



Leases

10 key questions to help you prepare for IFRS 16

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What do you need to think about when planning to implement the new standard?

The new leasing standard will have a significant impact on almost all companies. The bigger your lease portfolio, the bigger the effect on your key reporting metrics.

The clients I talk to get the basic accounting – they understand that they have to bring most leases on balance sheet, by 2019 at the latest. What's proving to be more of a challenge is working out which is the best transition option for them, how they'll gather the data and what systems changes they'll need.

Ask the right questions

Planning an implementation project takes time and care. You can make a start by asking yourself the **10 quick questions** featured in the slideset at the end of this article. They'll help you get a feel for the scale of the challenge ahead.

I'm going to ask everyone at this week's IASB-ICAEW leasing conference in London the same questions. I doubt many will have the answers to all 10. But I hope that some will, and that everyone else will set a date by which they'll be scoring 10 out of 10.

Tackling each of these questions now will be a first step, but there are other things you'll need to consider.

Don't underestimate the task ahead

Long before 2019, you'll become intimately acquainted with the contents of your lease contracts. There's no other way to find the data you'll need to make the required calculations. And you'll spend a lot of time talking to the business about the estimates needed to complete those calculations. For example, if you lease a lot of real estate, you're going to be spending a lot of time with your property director.

For some of my clients, the biggest challenge has been finding out where the information is stored and who owns it. This is often true of large, diverse groups that operate in many countries. Others are still grappling with the more judgemental issues – such as working out which of their many contracts are, in fact, leases.

Talk to your stakeholders

Most analysts already make estimates of your lease liabilities. For the first time, they will soon be able to see your own estimate of your lease liabilities, and be able to make direct comparisons with your peers. You'll need to be ready to explain any systematic differences.

No analyst or investor will be surprised when your reported lease liabilities increase with the new standard. Most will welcome the additional information, but it's important that they know what to expect and aren't surprised by the actual number when they see it.

Bottom line, if your lease liability turns out to be vastly different from your analysts' estimates, the resulting conversations and the market reaction will be interesting in all the wrong ways!

This really matters

Regulators and other stakeholders are also paying close attention.

Everyone is expecting the disclosures on impacts to become more robust and specific as we get closer to 2019. That puts your financial statements for 2017 and 2018 firmly under the spotlight.

So, are you ready?

Where can you find more information?

You may like to take a look at our [web article](#) and [SlideShare presentation](#), which summarise the key requirements and link to our detailed analysis and insight.

About the author

Brian is a deputy leader of the global team that develops KPMG's guidance on leasing transactions.



Getting ready for IFRS 16

10 key questions on the new leases standard

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Assessing the challenge

The new leases standard will have a significant impact when it comes into effect in 2019.

These 10 questions will help you assess the challenge ahead.



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1. How many leases do you have?

A useful rule of thumb is that it is more than you think!



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2. Who holds your lease information?

Do you have a database?

Is it kept centrally or in the business units?



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3. What new leases will you sign by 2019?



4. How will IFRS 16 affect your KPIs?

Do any change in ways you wouldn't expect?



5. Will your covenant compliance be affected?

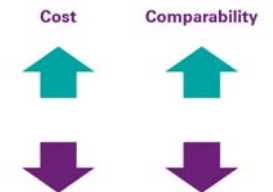
For many covenants, GAAP will be frozen – but are they all?



6. Which transition method will you apply?

Apply IFRS 16 retrospectively to all accounting periods?

Or, as a 'big bang' on the date of application?



7. Will you apply the optional exemptions?



≤ 12 months?



≤ USD 5,000?

They could save you time and money!

8. Are your operating lease disclosures complete and accurate?



9. What will you say about IFRS 16 in your 2016 annual report?



Your regulators and stakeholders will expect a steer

10. Who owns your IFRS 16 implementation project?



If you don't know, the answer could be 'you'!

How did you do?



How many of our ten questions could you answer?

- 9–10 Great!
- 5–8 You're with the pack
- 0–4 You really need to engage



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Find out more

Take a look at our SlideShare *IFRS 16 Leases – A more transparent balance sheet*



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