

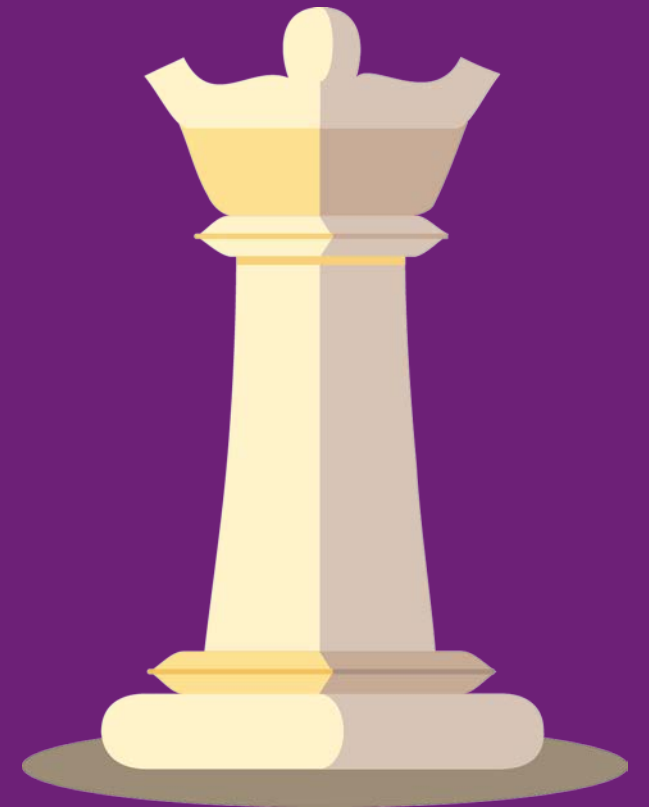


# Practical Issues on IFRS 16

Presenters :

Yusuf Hassan  
Nigel Austin D'Souza

4 May 2019



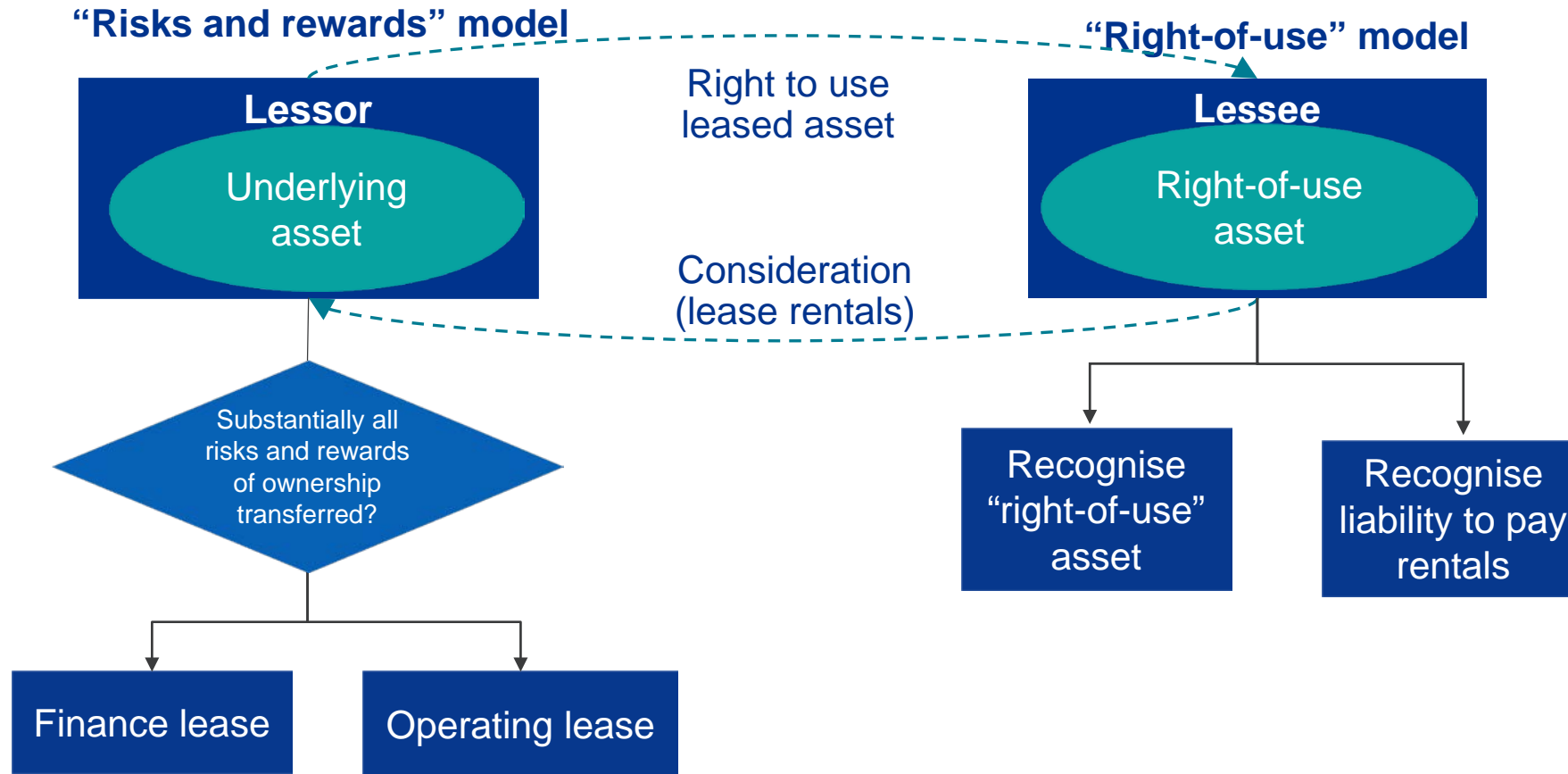
# Agenda

1. Recap on IFRS 16
2. Implementation issues
3. Global lease accounting survey (attached in email)
4. Question and Answers



# Recap of IFRS 16

# Overview of the model: Lessor vs lessee



**All significant leases on-balance sheet for lessees with expense recognition generally front-loaded, similar to current finance leases**

