

**UNCTAD-Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting
Workshop on Accounting and Financial Reporting Standards**

Monday, 3 October 2016
Room XXVI, Palais des Nations, Geneva
Afternoon Session

IFRS 16 – Leases

Presented by

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EFRAG

European Financial Reporting Advisory Group

IFRS 16 *Leases*

Andrew Watchman, EFRAG TEG Chairman and CEO
UNCTAD Annual Accounting Workshop
3 October 2016



EFRAG's mission

- Serving the **European public interest**
- Developing and promoting European views and ensuring these views are properly taken into account in the IASB standard setting process and in the international financial reporting debate (**European voice**)
- Providing advice to the European Commission as to whether IFRS meet the IAS Regulation endorsement criteria for use in the in the EU (including whether conducive to the **European public good**)

Endorsement criteria

- Technical criteria

- Relevance
- Reliability
- Understandability
- Comparability
- Prudence



True and fair view

- Conducive to European public good

Technical issues

- Definition of a lease
 - Avoid capturing services?
 - Sufficiently clear?
- Practical expedients
 - Exemptions for short-term and low value asset leases
 - Non-separation of service elements
- Variable payments

□ European public good

- Added value (eg improvement over the standard it replaces)
- No detrimental effect on EU:
 - Competitiveness
 - Financial stability
 - Economic development

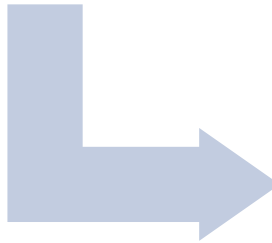
Requires an *ex ante* impact analysis (including assessment of costs and benefits)

Analysing the impacts: basic approach



Financial statement effects

- See next 2 slides



Effect on behaviours

- Lease vs buy decisions
- Lending decisions (credit spreads)
- Investing decisions (required return)











