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Welcome



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Agenda

Join the conversation

- Highlights of new standard
- Impact on financial results
- Lease definition
- Sale and leaseback transactions
- Transition rules
- How do we get started?
- Questions





Highlights of new standard

IFRS 16 and US GAAP Topic 842 largely converged

For Lessees:

All major leases recognized on balance sheet



- Single model (IFRS)
- Dual model (US)
- “Right-of-use” asset, lease liability
- Practical expedients

New criteria for identifying a lease

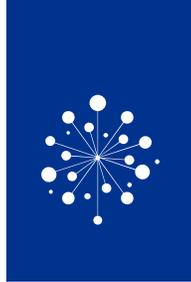


- Complex area
- Differences may arise

Sale leaseback accounting has changed

Significant implications to financial results, processes





Highlights of new standard

For Lessors:

Lessor accounting remains similar to current practice

Lease classification test



Finance leases and operating leases



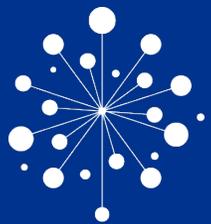
But lacks consistency with new lessee accounting model

Consistent accounting model for lessors and lessees



Highlights of new standard - IFRS \neq US GAAP

Topic	IFRS	US GAAP
Lessee accounting	<ul style="list-style-type: none"> - Single lease accounting model - No lease classification test - All leases on balance sheet: <ul style="list-style-type: none"> - lessee would recognise a right-of-use (ROU) asset and lease liability - treated as the purchase of an asset on a financed basis 	<ul style="list-style-type: none"> - Dual lease accounting model (finance and operating leases) - Lease classification test based on current Topic 840 classification criteria - All leases on balance sheet: <ul style="list-style-type: none"> - lessee would recognise a ROU asset and lease liability - Finance leases treated as the purchase of an asset on a financed basis - Operating leases would generally have straight-line recognition of total lease expense
Small-ticket leases	<ul style="list-style-type: none"> - Exemption for small-ticket leases, even if material in aggregate 	<ul style="list-style-type: none"> - No exemption for small-ticket leases
Lessor accounting	<ul style="list-style-type: none"> - No restriction on recognizing selling profit on commencement for finance leases 	<ul style="list-style-type: none"> - Selling profit not recognized on commencement of leases that qualify for finance lease classification solely due to the involvement of third parties other than the lessee
Subleases	<ul style="list-style-type: none"> - Assess classification based on right-of-use asset 	<ul style="list-style-type: none"> - Assess classification based on underlying assets



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Impact on financial results





Impact on financial results

All major leases on-balance sheet

Balance sheet

Asset = 'Right-of-use' of underlying asset

Liability = Obligation to make lease payments

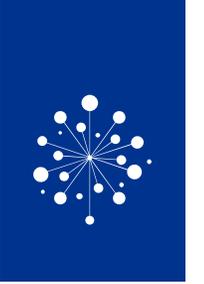
P&L (IFRS)

Lease expense

Depreciation + Interest = Front-loaded total lease expense

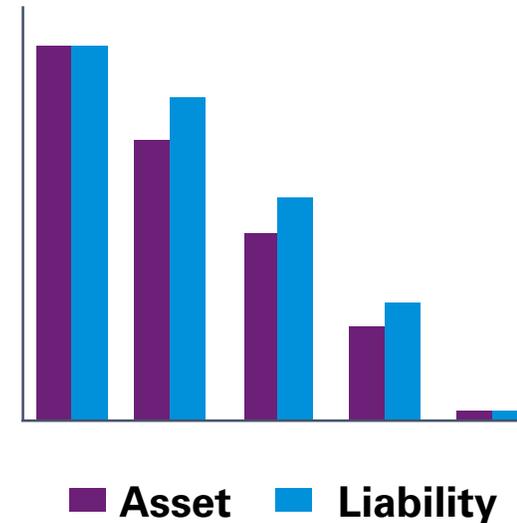


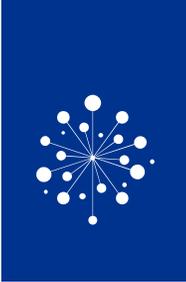
Impact on financial results



Impact on Balance Sheet

Companies who currently have operating leases will appear to be more **asset-rich**, but also more **heavily indebted**