# Single lessee accounting model

## Balance sheet

### Asset

= 'Right-of-use' (ROU) of underlying asset

### Liability

= Obligation to make lease payments

## P&L

### Lease expense

Depreciation

+ Interest

= Front-loaded total lease expense

# Sir David Tweedie's aircraft



Five year lease of  
an aircraft



CU1,000,000  
per annum due at 31  
December



No renewal no  
purchase option



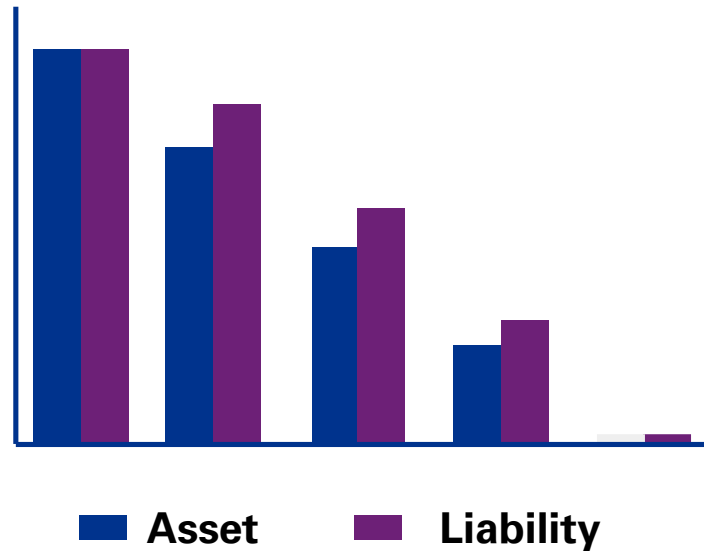
Discount  
rate: 7%



Aircraft useful life:  
20 years

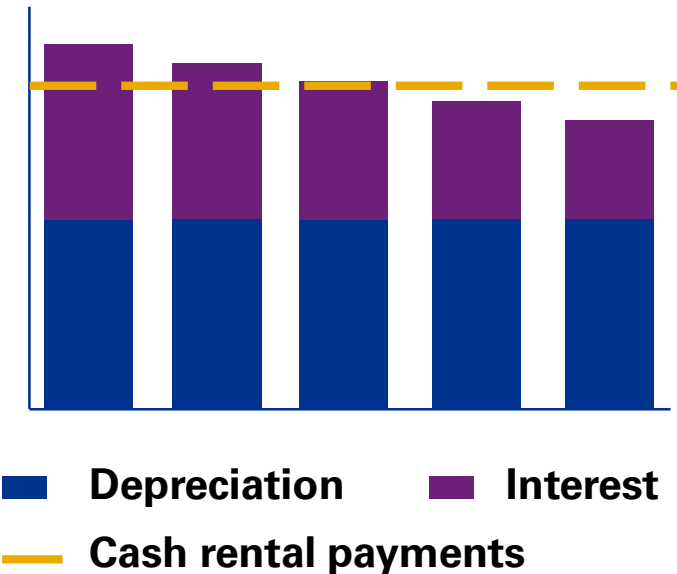
# What's the impact?

## Balance sheet



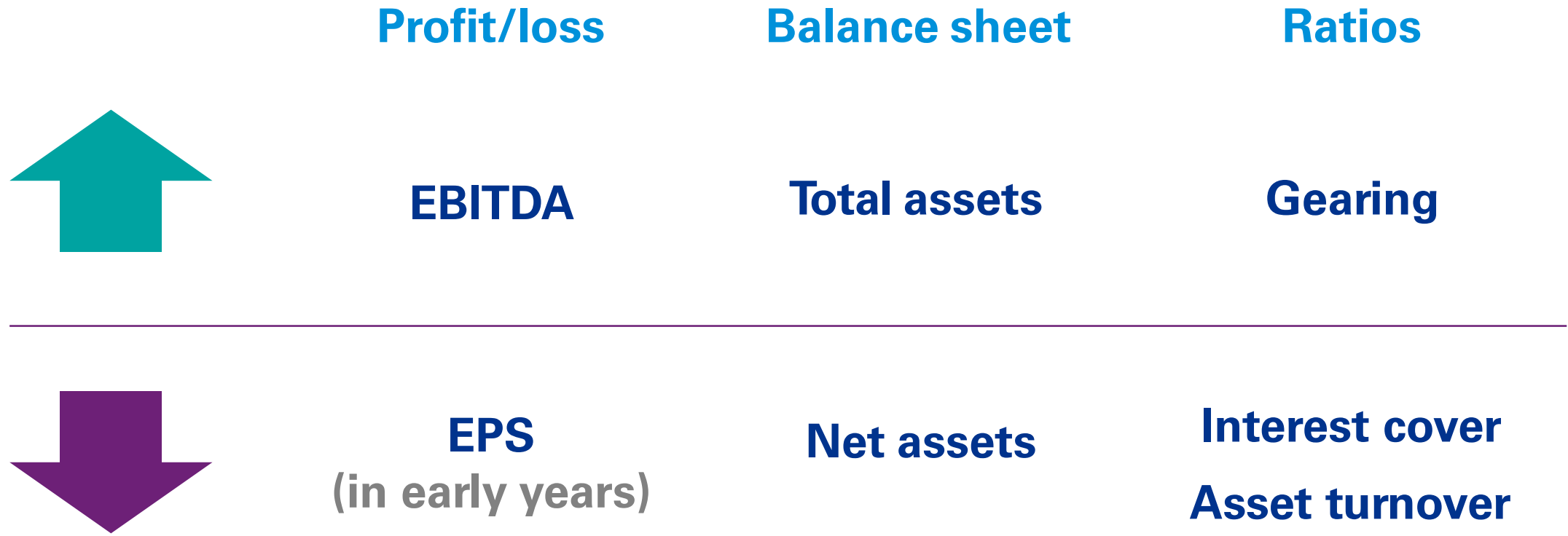
Lessees appear to be more **asset-rich**, but also more **heavily indebted**.

## Profit/loss



Total lease expense is **front-loaded** even when cash rentals are constant.

