

# KEY FACTS ABOUT IFRS 16

## The new international lease accounting standard

Following the publication of the new international lease accounting standard, IFRS 16, European businesses that lease vehicles and equipment need to consider whether the changes are relevant to them and, if so, the timing and effects of the new rules.

### IFRS 16 CHANGES ACCOUNTING FOR OPERATING LEASES

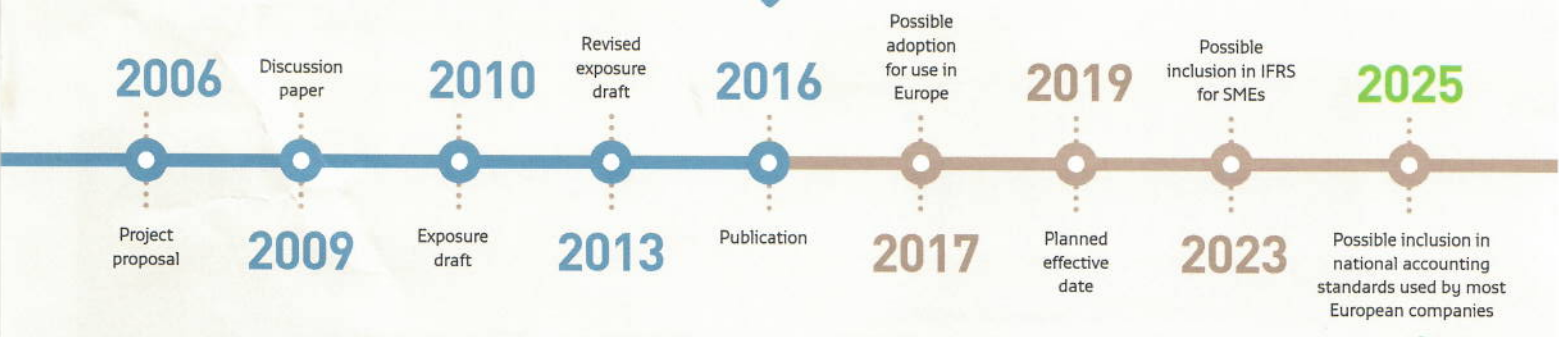
→ IFRS 16 is the outcome of a ten-year project run by the International Accounting Standards Board (IASB) together with the US Financial Accounting Standards Board. Under IFRS 16 all leased assets will be shown on lessees' balance sheets. At present leased assets are reported on-balance sheet for the lessee if they are finance leases but operating leases are instead reported in the notes to the accounts.

### THE IASB INTENDS FOR IFRS 16 TO BE USED BY JANUARY 2019 BUT THIS IS SUBJECT TO EUROPEAN COMMISSION 'ADOPTION'

→ The Commission has asked the European Financial Reporting Advisory Group (EFRAG) for its opinion on whether IFRS 16 is "conducive to the European Public Good". Using that opinion, members of the EC's Accounting Regulatory Committee will vote on whether to adopt the Standard for use in Europe. The European Parliament and Council will then have 3 months to oppose a proposed adoption.



### IFRS 16 / TEN YEAR PROJECT



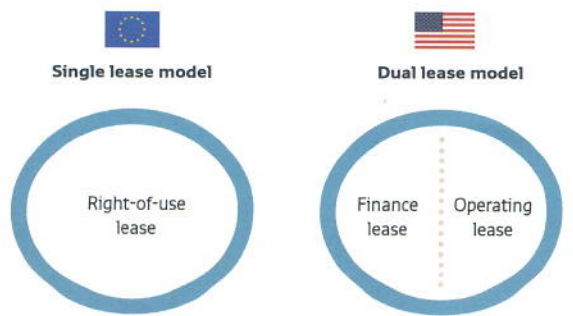
### POSSIBLE USE BY SMES

### IFRS 16 WILL ONLY DIRECTLY IMPACT A SMALL NUMBER OF EUROPEAN COMPANIES

→ In Europe only 'Public Interest Entities', including all listed companies, are required to use international accounting rules. Many national standards in Europe are derived from the IASB's 'IFRS for SMEs' Standard that is expected to change from 2023. Some national accounting regulators might then decide to change their rules, perhaps from 2025.

### DIFFERENT RULES ARE BEING IMPLEMENTED IN THE US

→ Like IFRS 16, operating leases will be shown on the lessee's balance sheet for American companies. Unlike IFRS 16 in the US there will still be a clear split between finance and operating leases. The way in which costs are reported in the US will also be simpler and more in line with the existing rules.





## THE MAIN IMPACT OF IFRS 16 WILL BE ON PROPERTY, NOT VEHICLE AND EQUIPMENT LEASES

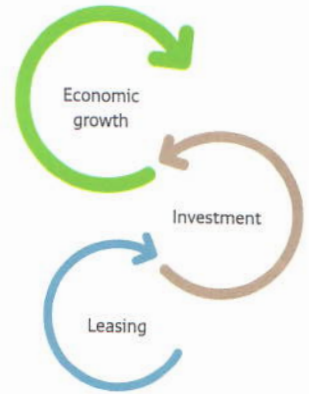
→ Most off-balance sheet leasing is for property. Few companies, mainly in the transportation and communication sectors, have significant equipment operating leases. For IFRS-users, equipment operating leases usually will be less than 1% of the total assets in use by the business.



**AVERAGE SPLIT OF OFF-BALANCE SHEET OPERATING LEASES AMONGST IFRS USERS IN EUROPE**

## THE VITAL ECONOMIC BENEFITS OF VEHICLE AND EQUIPMENT LEASING WILL NOT CHANGE

→ IFRS 16 will only change accounting numbers, it will have no impact on the real benefits of leasing. Leasing will still be the cheapest, most readily available and most efficient source of finance for new investment for millions of European companies, reflecting the security that ownership of the asset provides to the lessor.



**11 MILLION EUROPEAN BUSINESSES INVEST USING LEASING**

## INVESTORS ARE UNLIKELY TO CHANGE THEIR VIEW OF COMPANIES FOLLOWING THE INTRODUCTION OF IFRS 16

→ Investors tend to focus on the income statement and non-financial information when assessing companies, not on balance sheet items. Rating agencies value companies using cashflow models and already obtain additional information on operating leases direct from companies when they need it.



**INVESTORS SEE THE INCOME STATEMENT AS MORE RELEVANT THAN BALANCE SHEET ITEMS**

## MOST IFRS USERS SHOULD FIND IMPLEMENTATION STRAIGHTFORWARD FOR THEIR VEHICLE AND EQUIPMENT LEASES

→ Leaseurope is developing a standard data format that European lessors may use to help lessees prepare their accounts. Profits before interest and tax may increase slightly, return on capital might decrease slightly, but for most businesses the IFRS 16 impacts due to vehicle and equipment leases should be minor.



Throughout the ten-year IASB project, Leaseurope called for simple new rules that will work well for lessees. Leaseurope believes the US\$5,000 'small asset' exemption should be increased before the Standard is adopted for use in Europe. In addition, Leaseurope is asking the European Commission to make clear that IFRS 16 principles are unlikely to be suitable for use by small and medium-sized enterprises, as the costs to SMEs are likely to exceed any benefits to users of their accounts.

For more information visit [www.leaseurope.org](http://www.leaseurope.org)

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**Leaseurope**

The Voice of Leasing and Automotive Rental in Europe