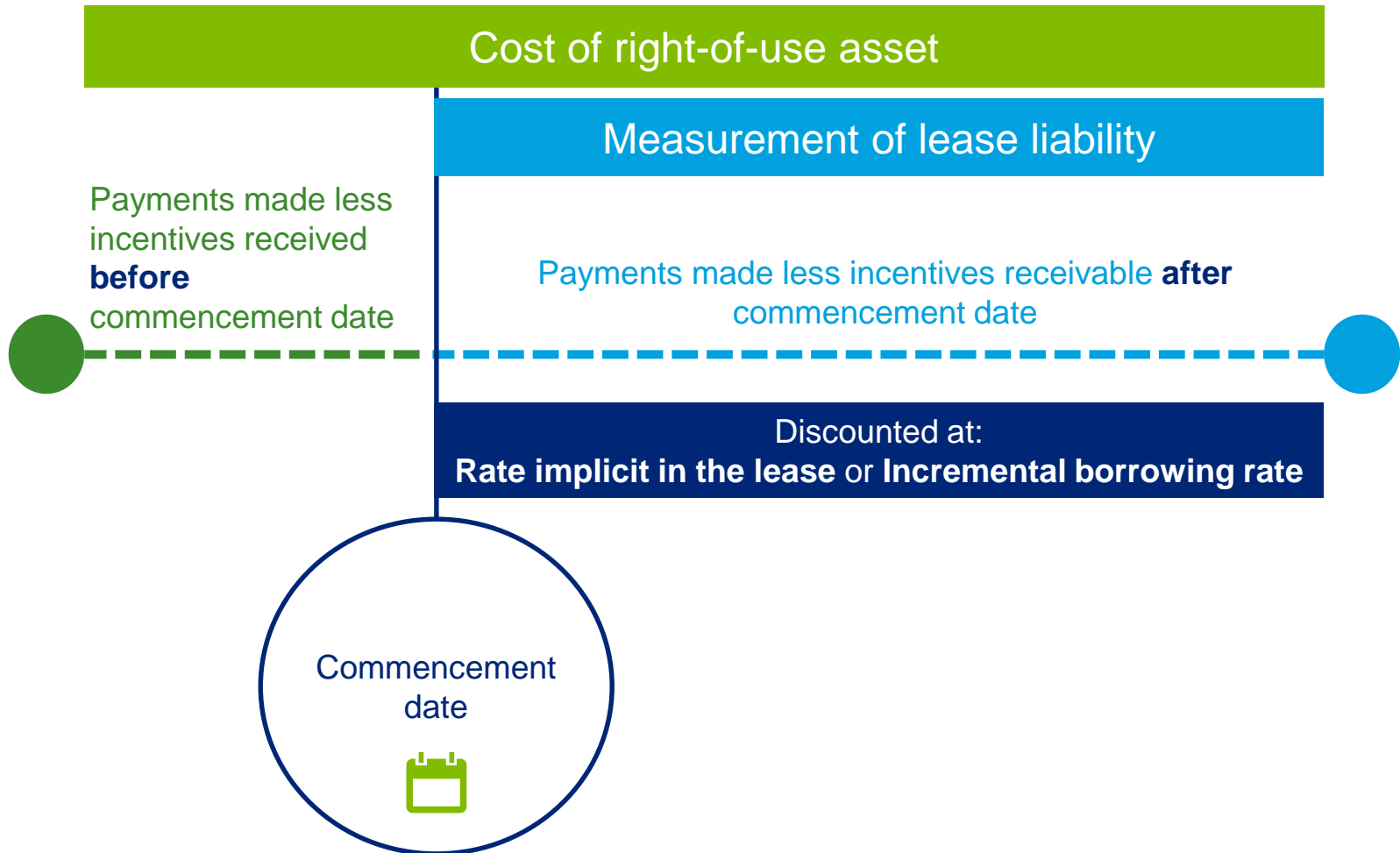
Identifying a lease

A decision tree



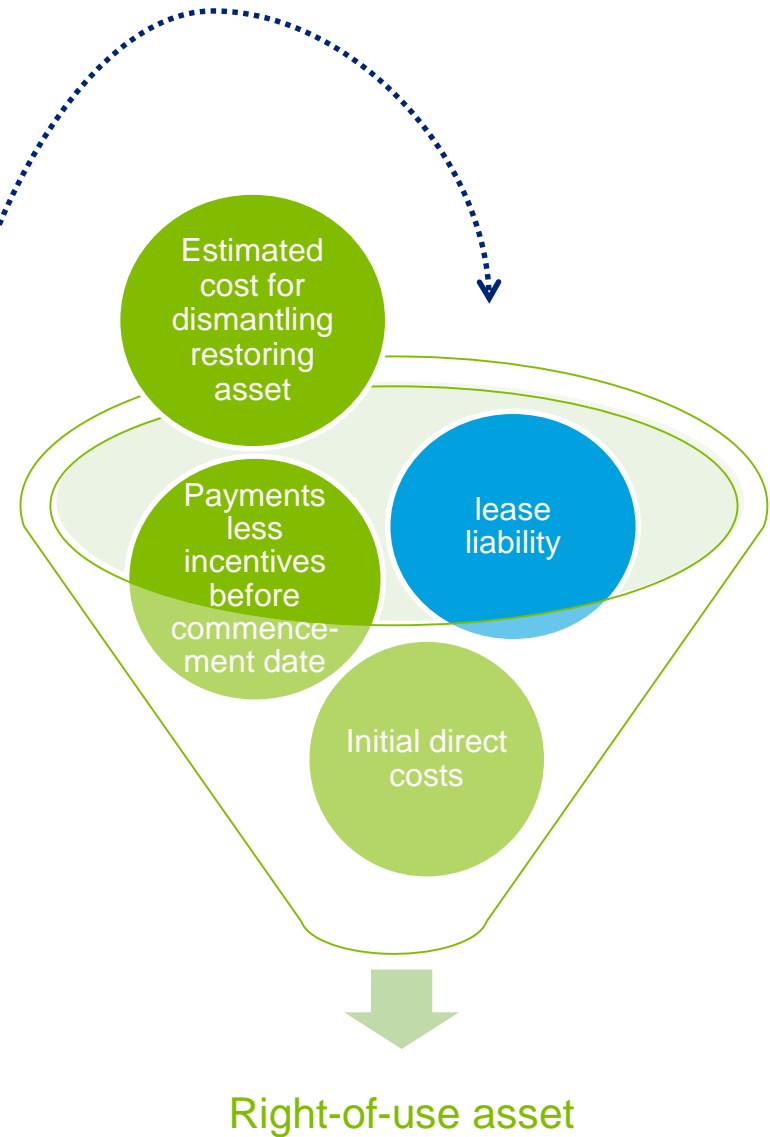
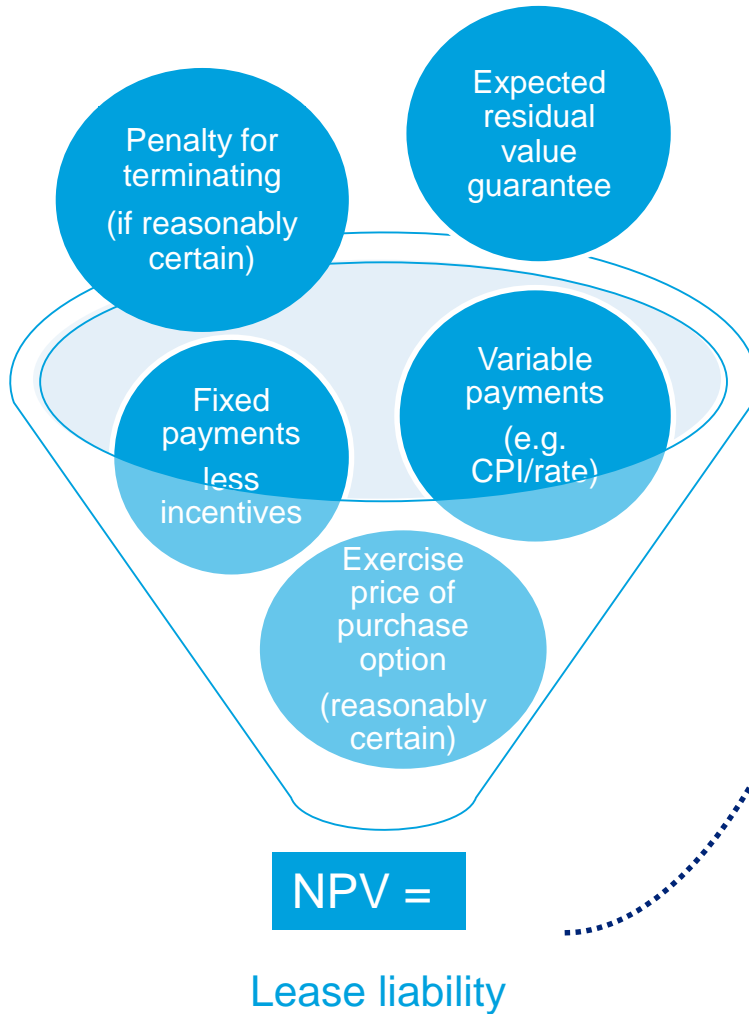
Measurement

Initial measurement



Measurement

Initial measurement



Recognition Exemptions

**Accounting policy choice:
Apply IFRS 16 or straight-line the expense**
(if applying the exemption: Apply IAS 37 to assess onerous contracts)



Short-term leases
(12 months or less)