# Impact on financial ratios





# Which actions will maximise a lessee's EBIDTA?



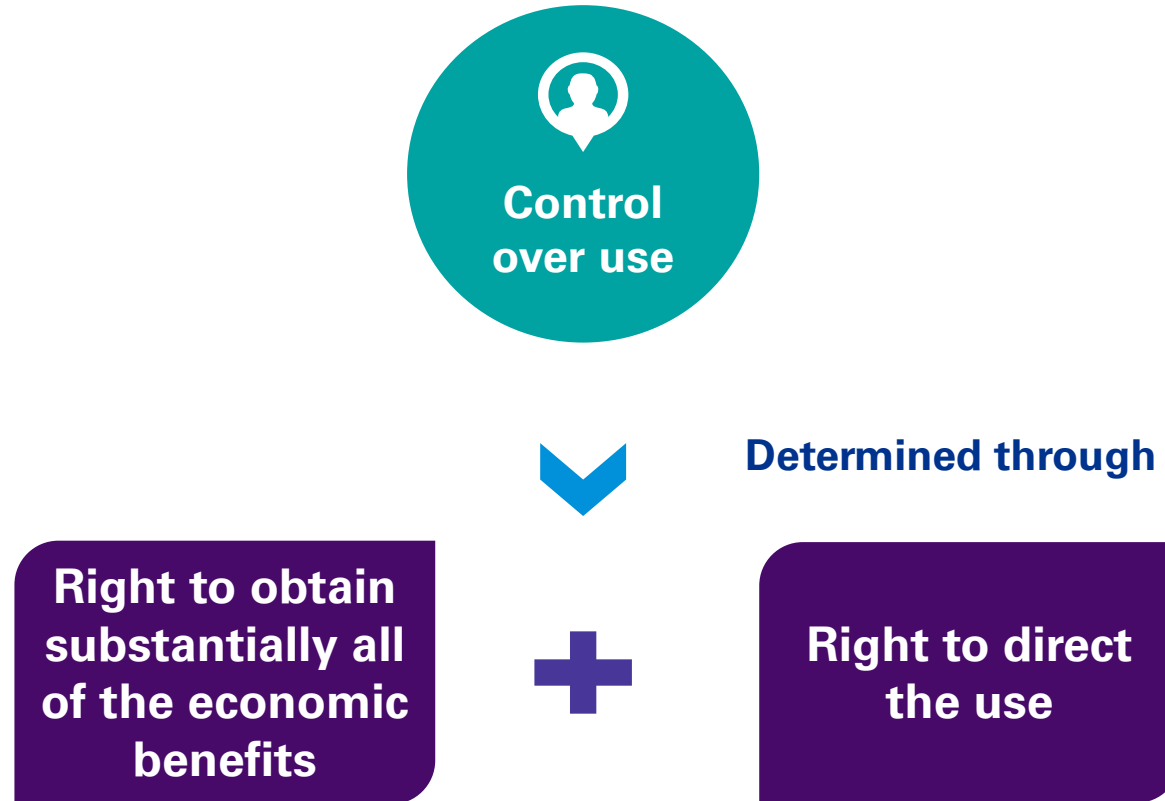
1	Renegotiate leases to include more lease payments based on sales?	<input type="checkbox"/>	<input type="checkbox"/>
2	Renegotiate leases to include more break clauses?	<input type="checkbox"/>	<input type="checkbox"/>
3	Maximise use of the short-term lease exemption?	<input type="checkbox"/>	<input type="checkbox"/>
4	Maximise use of the low value exemption?	<input type="checkbox"/>	<input type="checkbox"/>
5	Use the practical expedient to combine lease and non-lease elements?	<input type="checkbox"/>	<input type="checkbox"/>

# Lease definition



**A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset**

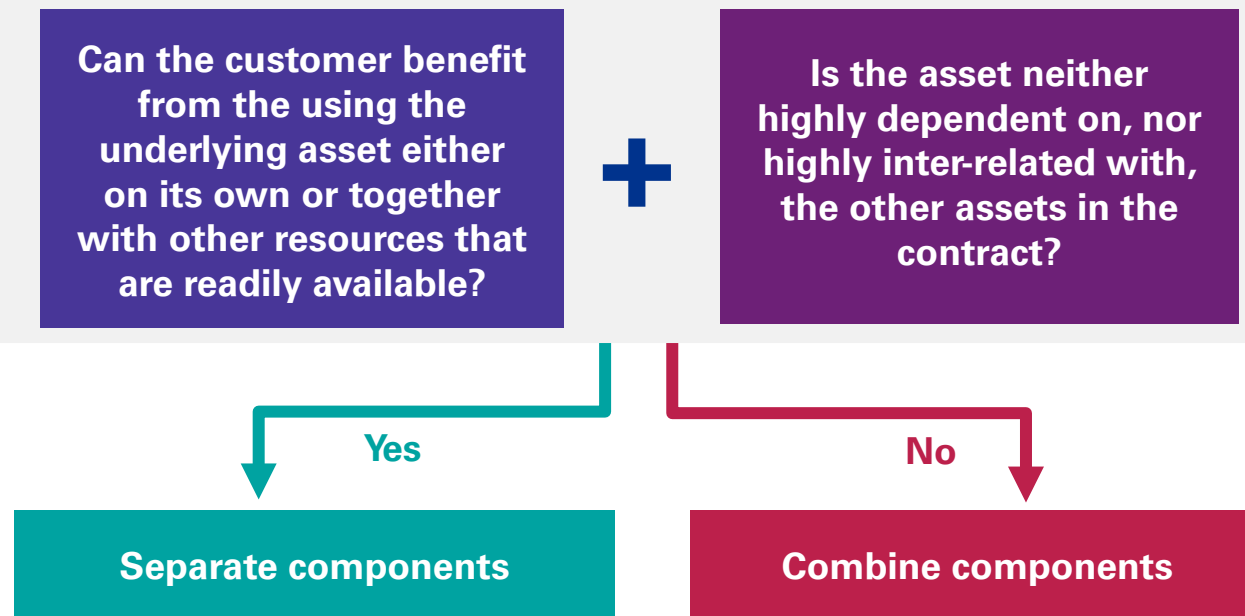
# Lease definition - Control over use



# Lease and non-lease components

**If a contract is, or contains, a lease, then the company accounts for each separate lease component, separately from non-lease components.**

**A company considers the right to use an underlying asset as a separate lease component if it meets the following criteria:**



