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Seminar - Hot topics treasury

Leases IFRS 16 and the discount rate

*Strictly private
and confidential*

14 June 2018



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Welcome and introduction

With you today



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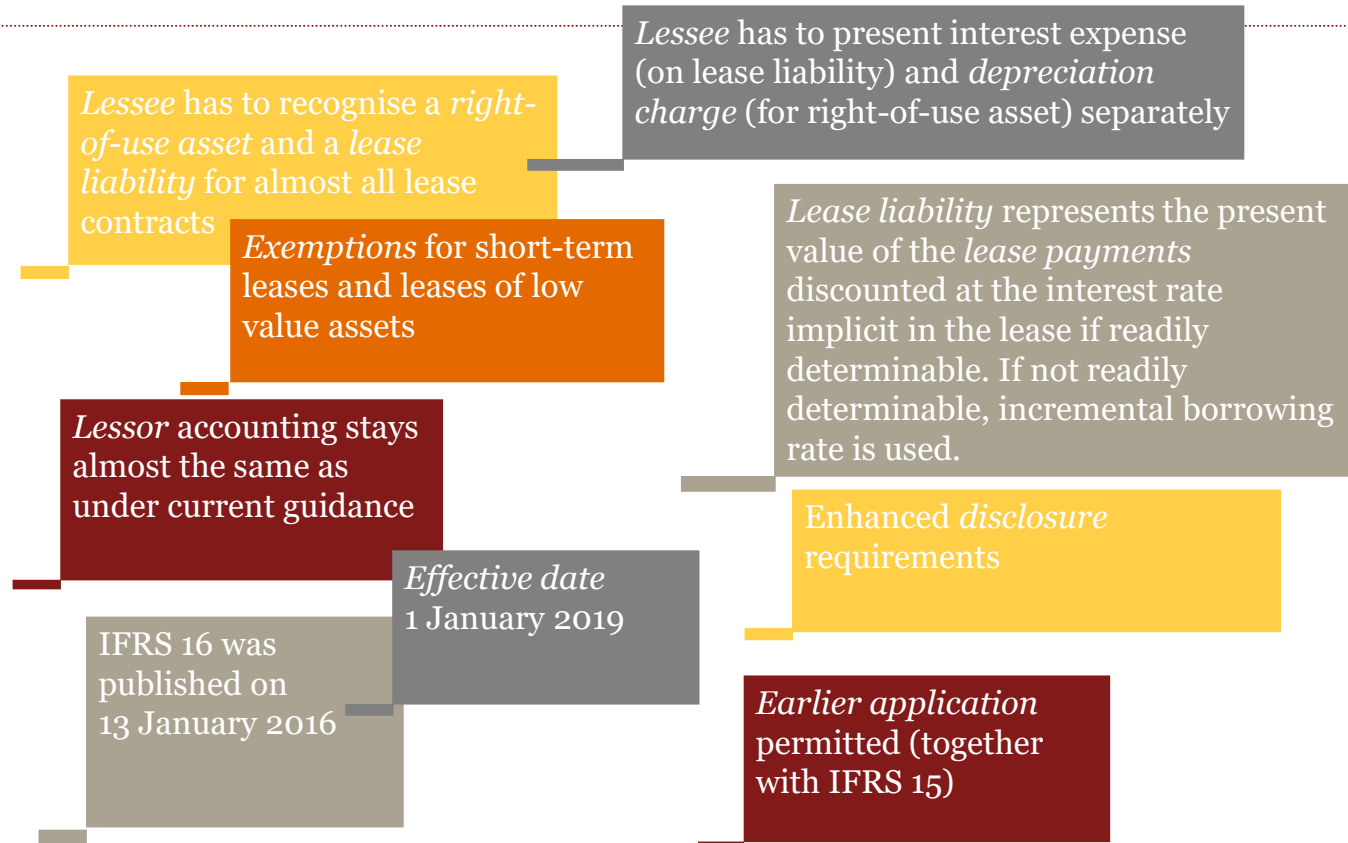
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IFRS 16 summary

IFRS 16 Summary



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:

