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# *Leasing from the perspective of future IFRS*

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## ***Accounting developments – leases***

### **Project overview**

Joint IASB/FASB project  
Discussion paper March 2009  
Exposure draft August 2010  
Comments due December 2010  
Round tables December 2010 – January 2011  
Final IFRS June 2011  
Effective date TBC

### **Why new standard?**

Driven by users' information needs –  
Effect of all leases on leverage and earnings  
Amount, timing and uncertainty of cash flows

### **Proposed model**

Lessee – right-to-use model for all leases  
Lessor – dual model based on risk and benefits  
Simplified retrospective application

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## ***Accounting developments – leases for lessees***

### ***Key changes***

- Assets and liabilities for all leases recognised on the balance sheet
  - Significant portfolios of operating leases most affected
- Measurement captures
  - Lease renewal options if ‘more likely than not to occur’ – significantly lower hurdle than current ‘reasonably certain’
  - Estimated contingent payments, term option penalties and residual value guarantees based on an expected outcome approach
  - Assets and liabilities under current finance leases most affected
- True-up estimates as circumstances change

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## ***Accounting developments – leases for lessees***

### ***Presentation***

#### **Balance sheet**

Right-of-use asset	X
Liability to make lease payments	(X)

#### **Income statement**

Amortisation of right-of-use asset	(X)
Interest expense	(X)
Changes in liability to make lease payments	X/(X)
Impairment losses	(X)

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## ***Accounting developments – leases for lessees***

### ***Implications***

- More/larger assets and liabilities on the balance sheet
- Front-loaded interest and amortisation vs. straight line rental
- Positive effect on EBITDA – performance measure improvement
- Impact financial ratios e.g. reduce ROA and increase leverage ratios
- Impact on debt covenants
- Significant additional burden on systems and processes
- Potential tax implications

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## ***Accounting developments – leases for lessors***

### ***Key changes***

- Dual model – performance obligation or derecognition approach depending on exposure to risks and benefits of the underlying asset

<b>Exposure to risks and benefits</b>	<b>Proposed accounting</b>
<b>Significant risks or benefits retained</b>	<b>Performance obligation approach</b>
<b>Significant risks or benefits not retained</b>	<b>Derecognition approach</b>

- Measurement reflects estimates of lease term and contingent payments
- True-up estimates as circumstances change

# ***Accounting developments – leases for lessors***

## ***Presentation***

<b>Performance obligation</b>		<b>Derecognition</b>	
<b>Balance sheet</b>		<b>Balance sheet</b>	
Underlying asset	x	Residual asset	x
Right to receive lease payments	x	Right to receive lease payments	x
Lease liability	(x)		
Net lease asset/(liability)	x		
<b>Income statement</b>		<b>Income statement</b>	
Lease income	x	Revenue	x
Depreciation expense	(x)	Cost of sales	(x)
Interest income	x	Interest income	x
Change in lease liability	x/(x)		
Impairment losses	(x)		

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## ***Accounting developments – leases for lessors***

### ***Implications***

- More assets on the balance sheet
- Increased complexity for some companies
- Income statement effect limited
- Scope excludes investment property at fair value and leases that are in substance sales
- Additional burden on systems and processes for all leases

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# *Thank you for your attention!*



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