# Exemptions for lessee

**Two major optional exemptions make the standard easier to apply**



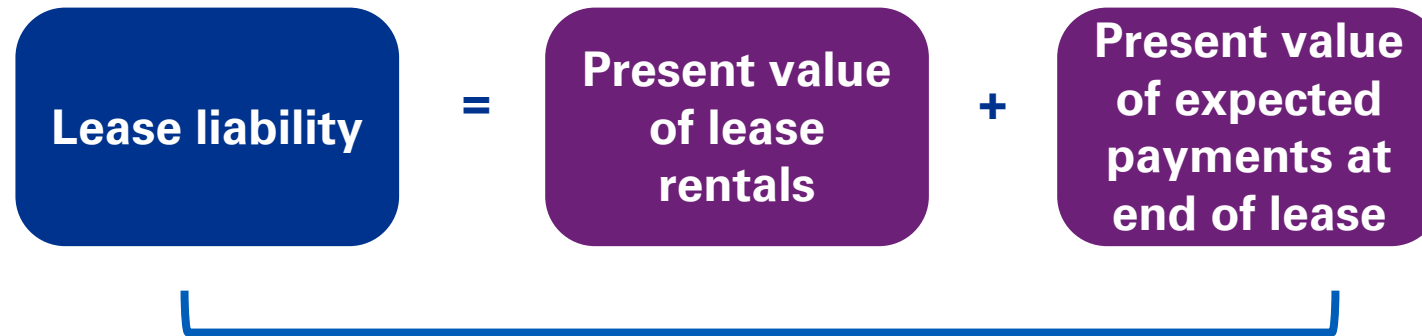
**Short term leases**  
**≤ 12 months**  
**Election by class of assets**



**Leases of low value items**  
**≤ USD 5,000 (suggested)**  
**Election on lease by lease basis**

**When exemption is applied, recognise the expense on a straight line basis over the lease term.**

# Measuring the lease liability



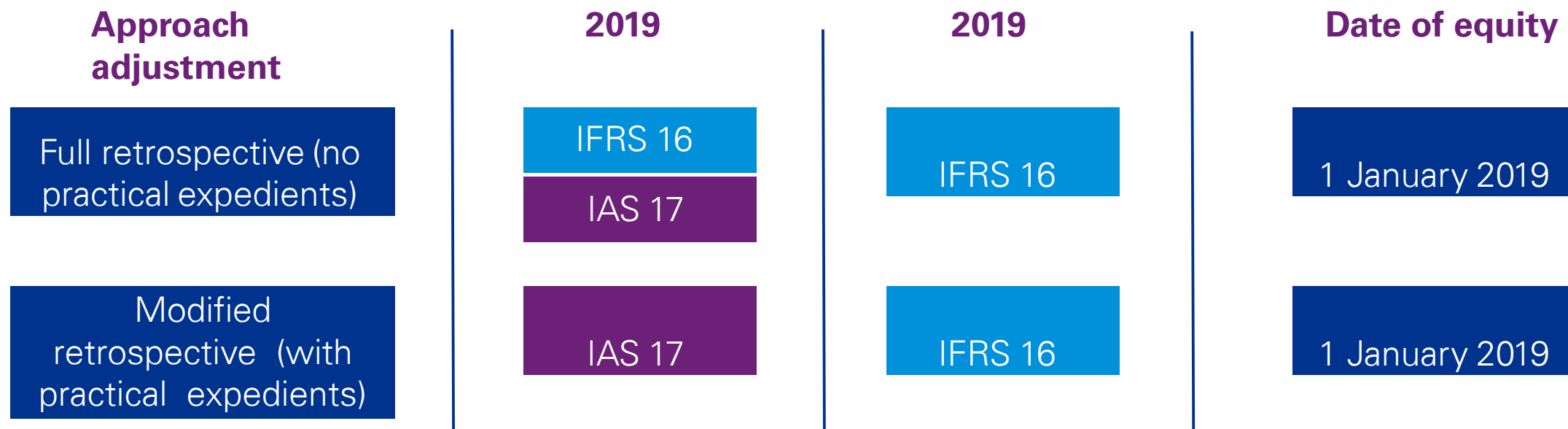
## Key inputs





# Transition

# Transition options – impact on financial statements



- Full retrospective: parallel systems for 2019.
- Modified retrospective approach: additional disclosure.