<i>Items</i>	<i>Scope</i>
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

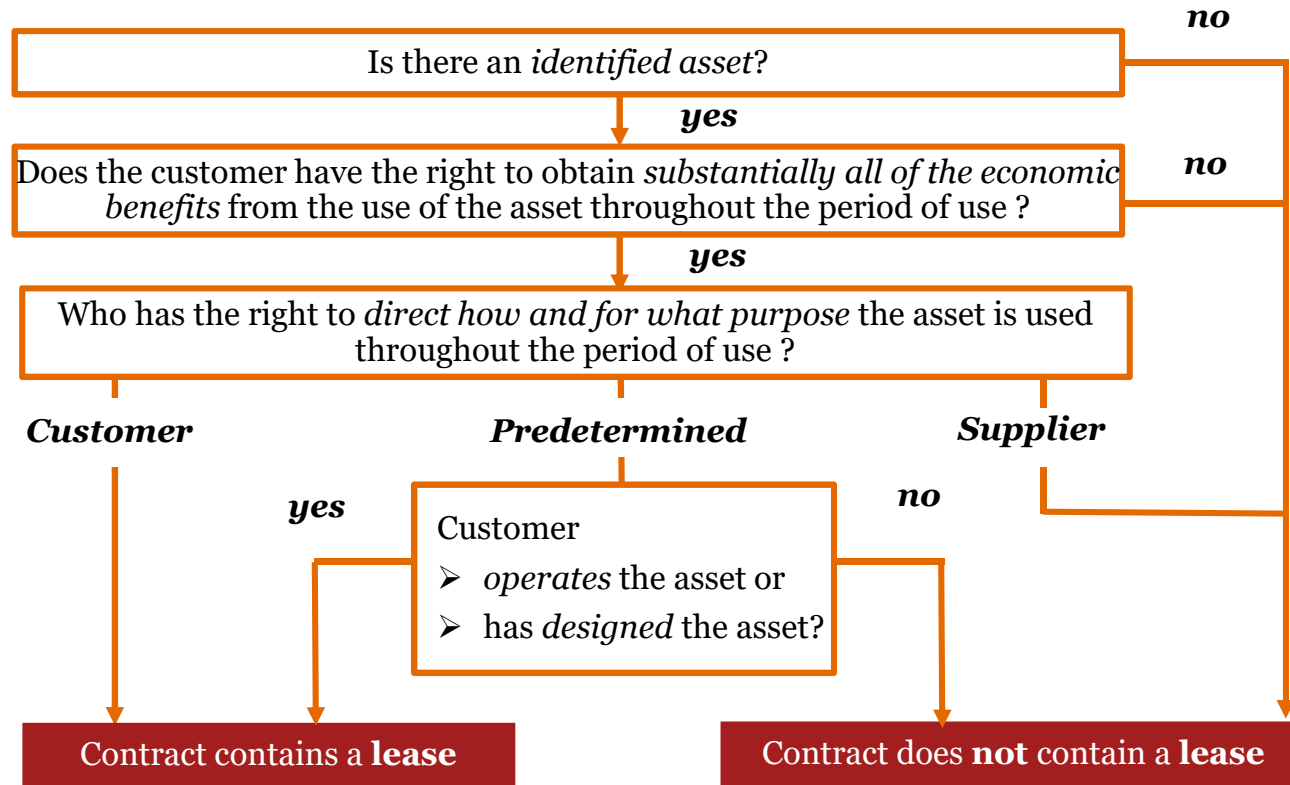
Short-term leases

- 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**

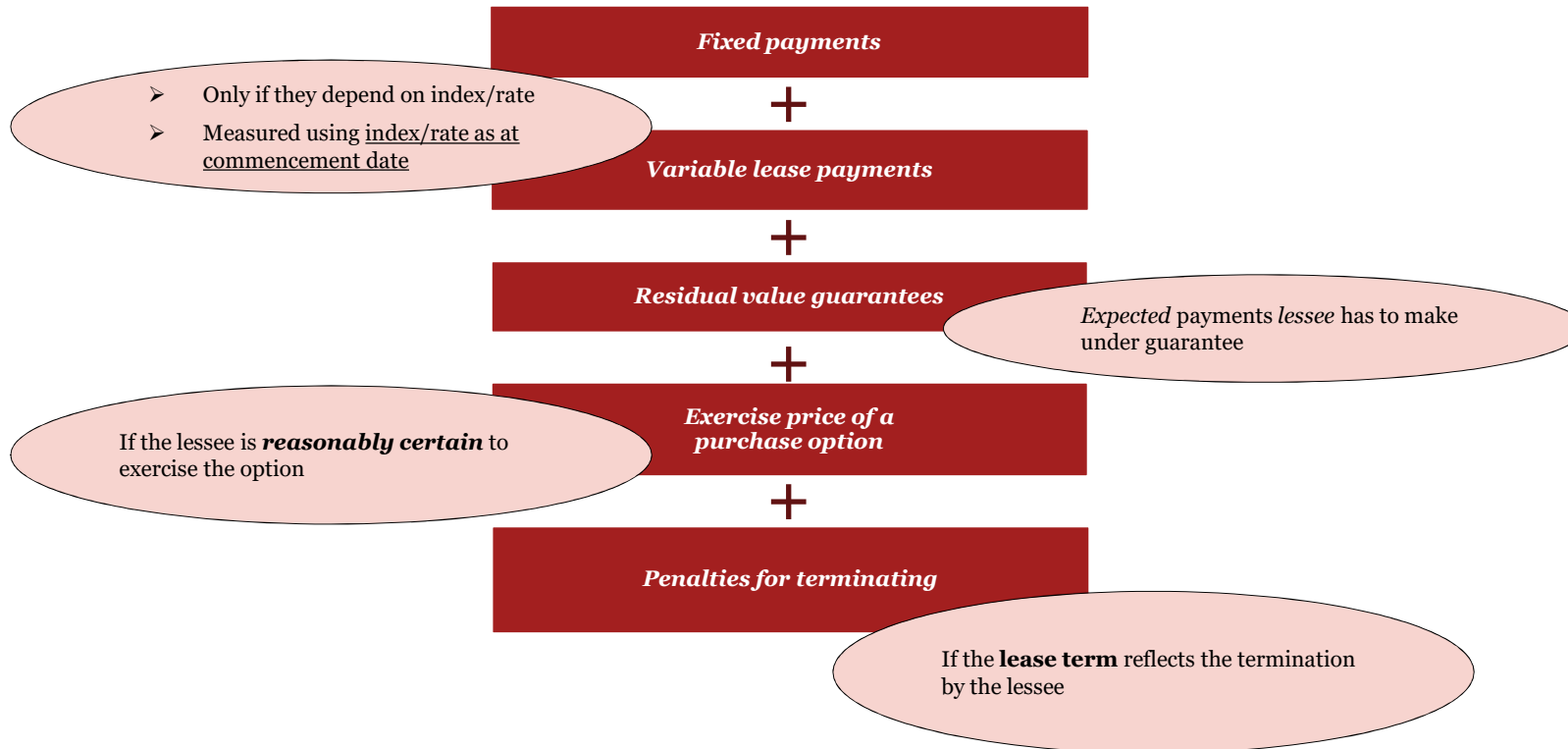
Low value assets

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

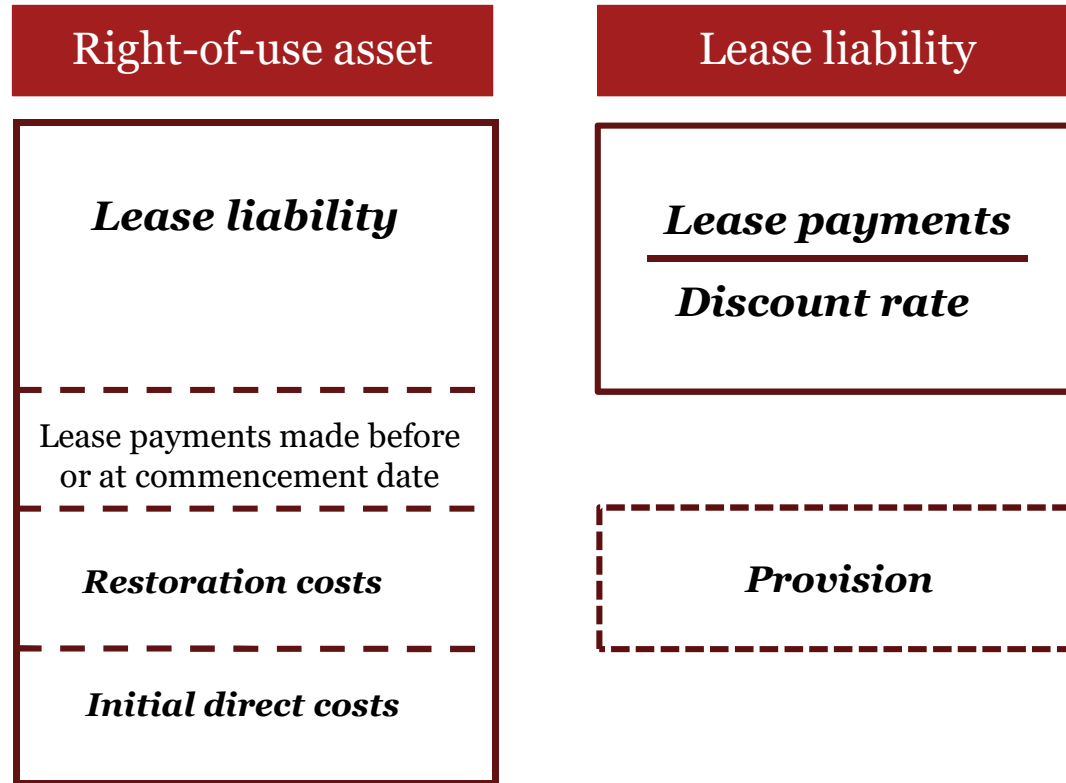
Definition of a lease