A lease that contains a purchase option is not a short-term lease

Election by class of underlying asset



Low-value leases

Assessment on an absolute basis

Election on a lease-by-lease basis

Measurement

Lessee: modifications

Account for lease modification as a separate lease



Original lease

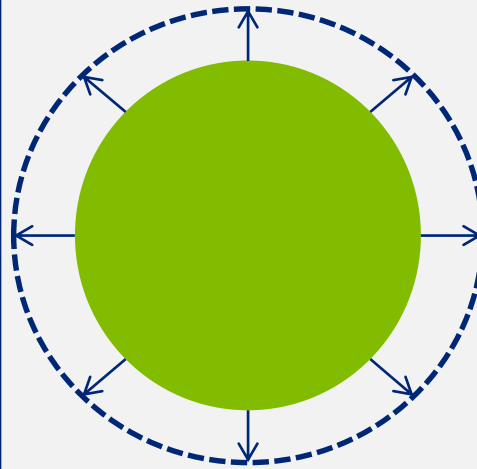


Modification

Only when:

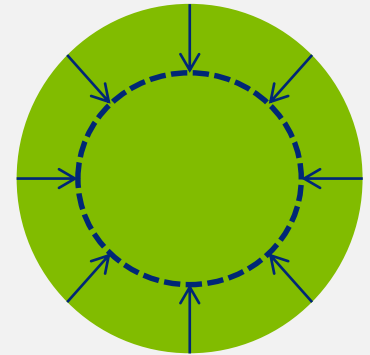
- Modification increases scope; and
- Consideration is commensurate to stand-alone price for increase in scope

Account for lease modification by remeasuring the lease liability using the discount rate at that date