# Implementation Issues

for IFRS 16

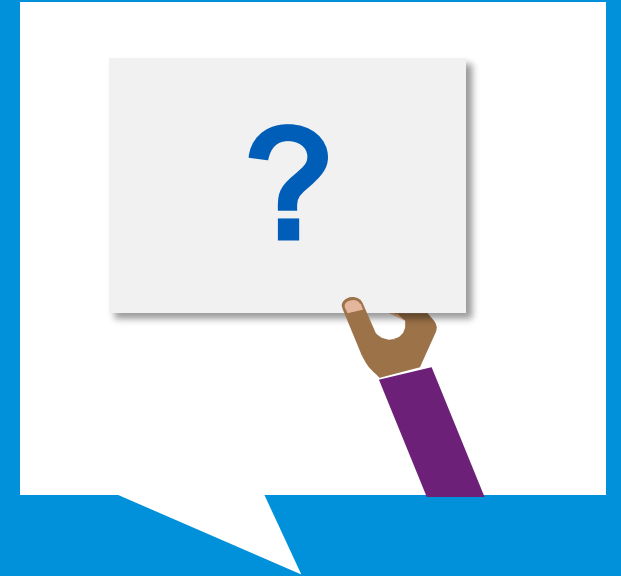


# Technical Accounting Implementation Issues

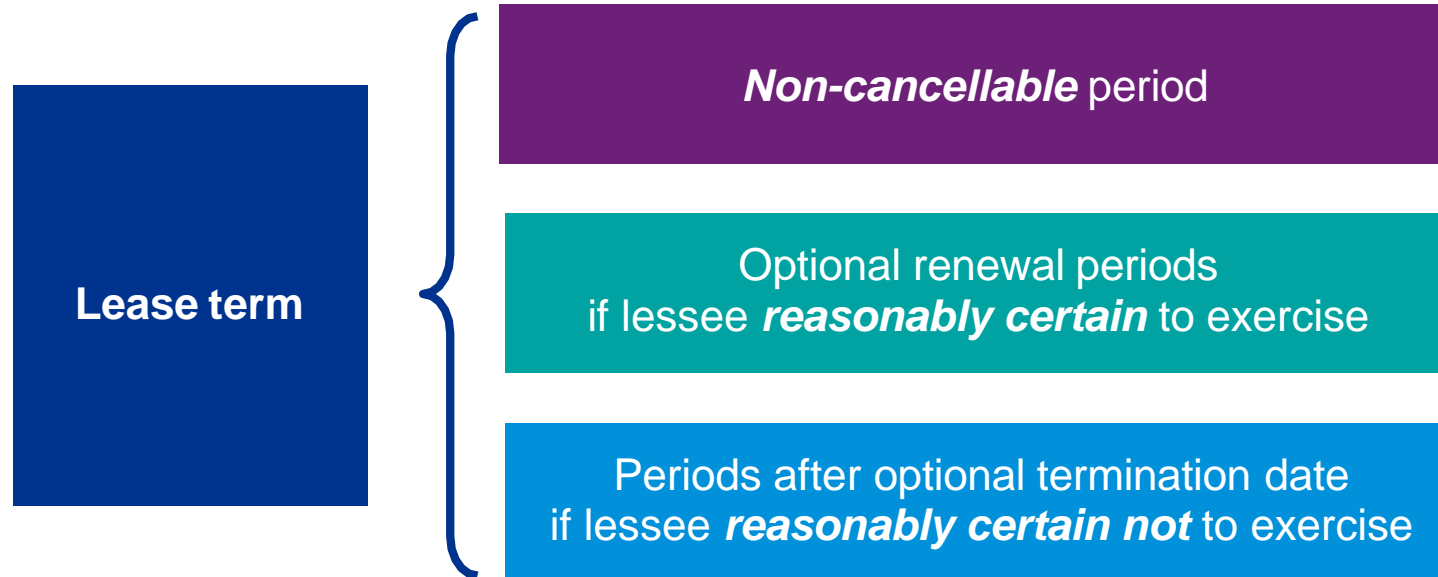


Issue #1

How long is the lease?



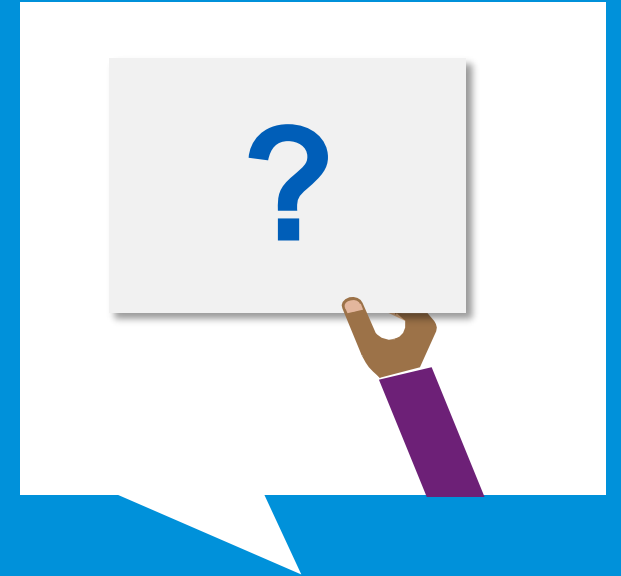
# Lease term





## Issue #2

Which lease payments do we include in the lease liability?



# Lease payments

**Which variable lease payments are included in the lease liability?**



**Fixed and in-substance  
fixed payments**

**Payments based on an  
index or rate  
(based on current value)**

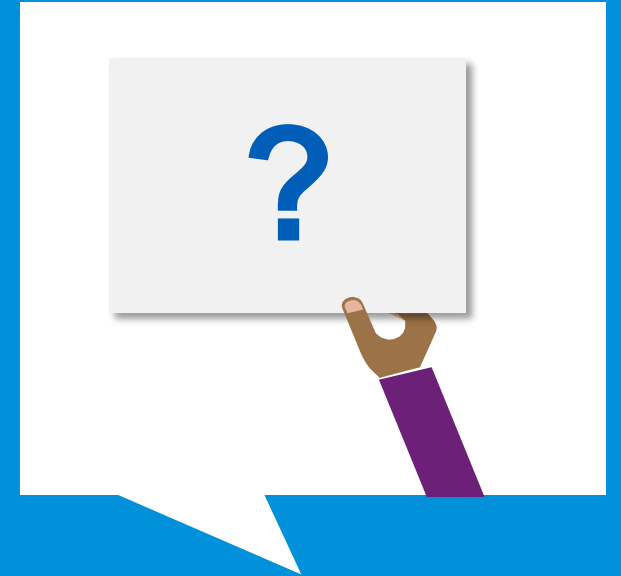


**Payments based on  
turnover or usage**



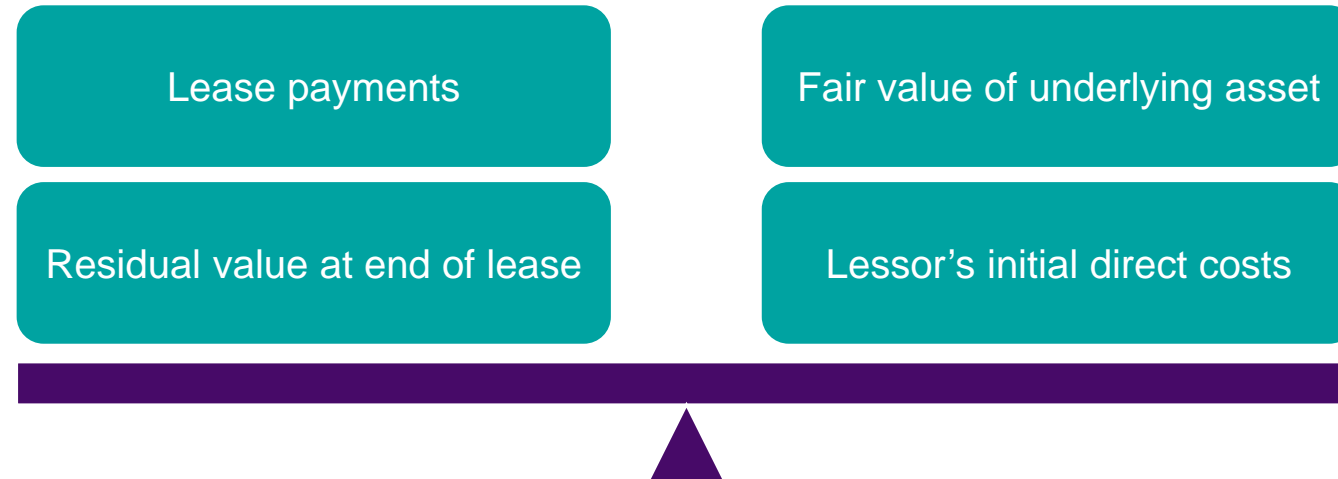
## Issue #3

Can we use a single  
discount  
rate for all my leases?