Lessee accounting – Lease Liability



Lessee accounting – initial measurement



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

or

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 ***incremental borrowing rate*** at ***date of initial application***
- 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

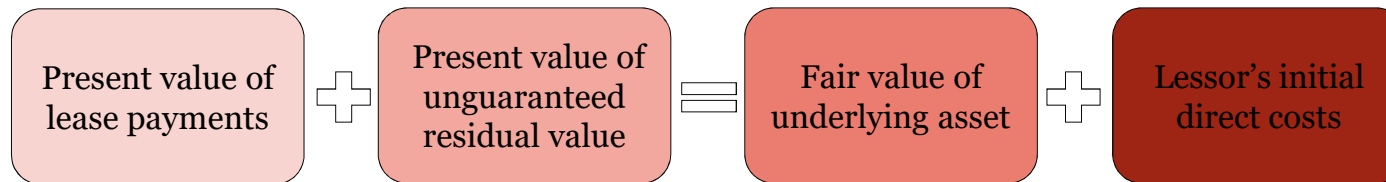
Lessor in general not required to make adjustment on transition

Discount Rate

Interest Rate Implicit in the Lease

Interest Rate Implicit in the Lease

Rate at which



Generally needs to be estimated by the lessee!

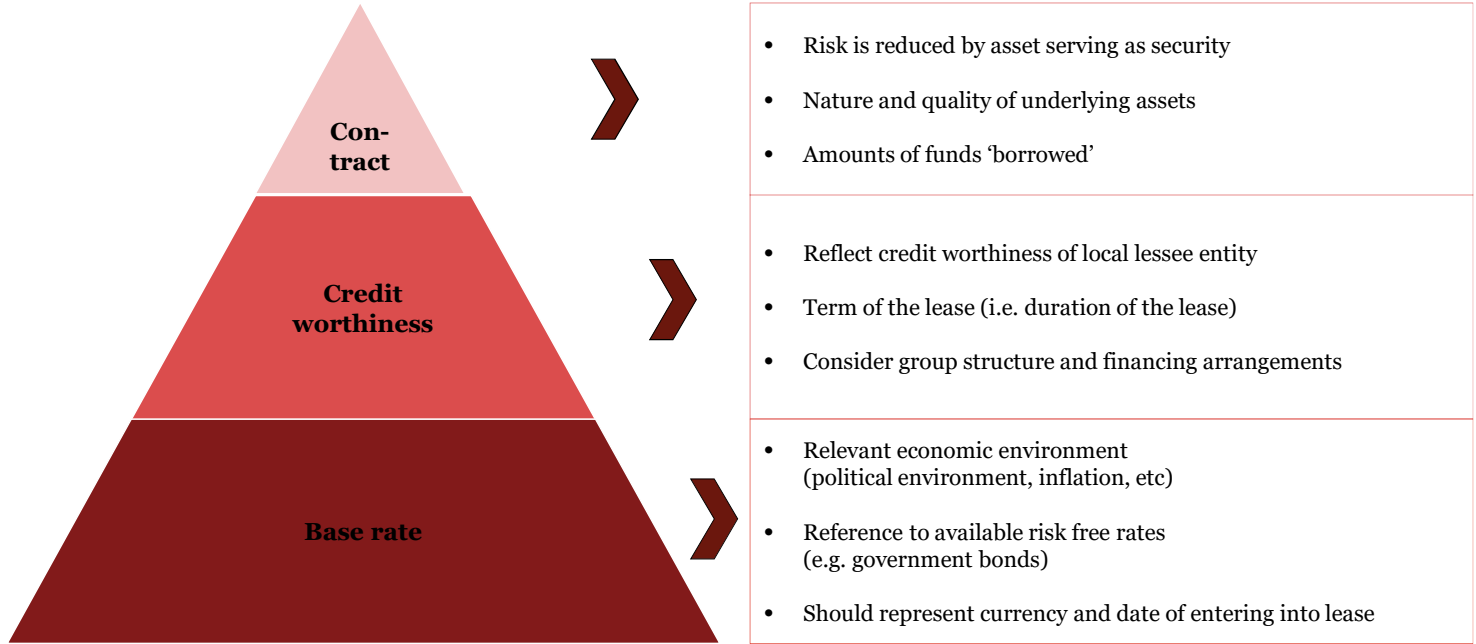
*Must be readily determinable.
The higher the level of estimation uncertainty, the less likely you can assert it is readily determinable*