Modification increases scope

Corresponding adjustment to right-of-use asset

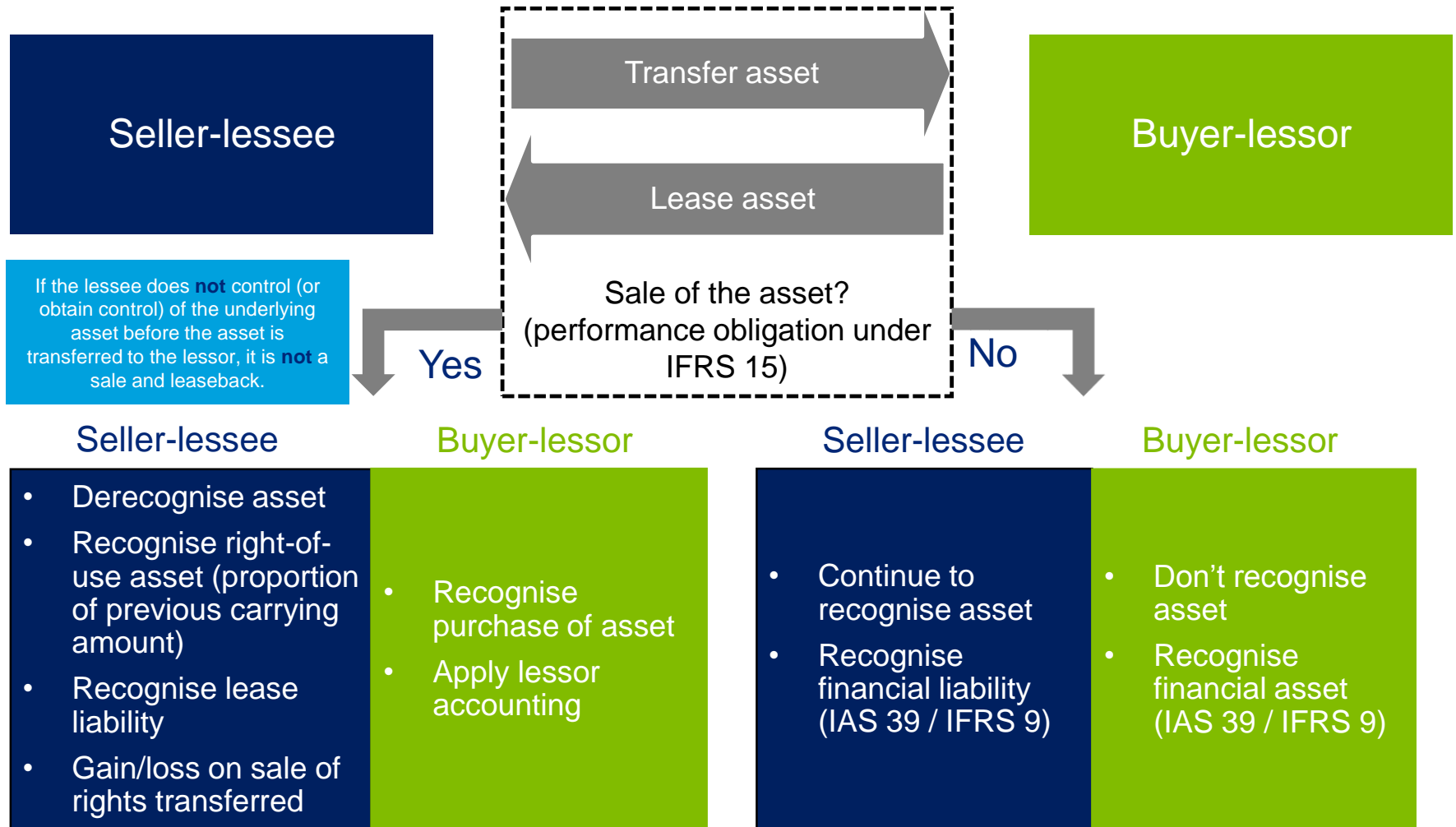


Modification decreases scope

Decrease right-of-use asset to reflect partial termination and gain/loss to reflect the decrease in scope