# Discount rate

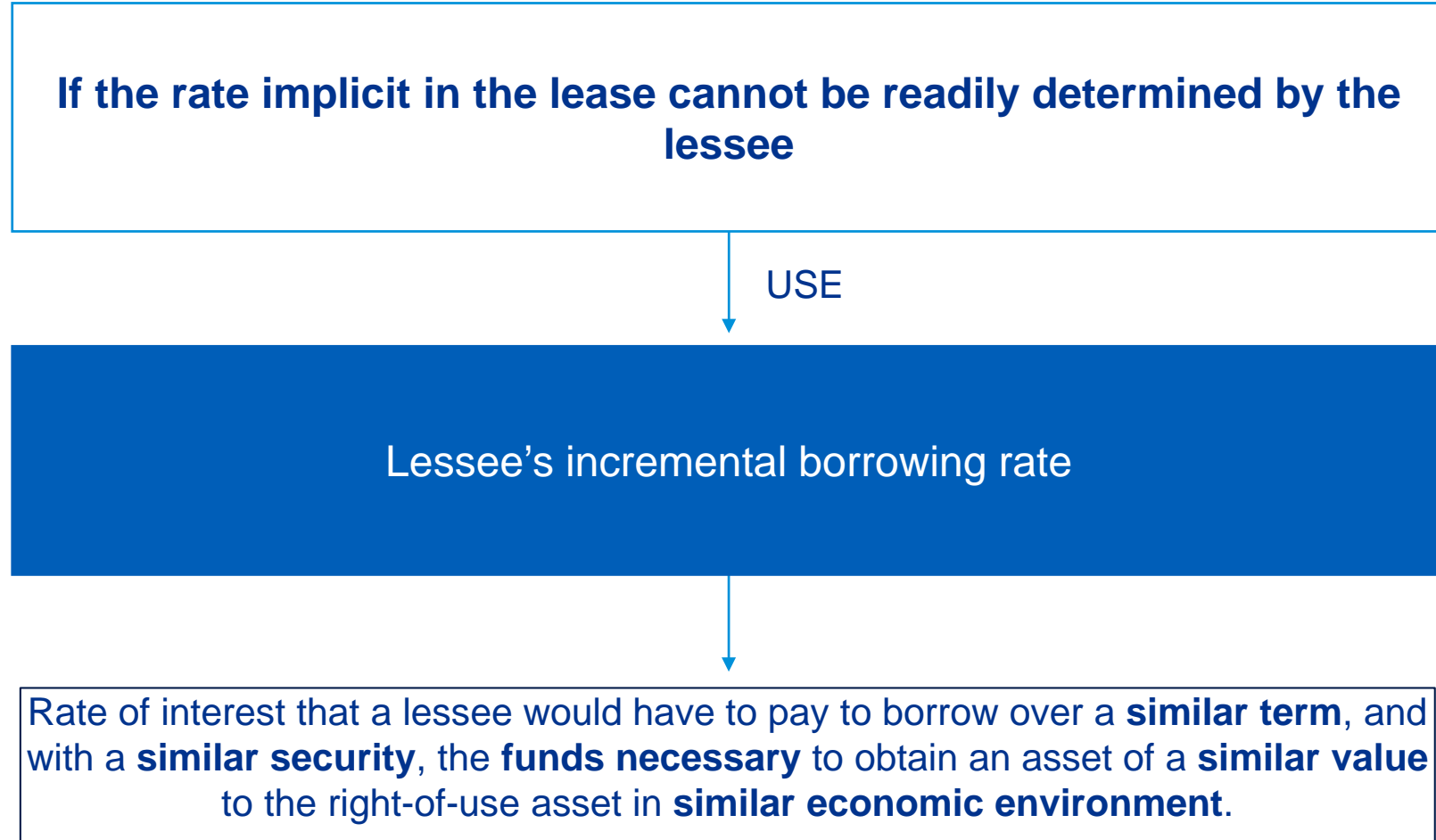
## Interest rate implicit in the lease



Use of this rate can be **readily determined** by the lessee



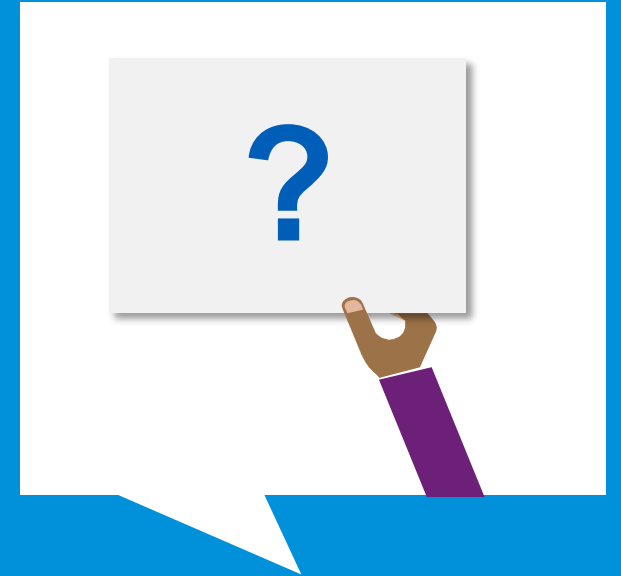
# Discount rate





## Issue #4

What happens to my  
intercompany leases?