Impact of behavioural changes

- Investment
- Cost of borrowing/capital

Simulation of effects on financial statements

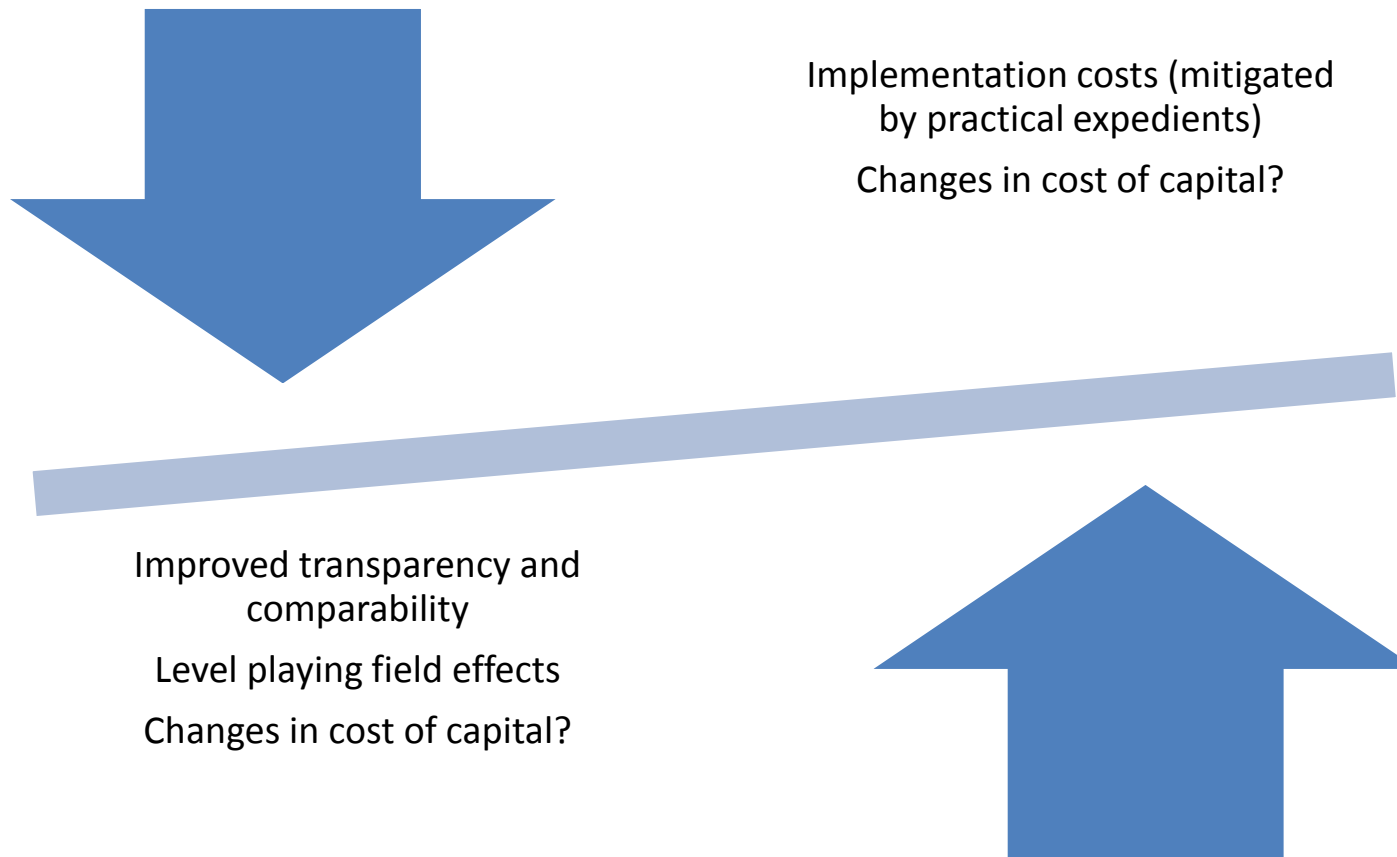


EFFECTS ON THE BALANCE SHEETS	
Lease assets	
Liabilities	
Equity	
EFFECTS ON PROFIT OR LOSS	
EBITDA	
Finance costs	
Net result	Depends on the status of the portfolio
EFFECTS ON STATEMENT OF CASH FLOWS	
Cash from operating activities	
Cash from financing activities	
Total cash flows	

Simulation of effects on financial statements (on a sample of 417 companies)

Industry	% increase in reported debt
Consumer Discretionary	17%
Consumer Staples	21%
Energy	26%
Healthcare	10%
Industrials	20%
Information Technology	22%
Materials	9%
Telecoms	20%
Utilities	4%
Average increase (excl. Financial Services)	16%

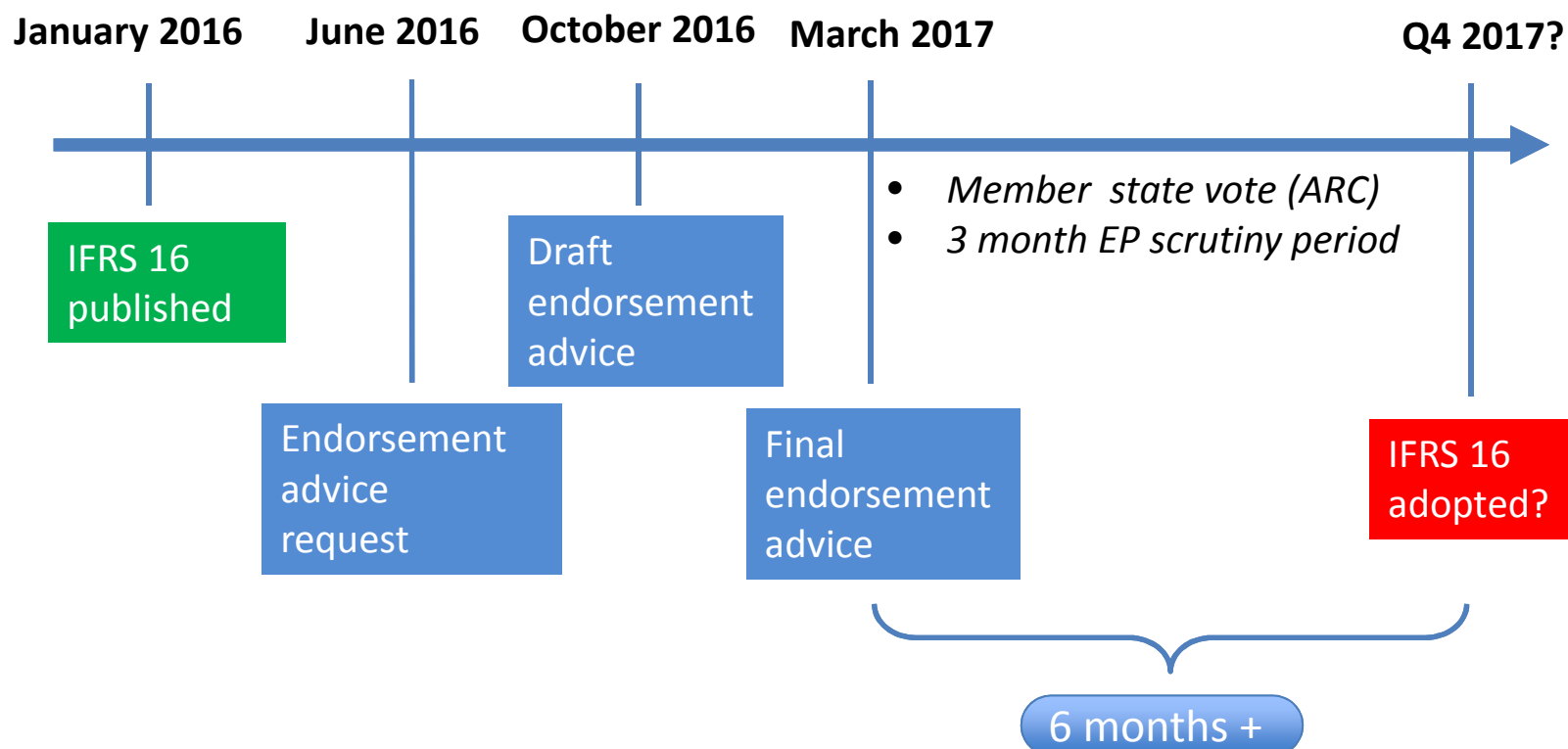
Cost and benefit assessment



Other issues

- Impact on leasing industry
- Impact on SMEs
 - Quoted on regulated markets
 - Quoted on unregulated markets
 - Unquoted
- Financial stability
- Competitiveness

Endorsement process - timeline





**Thank you for
your attention!**

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