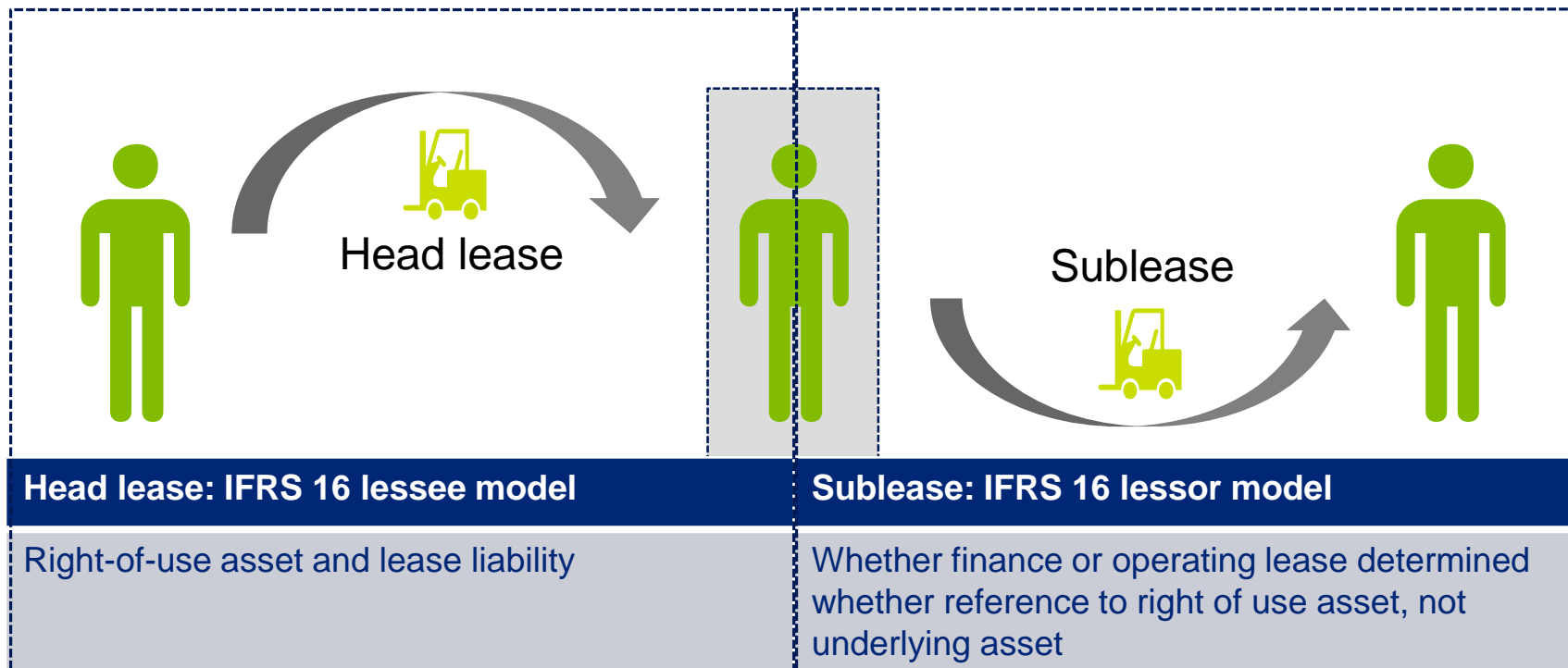
Sale and leaseback

Lessee and lessor accounting



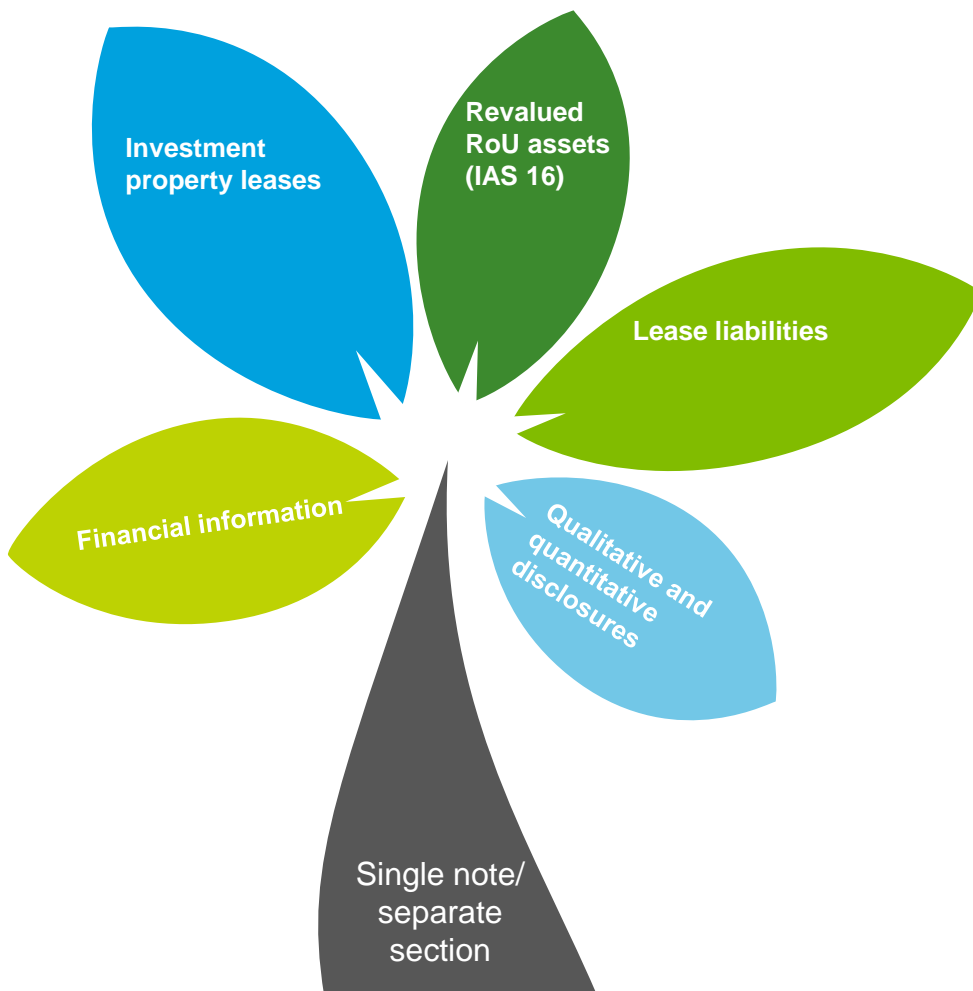
Subleases

Intermediate lessor accounting



Presentation and disclosure

In the notes



Financial information

- Depreciation by class, interest expense
- Low-value or short-term lease expenses (not < 1 month)
- Variable lease payments
- Income from subleases
- Total cash flow
- RoU asset: additions, carrying amount at end
- Gain or losses on sale and leasebacks
- Fact: low-value or short-term lease exemption



Investment property leases

- Some IAS 40 disclosures



Revalued RoU asset (IAS 16)