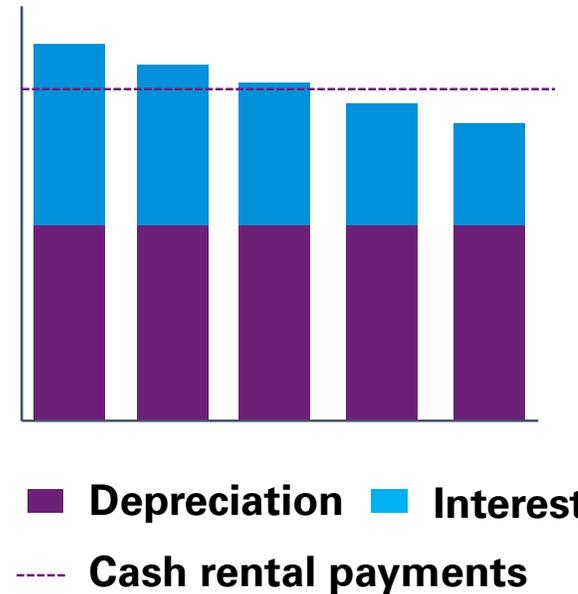




Impact on financial results

Impact on Income Statement (IFRS)

Total lease expense will be **front-loaded** even when cash rentals are constant



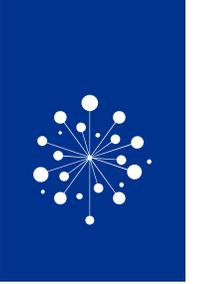
Also note:

Operating costs ↓

EBITDA ↑

DDA ↑

Impact on financial results



Impact on Cash Flows (IFRS)

Cash flows from operating activities*



Funds from operations**



* Addback depreciation charge (ROU), interest (liability) to net income

** Cash flows from operating activities less interest, change in non-cash working capital

Impact on financial results



Impact on financial ratios (IFRS)

Debt / Equity



EPS (early years)



Interest coverage



Impact on financial results - IFRS versus US GAAP

How will metrics for competitors following US GAAP change?

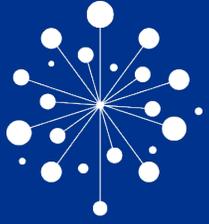
Key financial items as compared to previous lease accounting		IFRS 16	US GAAP (ASC 842)
Balance Sheet	Assets	↑	↑
	Liabilities	↑	↑
Income Statement	Depreciation	↑	—
	Interest expense	↑	—
Cash flow Statement	Cash flow from operations	↑	—
	Cash flow from financing	↓	—
Financial ratios	EBITDA	↑	—
	Interest coverage	↓	—

Impact on financial results:

Disclosure prior to transition

- IAS 8.30 disclosure — known/reasonably estimable possible impact of IFRSs issued but not yet effective.
- Consider timeline leading up to adoption for disclosure of impacts

