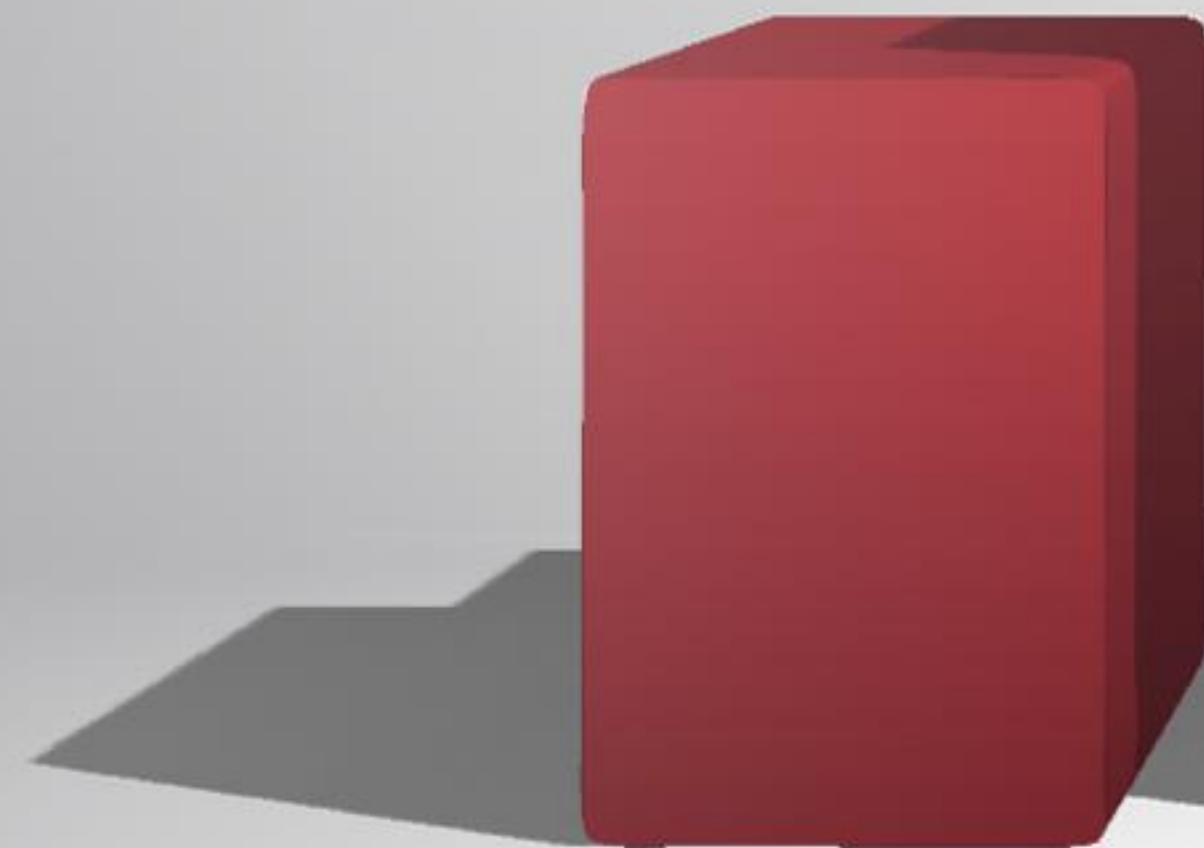




**IFRS 16 lease accounting -
it's here to stay!**



Today's presenters



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Agenda

- Turning Compliance into opportunity
- Practical approaches to IFRS 16 accounting issues
- Insights and lessons from private sector implementations
- Choosing the right approach and solution
- Software implementation considerations
- Q&A
- Close

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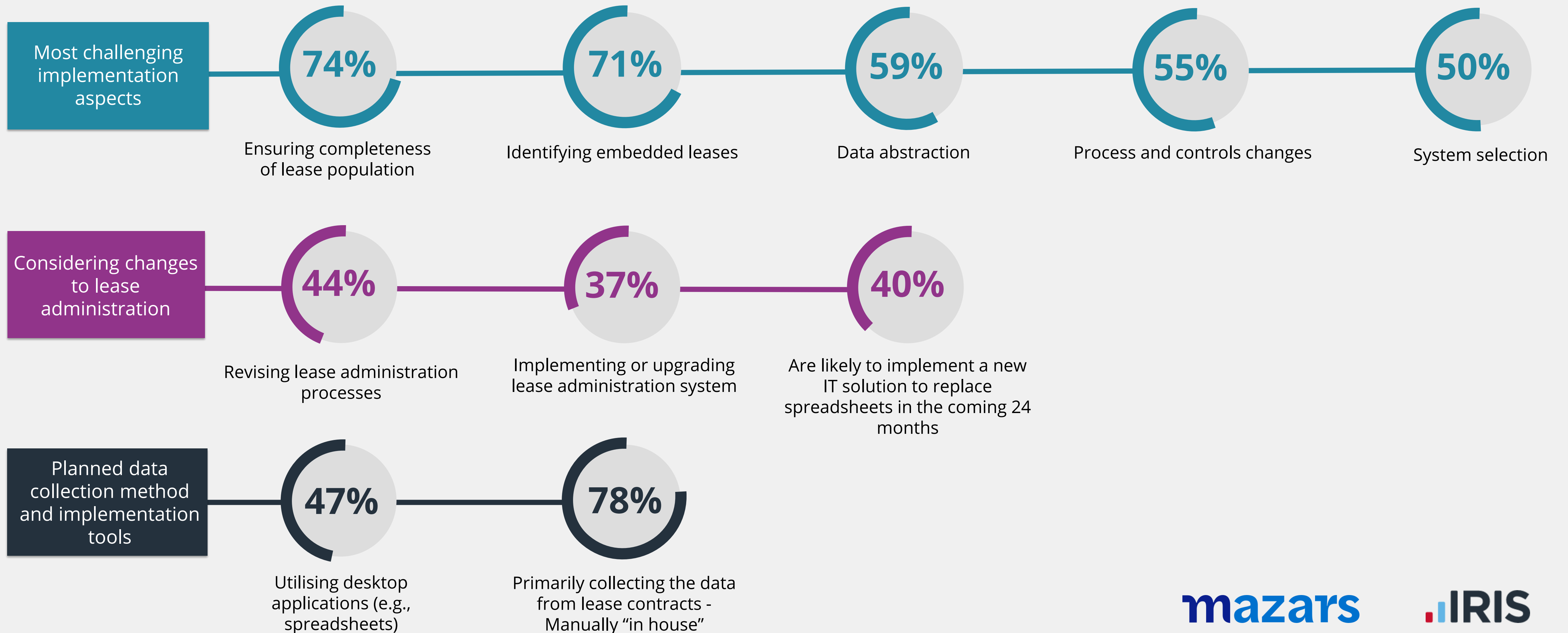
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The new standard: The basics