- Effective date of revaluation
- Whether independent valuation expert involved



Lease liabilities

- Separate IFRS 7 maturity analysis

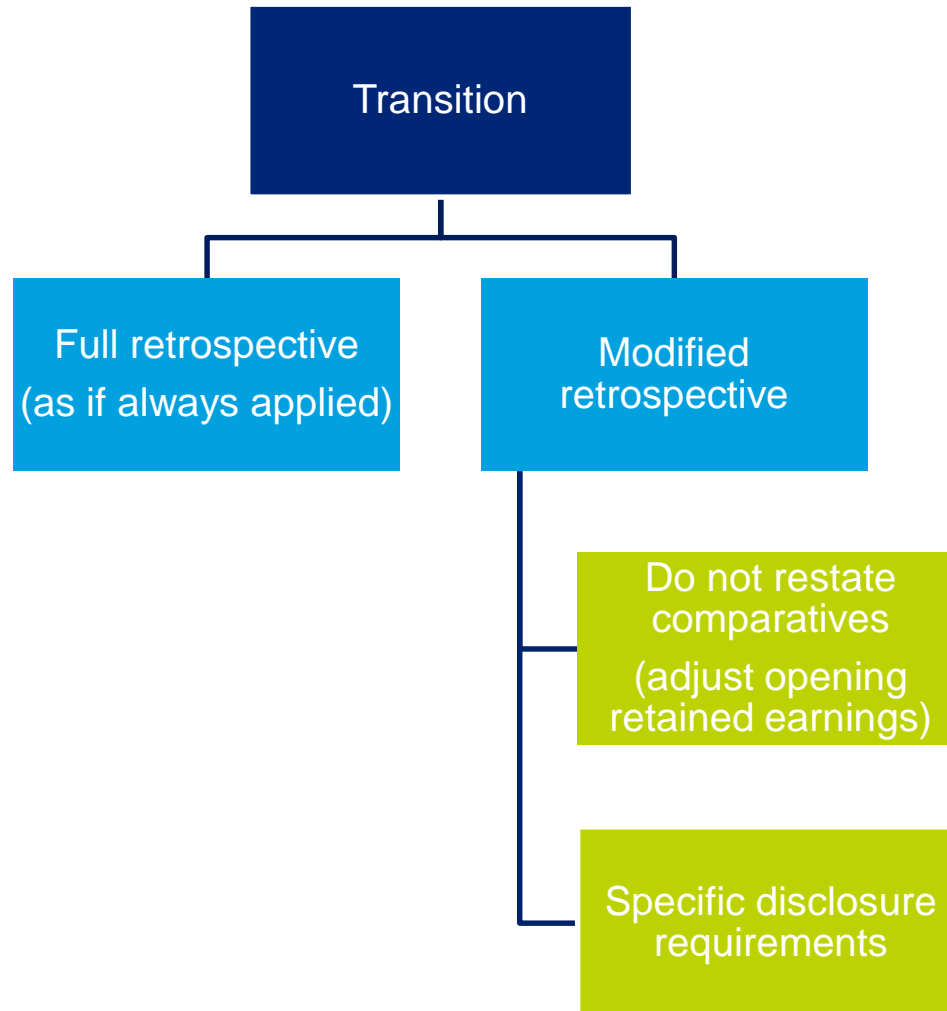


Qualitative and quantitative disclosures

- Nature of leasing activities,
- Exposure to possible future cash outflows
- Restrictions or covenants
- Sale and leaseback transactions

Transition

Approaches: Lessees



Effective date

When will this impact accounts?

December year-ends:
Retrospective application with restatement

December year-ends:
Effective date

1 Jan 2017

1 Jan 2018

1 Jan 2019



1 Jul 2018

1 Jul 2019

1 Jul 2020

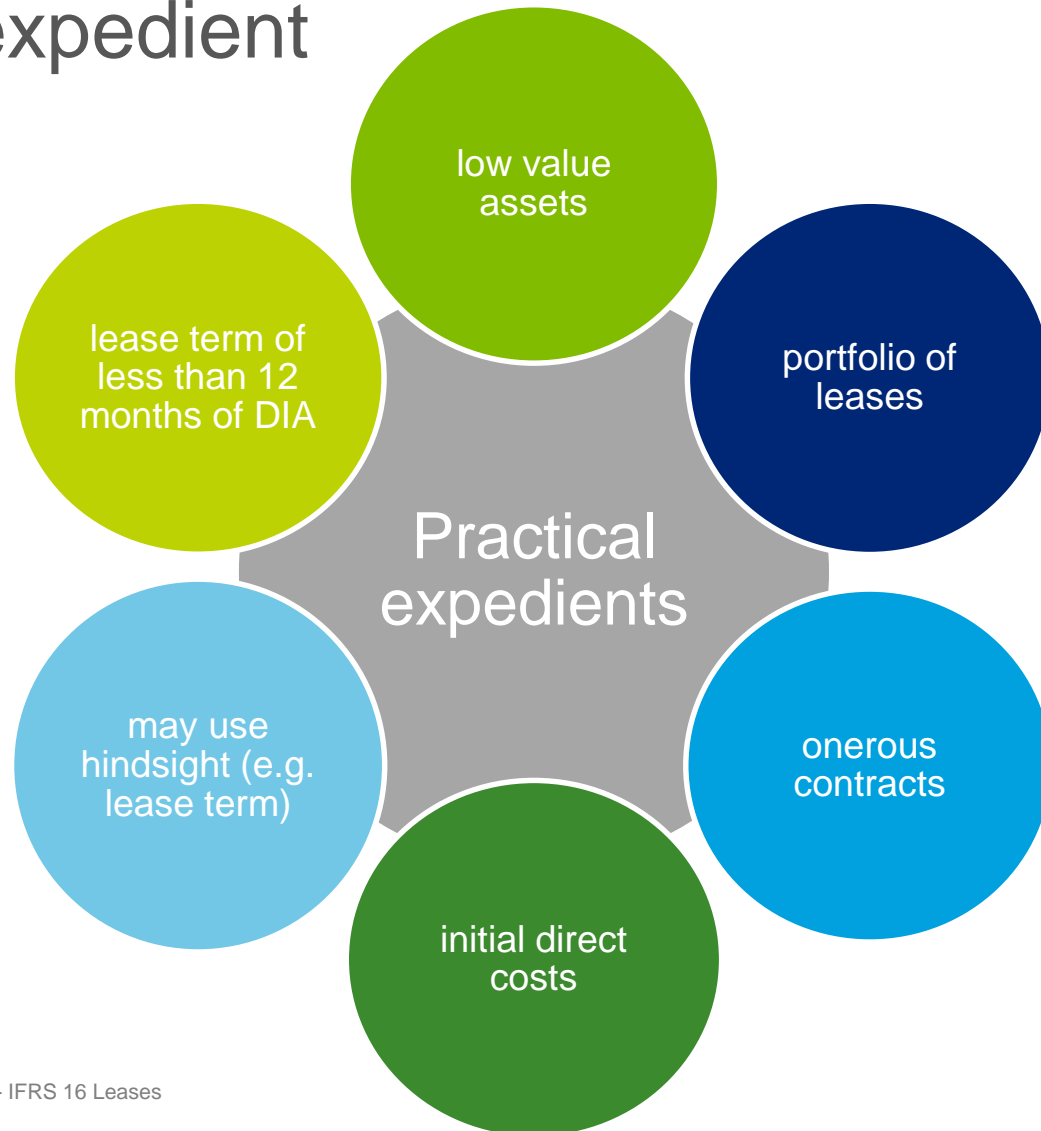
June year-ends:
Retrospective application with restatement

