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Seminar - Hot topics treasuryLeases IFRS 16 and the discount rate

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14 June 2018





Contents

L	Welcome and introduction	
2	IFRS 16 summary	
3	Discount Rate	1

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Welcome and introduction

With you today



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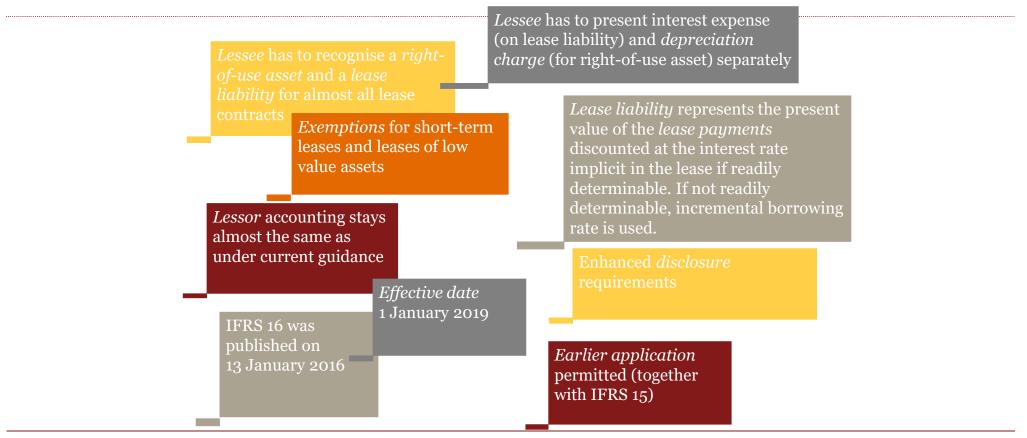
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IFRS 16 summary

IFRS 16 Summary



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Scope of IFRS 16

Lease = A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

All leases are in the scope of IFRS 16, except for:

Items	Scope
Lease to explore for or use non-regenerative resources	Out of scope
Biological assets within the scope of IAS 41	Out of scope
Service concession arrangements within the scope of IFRIC 12	Out of scope
Licences of intellectual property granted by lessor within the scope of IFRS 15	Out of scope
Rights held by lessees under certain licensing agreements (motion picture films, patents, copyrights etc.)	Out of scope
Other intangible assets	Policy choice for lessees

Exemptions

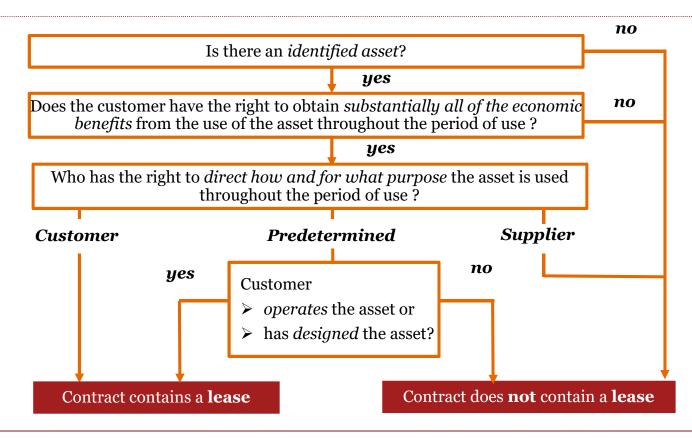
Short-term leases

- Lease term of 12 months or less (may include periods covered by options)
- Accounting policy choice (by class of underlying assets)
- Reassessment in case of modification or change in lease term
- Only applicable for **Lessee**

Low value assets

- Assets with a value, when new, of USD 5,000 or less
- Accounting policy choice (lease-by-lease basis)
- Only applicable for **Lessee**

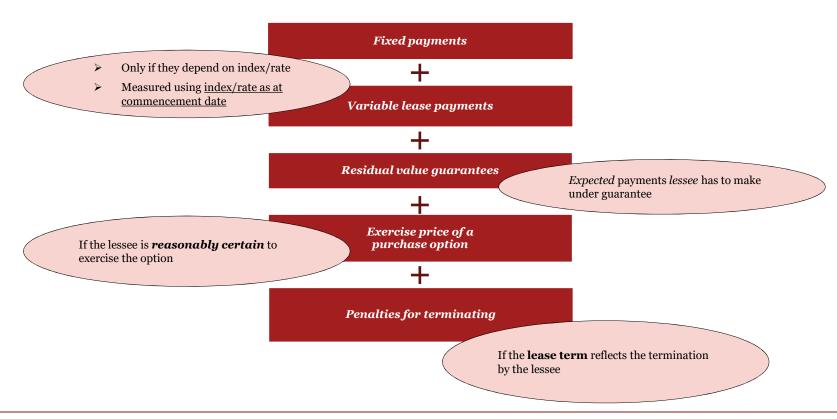
Definition of a lease



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Lessee accounting - Lease Liability



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10

14 June 2018

Lessee accounting – initial measurement

Right-of-use asset

Lease liability

Lease payments made before or at commencement date

Restoration costs

Initial direct costs

Lease liability

Lease payments

Discount rate

Provision

Transition – Effective Date

Effective date

- ➤ Annual reporting periods beginning on or after 1 January 2019
- ➤ Date of initial application (DIA): Beginning of the period in which the entity first applies the standard
- > Early adoption permitted in conjunction with IFRS 15