Incremental Borrowing Rate

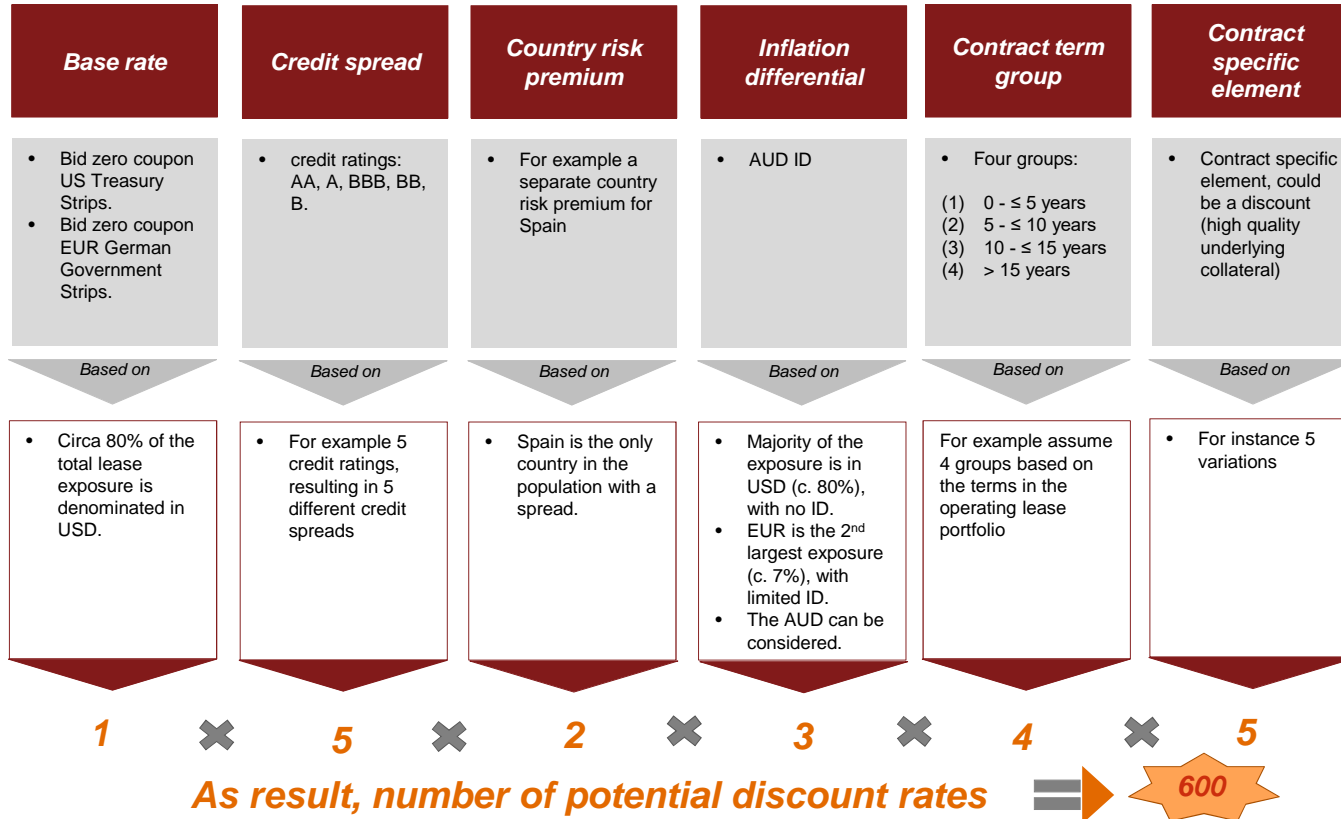
Practically: A bucketing approach based on the operating lease grouping can be applied

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.