# Intercompany leases

## Generally straightforward under IAS 17...

**Symmetrical accounting**

**Lease term often not a concern**

**'Automatic' elimination on consolidation**

## Could be a real problem under IFRS 16...

**Asymmetrical accounting**

**Lease term a key estimate for lessees**

**Will not eliminate on consolidation**



Practical

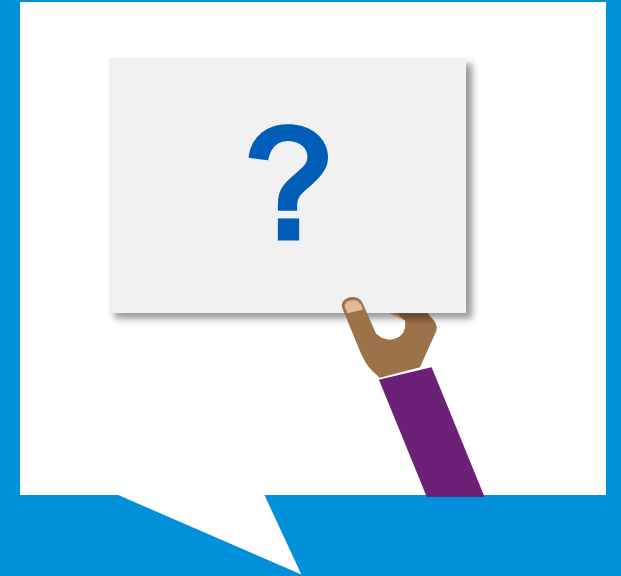
Implementation

Issues



# Issue #5

## Data Extraction



# Data extraction - Key points to consider

**Completeness of lease population**

**Collating all the lease contracts – Including renewals**

**Estimates – Lease term**

**Inability to Extract Key Data from Contracts**

**Transition approaches**

**Data extraction approach and tools**

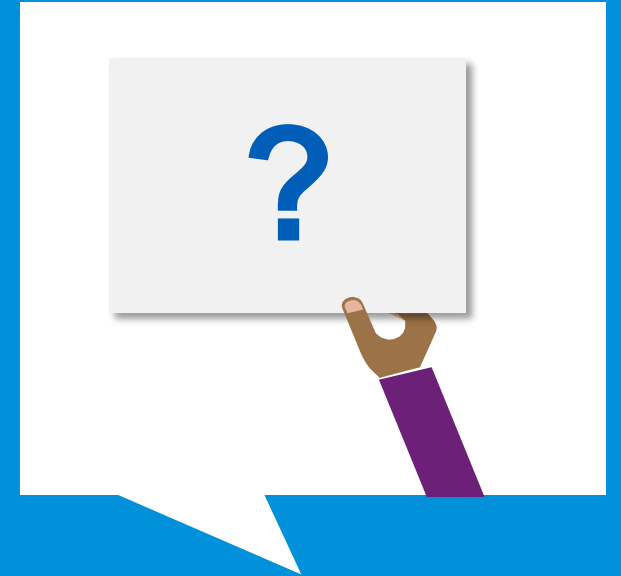
**Lease collation**

**Identification of relevant data points**



# Issue #6

## The consideration for automation



# Robotic Process Automation (RPA)

**The entity can increase efficiency by using Robotic Process Automation (RPA) to create programs (called “bots”) to automatically complete repetitive lease accounting tasks.**

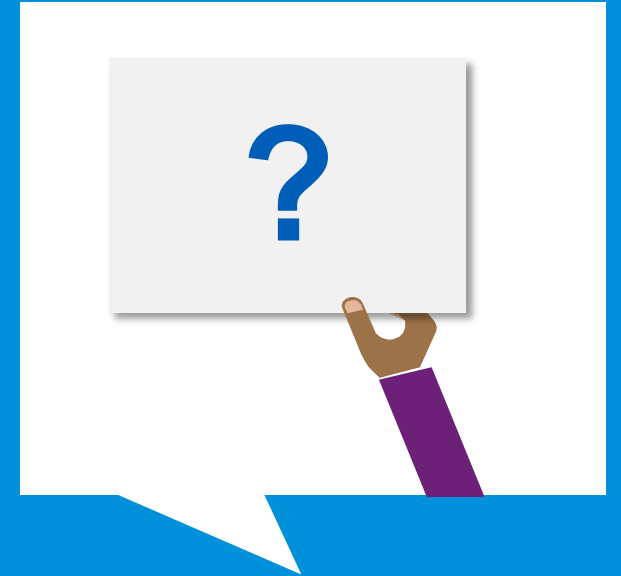






Issue #7

Key issues in  
selecting a tool



# Key issues in selecting a lease implementation tool



**Tool v/s spreadsheets**

**IFRS 16 Lease tool vs Lease management tool**

**Budgets**

**User acceptance tests**

**Cloud V/s On premise**

**On going support**

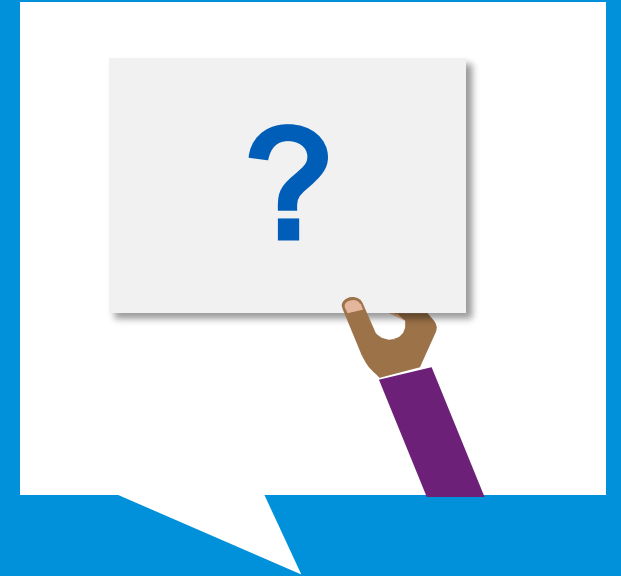
**Ability of the tool to cover all possibilities under IFRS 16**

**Future proofing**



Issue #8

Re-measurement  
events



# Re-measurement Events

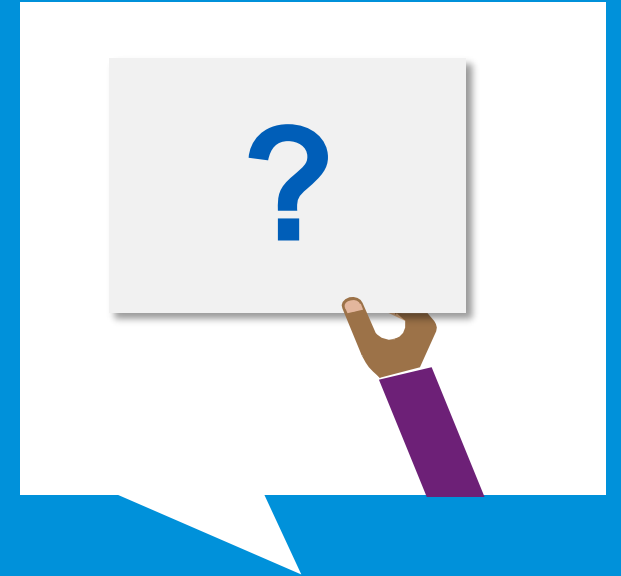
**A lessee should monitor any events that may change its initial determination**

