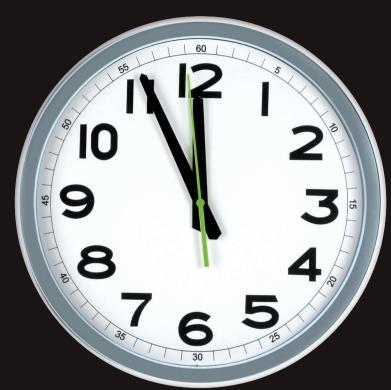
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IFRS 16 Leases

The time to act is now!

The new standard IFRS 16 Leases will significantly change the recognition and measurement of leases

Questions you May be Asking



IMPACT OF THE NEW STANDARD



- May significantly change the look of your balance sheet and P&L
- Broad requirements for data collection
- Key assumptions and justifications of exemptions in implementation
- Various impacts across your organisation: accounting, treasury, remuneration schemes

DELOITTE CAN HELP YOU TO

- Assess and prepare
- Implement and embed
- Mitigate and strategise

The Basics of IFRS 16

What is a lease?

BASIC INFORMATION

A lease is a contract, or part of a contract, that conveys **the right to control** the use of **an identified asset** for a period of time in exchange for a consideration.

How do you assess whether a contract conveys the right to control the use of an identified asset?

A customer has the following:

- **a.** the right to obtain substantially all of the economic benefits from use of the identified asset, and
- **b.** the right to direct the use of the identified asset.

Lease and non-lease components







 Identify non-lease components and account for them separately from lease components.

Exemptions from standard

- · Short-term leases
- Low-value assets

Practical Issues

When is the standard applicable?

An entity shall apply IFRS 16 retrospectively for annual periods beginning on or after January 1, 2019.

What should we be prepared for?

- » The new standard will require changes in accounting policies and new assumptions.
- » Assessment of all contracts will be a data-intensive process.
- » Provide training for the finance team and communicate potential impacts outside the finance function.
- » Evaluate strategic impacts on KPIs, remuneration schemes, leasing strategy and loan covenants.

What will we need to prepare for the auditor?

- » Access to all contracts.
- » Documentation for the assessment of lease classification.
- » Documentation on using exemptions of IFRS 16.
- » Rationale for applying exemptions for short-term leases and low-value assets.

Example: IAS 17 vs. IFRS 16 comparison for a lessee

Statement of Financial Position



Key impacts for lessees

Significant impact on companies with off-balance sheet leases: INCREASE OF ASSETS AND INCREASE OF LIABILITIES!

- **▲ FINANCE COSTS**
- **▼** OPERATING COSTS
- **▲** EBITDA

AS A RESULT THIS WILL IMPACT:

- 1. Timing of revenue: recogntion and deferred tax
- 2. EBITDA-based remuneration schemes
- **3. Loan covenants:** interest cover, debt ratios
- 4. Financing: availability and interest rates

Accounting, Operational and Business Aspects of New Standard and how Deloitte can Help

Accounting

- Approach to IFRS 16 implementation
- Using exemptions for recognition of leases
- Identify contracts not assessed according to IAS 17 and IFRIC 4
- Impact on current and deferred income taxes
- New disclosures in financial statements
- Documentation of accounting policies

Operational

- Training for finance and other teams
- Review of IT systems
- Availability of information for assessment of contracts
- Completeness and validity of information from contracts
- Appropriateness of internal controls as regards approving and recording leases
- Accounting system: design and implementation of IT solutions for recording lease contracts

Business

- Impact on the assessment of key KPIs
- Meeting loan covenants
- Procurement strategy: lease or buy?

...... How Deloitte can help?

Training for relevant members of finance team. **Accounting advisory:** analysing impacts of IFRS 16 implementation and support when evaluating contracts.

Data processing: identify available and accessible information. support for processing contract data



Advisory: assessment of internal controls

Data processing: assess completeness of databases; assess
relevance, completeness and accuracy of identified information.

Review accounting and operating systems: data extractions and compliance with new requirements.



Training: communicate with members of other departments on the changes and impact, inform management of all "non-accounting" impacts **Business consulting and accounting advisory:** lease or buy?

- Impact on remuneration strategy
- Accounting and other impacts on future contracts

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