June year-ends:
Effective date

Entities can elect to apply full retrospective approach or a 'modified' retrospective approach with no restatement of comparatives

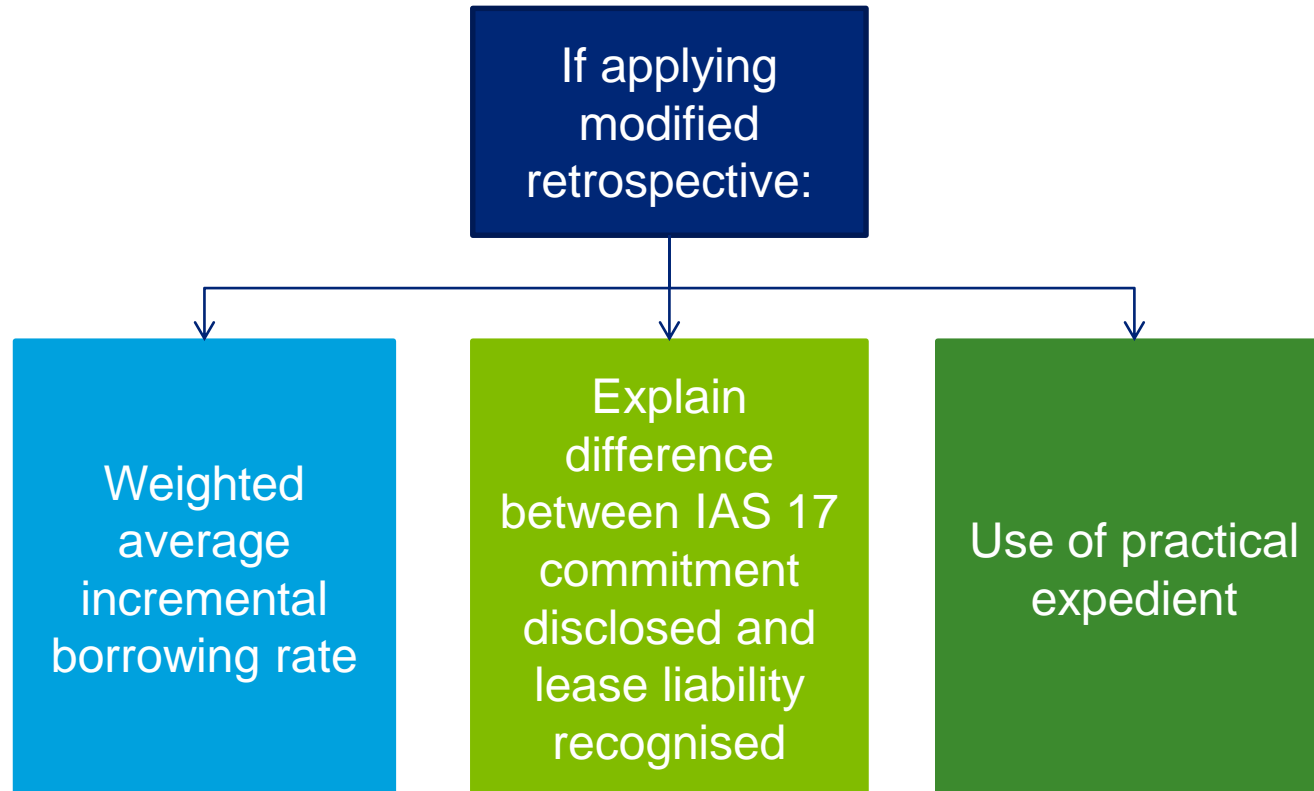
Transition (Previously operating leases)

