Insight and analysis on the impact of IFRS 16 Leases

Highlights
- What’s new in IFRS 16? – Single, on-balance sheet lessee accounting model will increase transparency and comparability
- The impacts – New assets, new liabilities and a front-loaded pattern of total lease expense
- Effective date and next steps – Start looking at your contracts now
- Find out more

The new leases standard – IFRS 16 – will require companies to bring most leases on-balance sheet from 2019.

Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. At present, many analysts adjust financial statements to reflect lease transactions that companies hold off-balance sheet.

For the first time, analysts will be able to see a company’s own assessment of its lease liabilities, calculated using a prescribed methodology that all companies reporting under IFRS will be required to follow.

Our SlideShare presentation can help you to understand the proposals and the possible impacts for your business.

What’s new in IFRS 16?

At the simplest level, the accounting treatment of leases by lessees will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.
“For some companies, a key challenge will be gathering the required data. For others, more judgemental issues will dominate – for example, identifying which transactions contain leases.”

Brian O’Donovan, KPMG’s global IFRS leasing standards deputy leader

The impacts
For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with a new asset on the other side of the balance sheet. In other words, lessees will appear to become more asset-rich but also more heavily indebted.

The impacts are not limited to the balance sheet. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.

All companies will need to assess the extent of the standard’s impacts so that they can address the wider business implications – and can expect analysts to take a close interest. Areas of focus may include:

- the effect of the standard on financial results;
- the costs of implementation; and
- any proposed changes to business practices.

Effective date and next steps
The new standard takes effect in January 2019. Before then, companies will need to analyse their leases, and make new estimates and calculations that will need to be updated periodically. If you haven’t done so already, you need to start looking at your contracts now.

Find out more
View our SlideShare presentation for a high-level visual summary of the proposals. If you’re unable to view the presentation online, you can download a PDF version.

Watch out for our publication First Impressions: IFRS 16 Leases, coming soon. It can help you assess the potential impact of the new standard on your business.

And, in the coming months, we will publish additional materials on transition to the new leases standard, and industry-specific publications looking at what the new standard could mean for a range of different sectors. Visit kpmg.com/ifrs for our latest insights on the new leases standard.