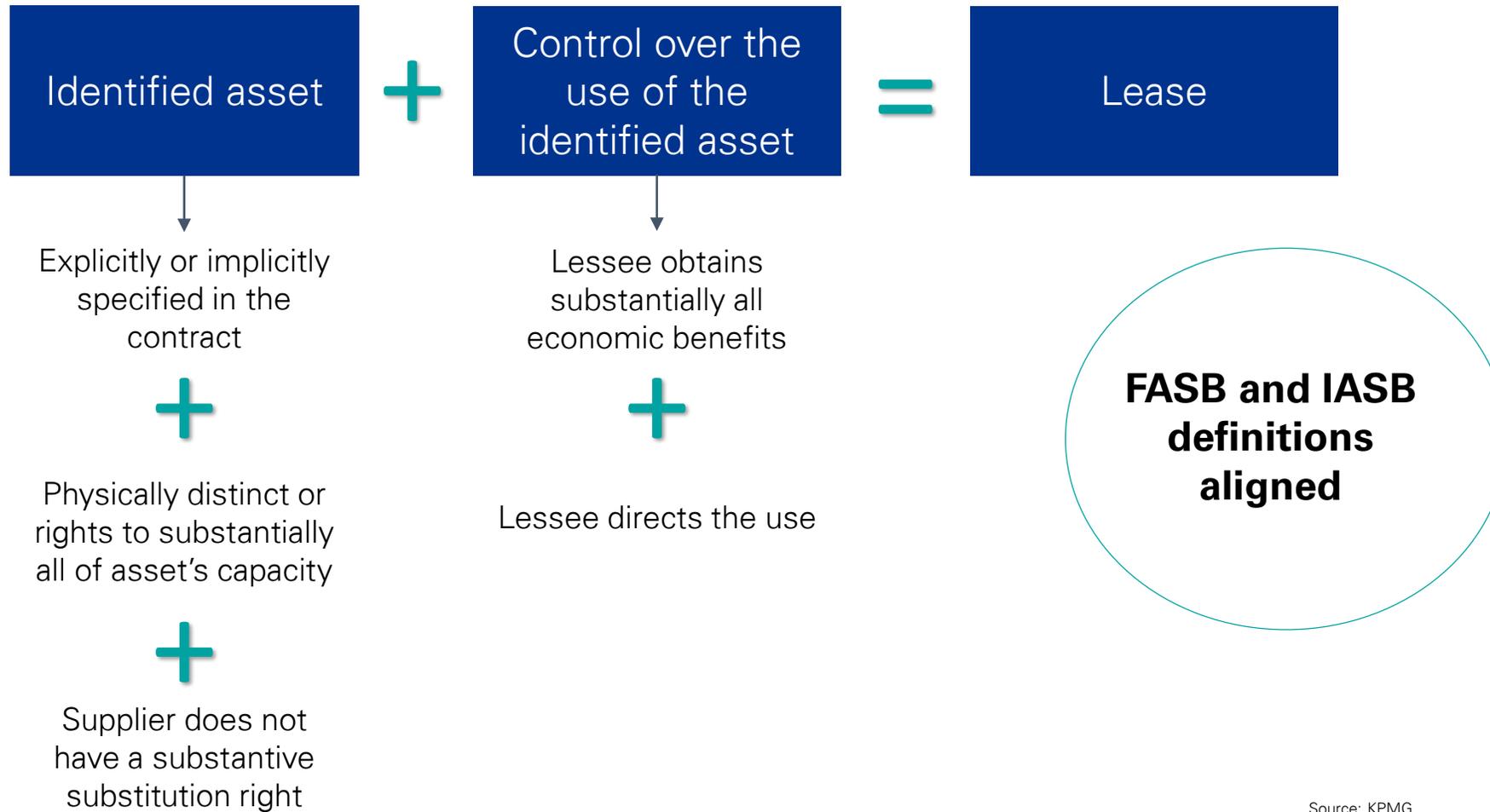
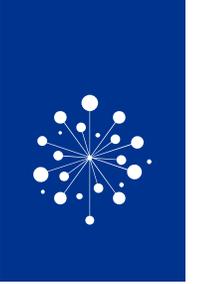




