



IFRS 16

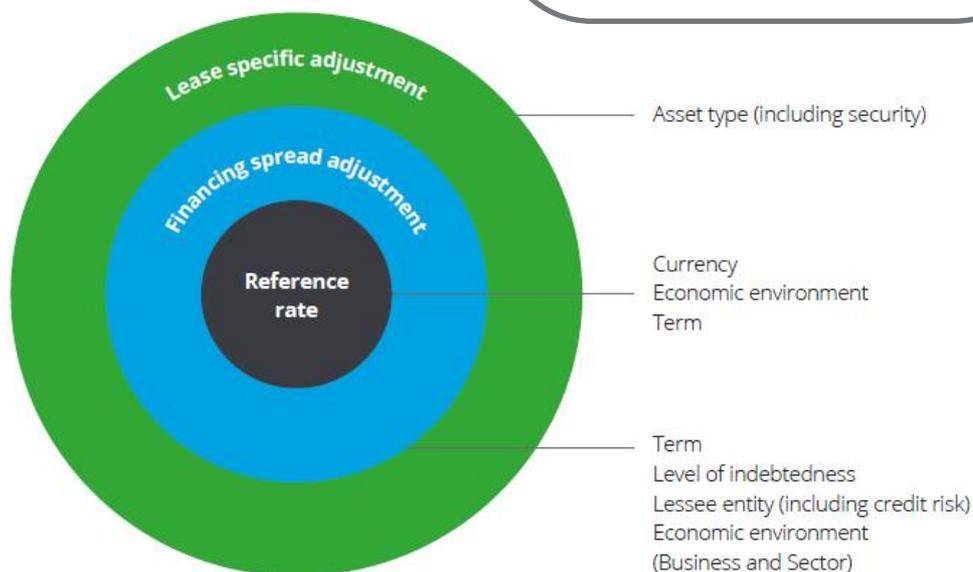
Advisory assistance with determining discount rates (the IBR method)

What is an IBR?

The IBR is defined as an estimate of the rate of interest that a lessee would have to pay to borrow:

1. over a similar term;
2. with a similar security;
3. to fund a similar asset of a similar value to the right-of-use asset based on current market conditions.

The factors needed to be taken into account when determining an IBR are outlined in the diagram below.



This standard requires companies to consider a range of data points, appropriate to each lease and lessee. This can often be very challenging for in-house teams to do without having the necessary technology available, such as subscriptions to external databases. We have subscriptions to third party databases and can assist groups by accessing extensive datasets and have designed approaches to address the complex requirements of this standard.

How we can help

We have significant experience of advising a wide range of clients (from small groups to large listed groups) on how to develop and practically implement an appropriate methodology for calculating a range of IBRs to be applied to their lease portfolios on transition to IFRS 16.

We have also supported these businesses, where required, to articulate the suitability of these approaches as part of their statutory audit process.

The IBR is generally considered to be the most subjective aspect of an otherwise quite mechanical process.

Deliverables

We can assist you with the following*:

1. Determining an **appropriate methodology** for calculating a range of IBRs for the group's lease portfolio;
2. Provide a single **deliverable** which calculates the IBRs and maps them to each lease in your portfolio, as well as providing commentary on the methodology which has been applied sufficient for internal/external audit purposes;
3. Provide a **written report** to accompany the deliverable (if required in addition); and
4. Provide **support with the audit process**, including supporting you in your discussions with auditors to explain the methodology and discuss the data points which have been used.

**It should be noted that some of these services may not be able to be provided for audit clients of Deloitte. A specific discussion on the scope of work would be required on a case by case basis.*



Contacts

We have a specialist IBR team with experience in supporting groups with large lease portfolios. Please do contact any of the team listed below if you would like to discuss further.

Mo Malhotra - Partner
Tel: +44 191 202 5511
Email: mmalhotra@deloitte.co.uk

Lindsay Buckenham – Partner
Tel: +44 121 695 5766
Email: lbuckenham@deloitte.co.uk

Jonathan Beeston – Associate Director
Tel: +44 121 696 8827
Email: jbeeston@deloitte.co.uk

Deloitte.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.