Definition of a lease

- ➤ No mandatory reassessment (i.e. contracts are "grandfathered"); practical expedient
- ➤ If entity chooses the practical expedient it shall be applied to all contracts

Transition – Approach

Discount rate to be determined for each lease commencement date retrospectively, using interest rate implicit in the lease if readily determinable, otherwise utilising the incremental borrowing rate

Lessee



Retrospectively in accordance with IAS 8





Simplified approach

Simplified approach



Retrospectively with cumulative effect as adjustment to opening balance of retained earnings (or other component of equity, if appropriate) on DIA



No restatement of comparative information

Transition – Lessee

Simplified approach

Previously operating lease

- Lease liability =
 - remaining lease payments
 - discounted using <u>incremental</u>
 <u>borrowing rate</u> at <u>date of initial</u>
 <u>application</u>
- Right-of-use asset =
 - retrospective based on incremental borrowing rate at date of initial application, or
 - amount of lease liability
- Not required to apply if remaining lease term < 12 months

Previously finance lease

Lease liability = carrying amount of lease liability immediately before date of initial application

Right-of-use asset = carrying amount of lease asset immediately before date of initial application

Lessor in general not required to make adjustment on transition

Discount Rate

Interest Rate Implicit in the Lease

Interest Rate Implicit in the Lease

Rate at which Present value of Fair value of Lessor's initial Present value of unguaranteed underlying asset lease payments direct costs residual value

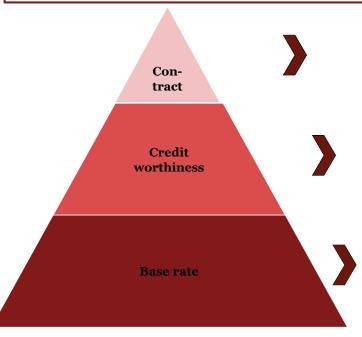
Generally needs to be estimated by the lessee!



Incremental Borrowing Rate

Practically: A bucketing approach based on the operating lease grouping can be applied

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.



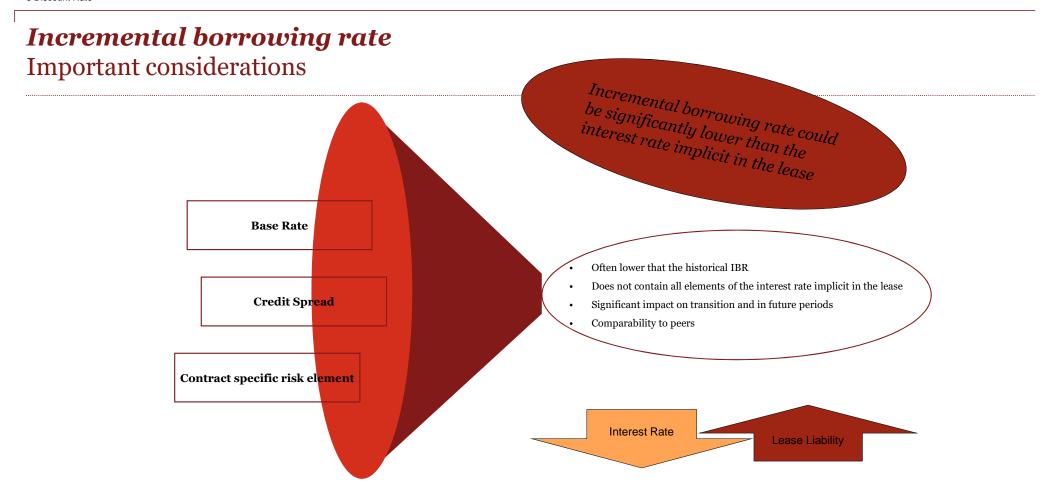
- Risk is reduced by asset serving as security
- · Nature and quality of underlying assets
- Amounts of funds 'borrowed'
- Reflect credit worthiness of local lessee entity
- Term of the lease (i.e. duration of the lease)
- · Consider group structure and financing arrangements
- Relevant economic environment (political environment, inflation, etc)
- Reference to available risk free rates (e.g. government bonds)
- Should represent currency and date of entering into lease

<u>Unadjusted</u> WACC may not be used Incremental Borrowing Rate – Practical Example 1 Simplified Approach

Contract Country risk Inflation Contract term Credit spread specific Base rate group premium differential element Bid zero coupon credit ratings: For example a AUD ID · Four groups: Contract specific **US Treasury** AA, A, BBB, BB, separate country element, could Strips. risk premium for (1) $0 - \le 5$ years be a discount · Bid zero coupon 5 - ≤ 10 years (high quality Spain 10 - ≤ 15 years **EUR German** underlying Government (4) > 15 years collateral) Strips. Based on Based on Based on Based on Based on Based on Circa 80% of the Spain is the only Majority of the For example assume For instance 5 For example 5 variations total lease credit ratings. country in the exposure is in 4 groups based on resulting in 5 the terms in the exposure is population with a USD (c. 80%). denominated in different credit spread. with no ID. operating lease USD. spreads EUR is the 2nd portfolio largest exposure (c. 7%), with limited ID. The AUD can be considered. As result, number of potential discount rates

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18



Questions?





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