Assessment of the Term	Assessment of the Payment	Other Changes
<ul style="list-style-type: none"><li>— Lease extension</li><li>— Termination</li></ul>	<ul style="list-style-type: none"><li>— Change in index rate</li><li>— Change in floating interest rate</li><li>— Change from variable to fixed payments</li></ul>	<ul style="list-style-type: none"><li>— Whether a purchase option will be exercised</li><li>— Expected residual value guarantee</li></ul>

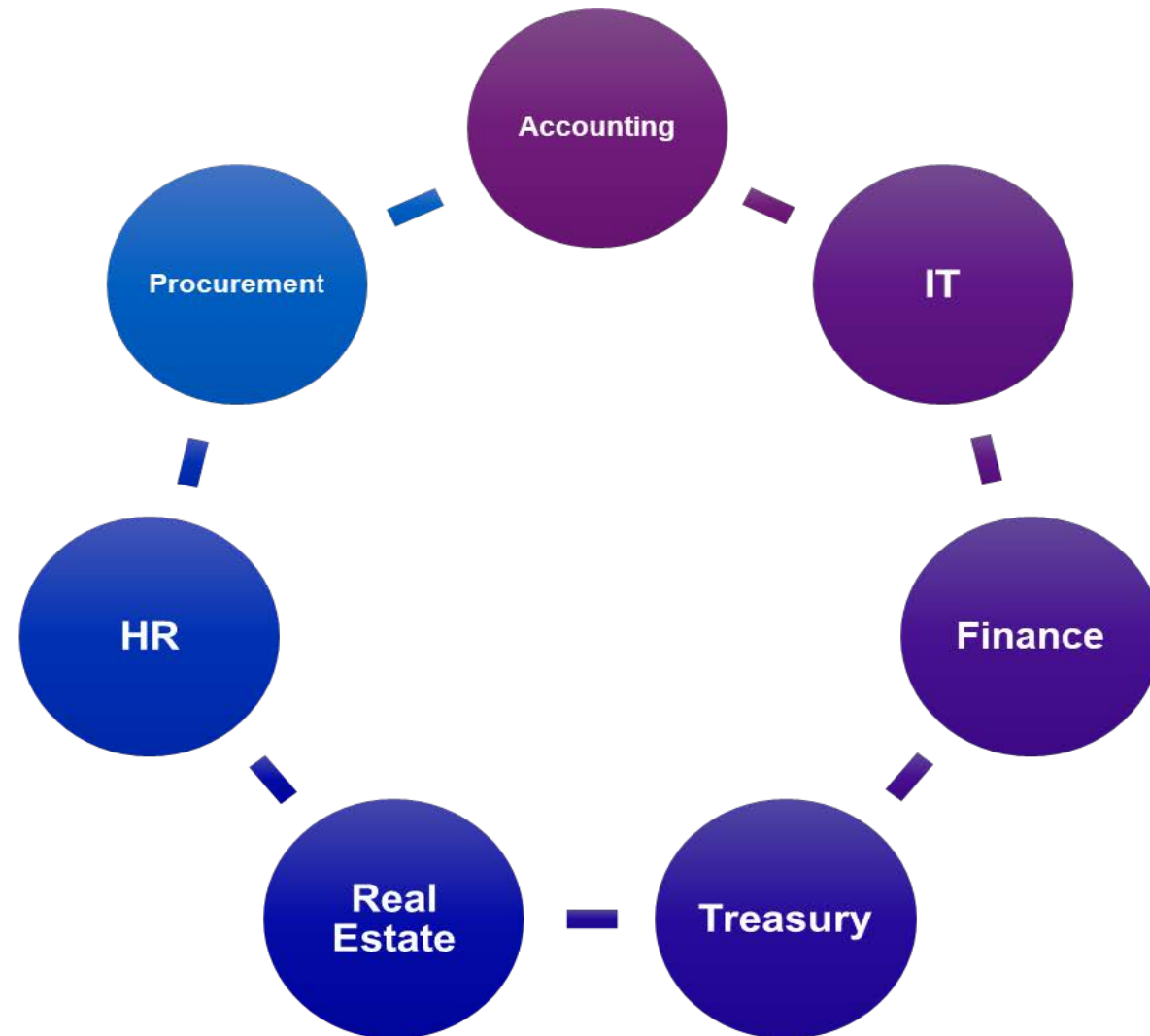


Issue #9

Involvement of key  
stakeholders



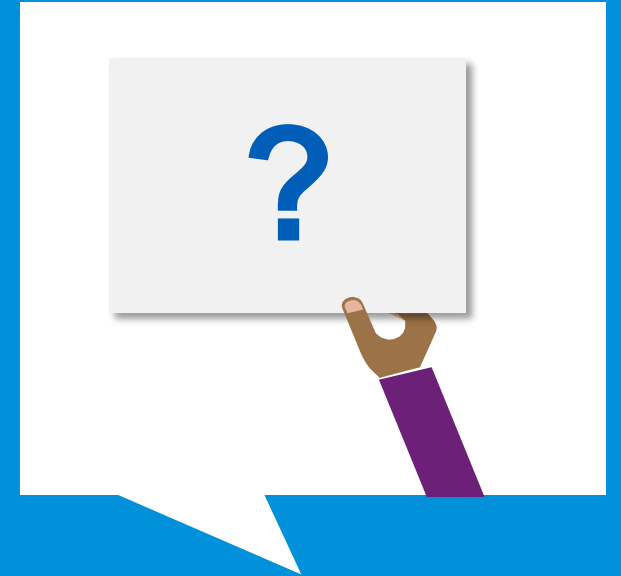
# Involvement of key stakeholders





Issue #10

Principle Based  
standards - A larger  
responsibility



What  
questions  
do you  
have?







Thank you



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