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Definition of a lease

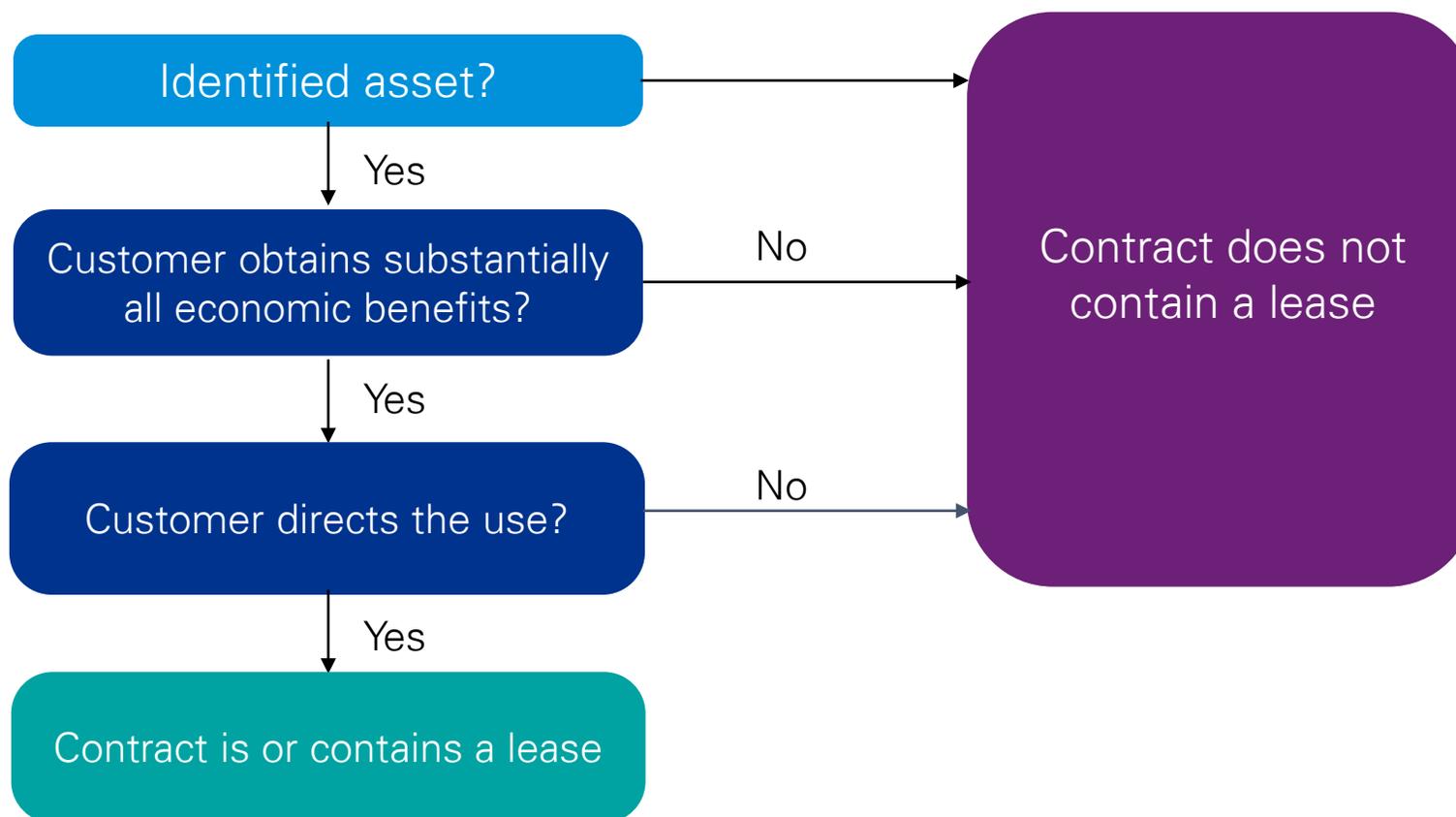
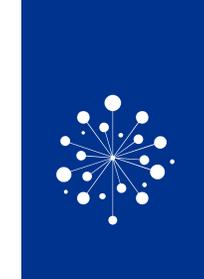
Definition of a lease