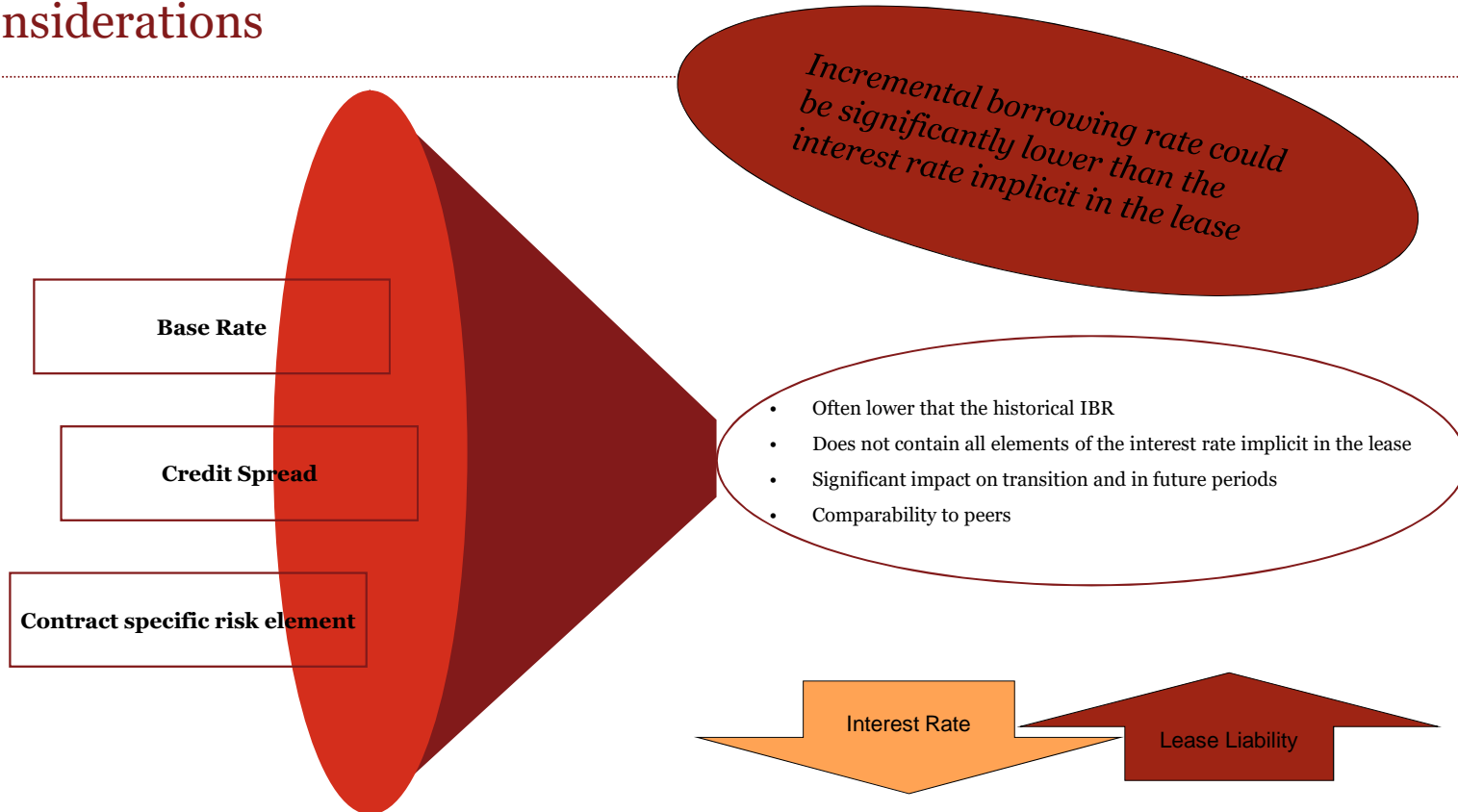
Incremental Borrowing Rate – Practical Example Simplified Approach

Unadjusted WACC may not be used



Incremental borrowing rate

Important considerations



Questions?