Lessees: Modified retrospective approach – practical expedient



Transition

Lessees: Disclosure



Summary

Key judgements, policy choices and exemptions

Judgement, policy choice or exemption	Topic
Judgement: identifying a lease will sometimes require a significant amount of judgement based on the elements of the definition of a lease	Identifying a lease
Judgement: determining whether it is reasonably certain whether an extension or termination option will be exercised	Lease term
Judgement: identifying the appropriate rate to discount the lease payments will require significant judgement	Incremental borrowing rate
Exemption: Short-term leases (by class of asset) or low-value leases (lease-by-lease basis)	Recognition

Summary

Key judgements, policy choices and exemptions

Judgement, policy choice or exemption	Topic
Policy choice: Full retrospective approach or modified retrospective approach, definition of a lease - choice to grandfather all or not, initial direct cost in measurement of RoU asset - choice lease by lease and other practical expedients on transition	Transition
Policy choice: Lessee may elect not to separate non-lease components from lease components by class of asset	Components
Policy choice: Lessee may, but is not required to, apply IFRS 16 to leases of intangible assets	Scope

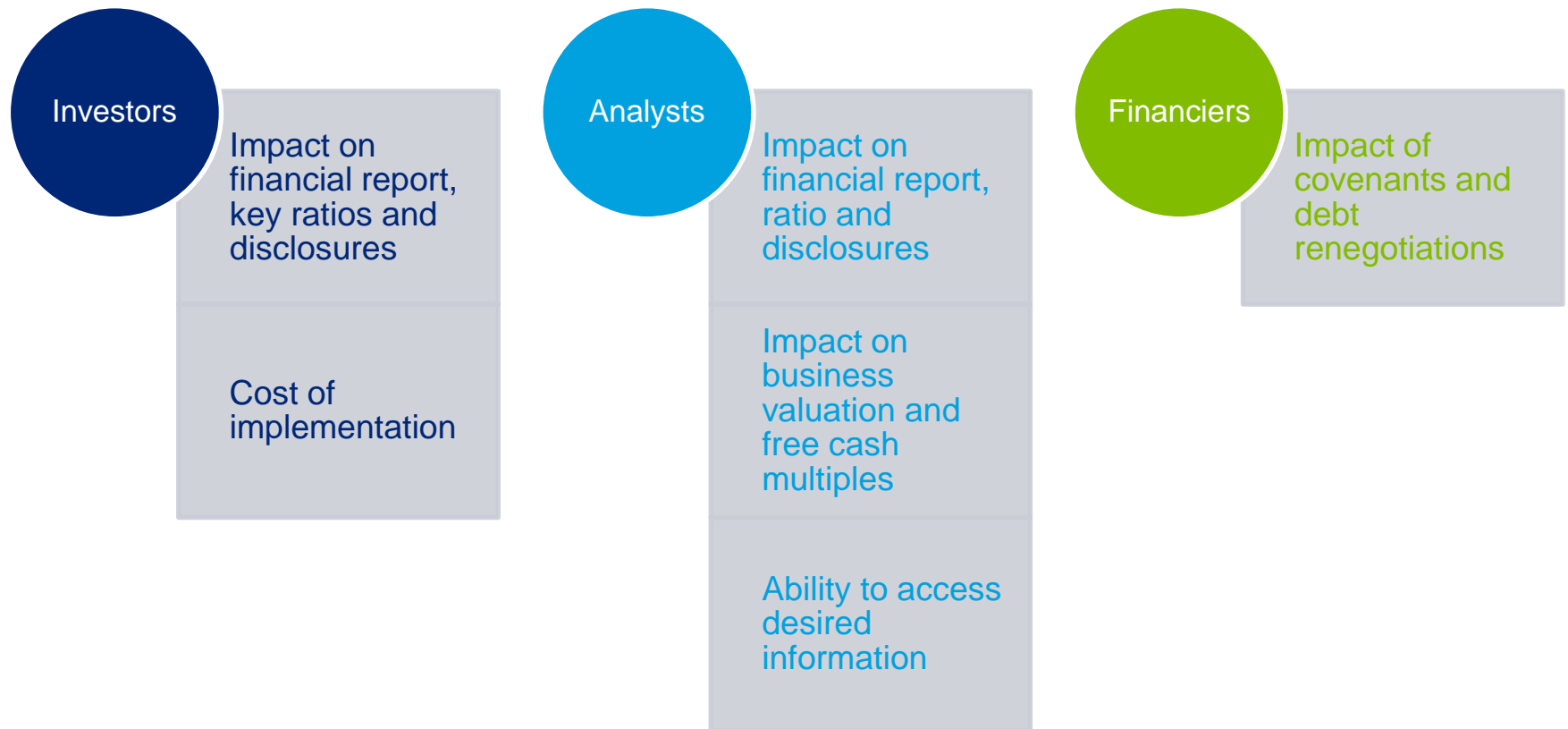
Wider business considerations

Internal



Wider business considerations

External





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