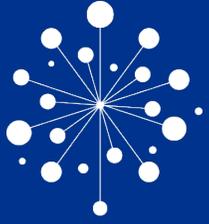


Source: KPMG



On/off balance sheet test





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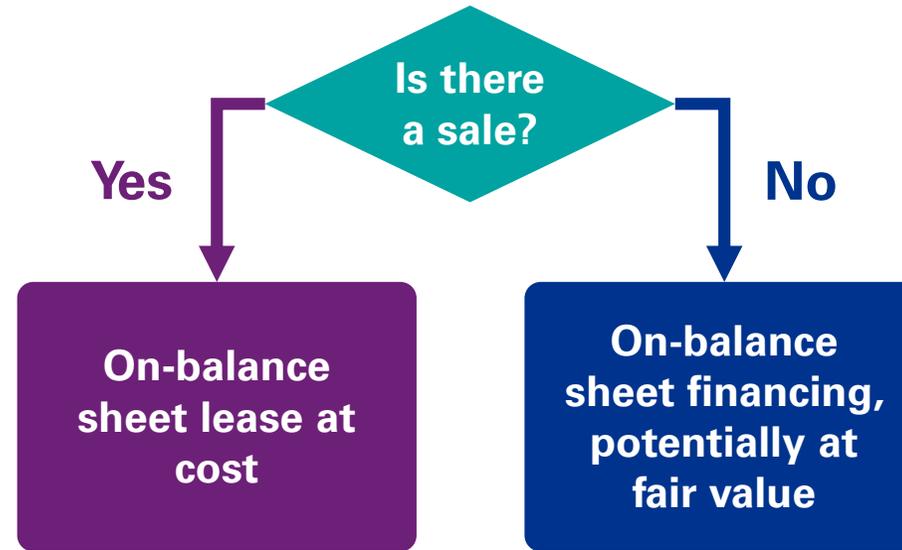
Sale and leaseback transactions

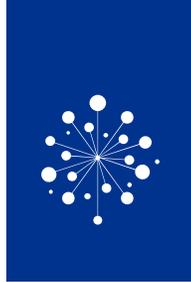


Sale and leaseback transactions



IFRS 16 essentially ends sale-and-leaseback as an off-balance sheet financing structure





Sale and leaseback transactions

Consider:

Objectives of sale-leaseback:

Off B/S financing

Upfront cash

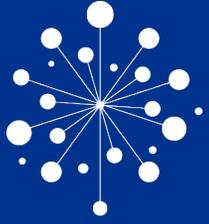
Old IFRS guidance



New IFRS 16



(ROU asset and lease liability likely less than previous carrying amount)



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Relief from applying the new model

Exemptions and practical expedients

Short-term leases

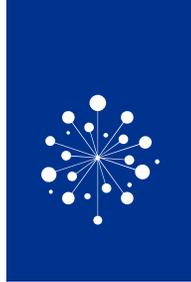
- Leases with a term ≤ 12 months may apply current operating lease accounting
- If elected, the exemption is applied to all leases within that class of underlying asset
- Still subject to qualitative and quantitative disclosures

Underlying assets of low value (IASB only)

- Exemption for leases of underlying assets that are individually low in value (e.g., \leq USD \$5,000, when new) even if material in aggregate
- Leases would be accounted for off-balance sheet under IFRS

Portfolio-level

- Aspects of the new standard may be applied at a portfolio level (e.g., determination of discount rate and lease term)
- Must be a reasonable expectation that the portfolio approach is not materially different than application to individual leases

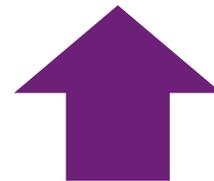


Applying the new lease definition

Cost

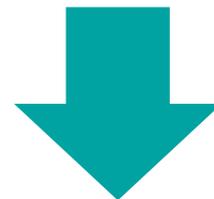
Comparability

Apply the new definition to **all** contracts



OR

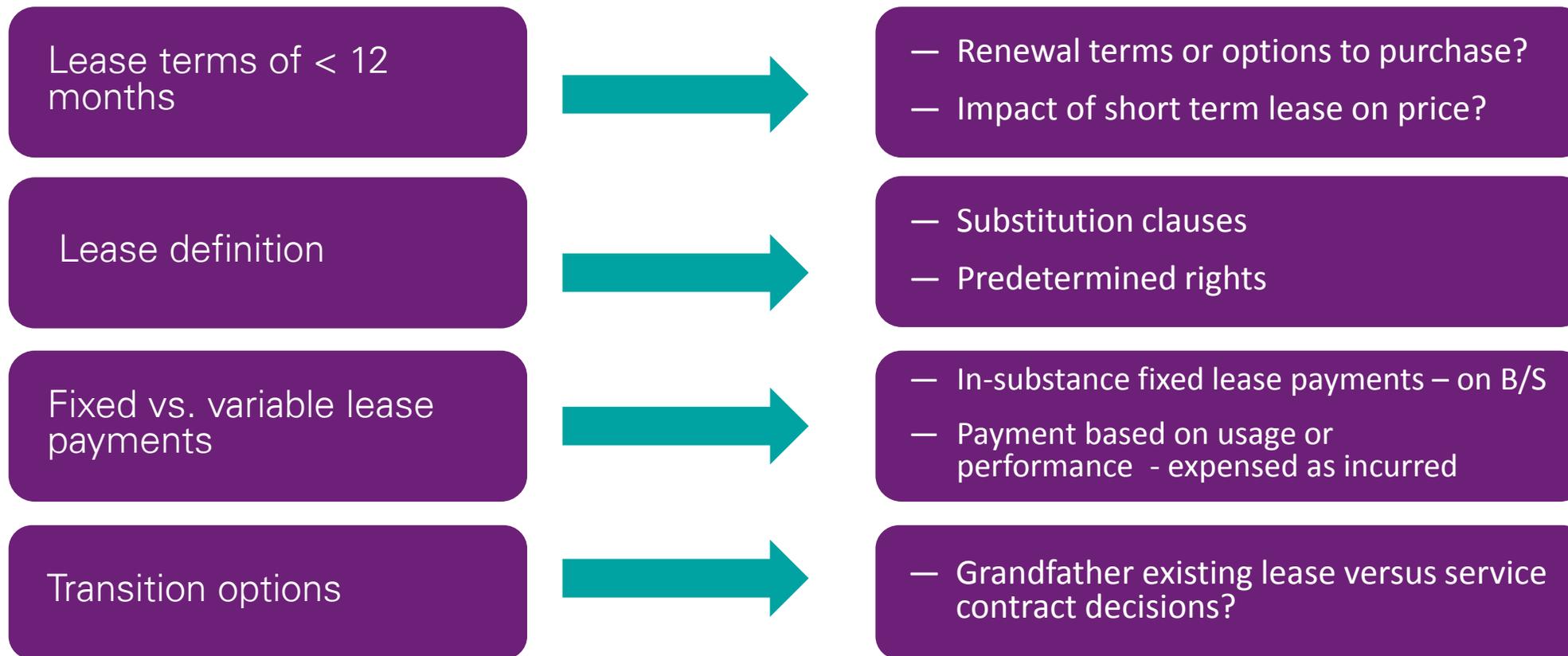
Grandfather existing contracts and apply the new definition **only** to new contracts

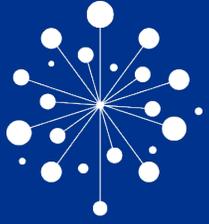




Optimizing the expedients and relief

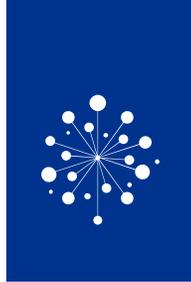
What can you be considering as you enter into new contracts today?





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Transition rules



Applying the new standard (IFRS)

A lessee can choose to apply the standard...

Retrospectively to all accounting periods

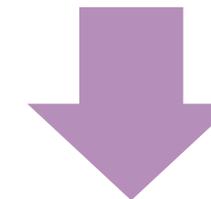
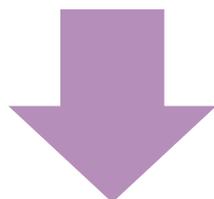
OR

As a 'big bang' at the date of initial application

Cost



Comparability

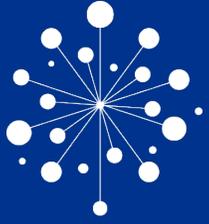




Effective date (IFRS)



- timeline is based on requirements applicable to a public entity with December 31 year-end;
- assumes company will transition on the effective date of the standard, January 1, 2019;
- a company may elect to early adopt (beginning in 2016) if IFRS 15 is adopted.



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How do we get started?



How do we get started?



Questions to assess the impact
on your company's financial statements

Which contracts are leases?

Which transition options to choose?

Database of all leases?

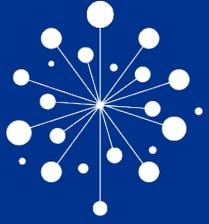
Systems and processes in place?

What about ratios and covenants?



Broader business impacts





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Questions?



Resources

kpmg.com/ca/leases

Canada - English - Topics - International Financial Reporting Standards (IFRS)

New leases standard - Introducing IFRS 16

Insight and analysis on the impact of IFRS 16 *Leases*.



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

Under the new standard, companies will recognize 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.

Our *First Impressions: IFRS 16 Leases* [PDF 678 KB] can help you assess the potential impact of the new standard on your business. It explains the key requirements, highlights areas that may result in a change in practice, and features KPMG insights.

Contact us



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✉ Contact by e-mail

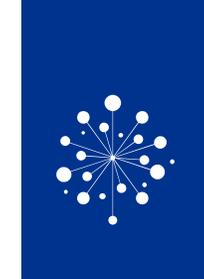
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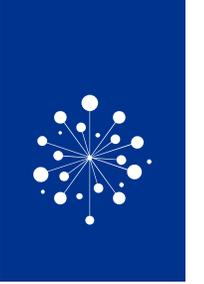
SIGN UP NOW 

Related resources

- ▶ [First Impressions: IFRS 16 Leases \[PDF 678 KB\]](#)
- ▶ [Latest US Publications](#)



Contact Sharlene



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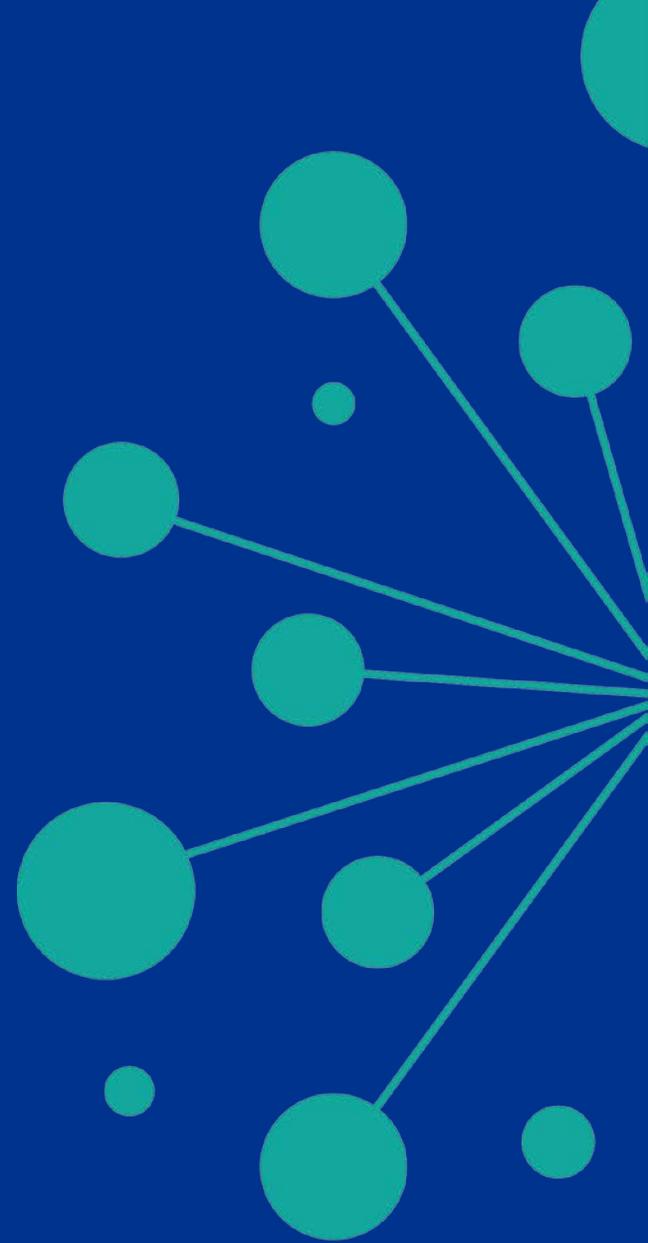
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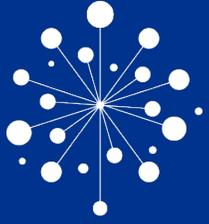
E: sharlenewilson@kpmg.ca



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