- Finally announced January 2016 (after many years of deliberation)
- U.K. Public sector effective date - 1st April 2022
- Moves vast majority of leases on balance sheet (including property)
- \$2.8 trillion dollars globally
- Major impact on all lessees accounting under IFRS



Lease accounting survey – Private sector organisations



The opportunities of IFRS 16

Large retailer: 5-year lease on a truck entering 15th year, still paying full rental and truck was sold 5 years prior !!!

Major IT Outsourcing Company: 40 x 3 year leases with one lessor running for 7 years

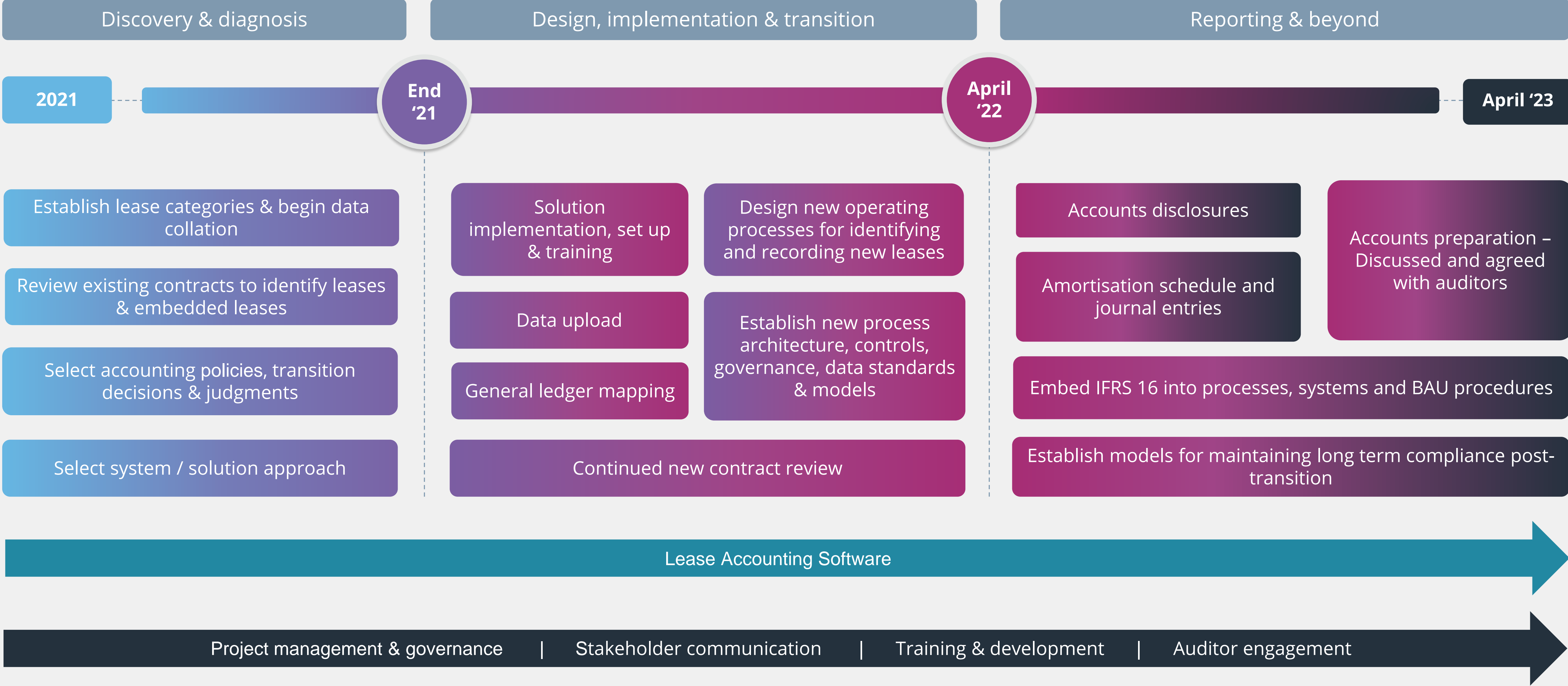


Waste Management Co: FLT Leases now written centrally as opposed to at depot level > 10% cheaper

All 200+ Implementations

Logistics Company: thought they had 400 leases: Actual portfolio size - 2,500

IFRS 16 implementation timeline

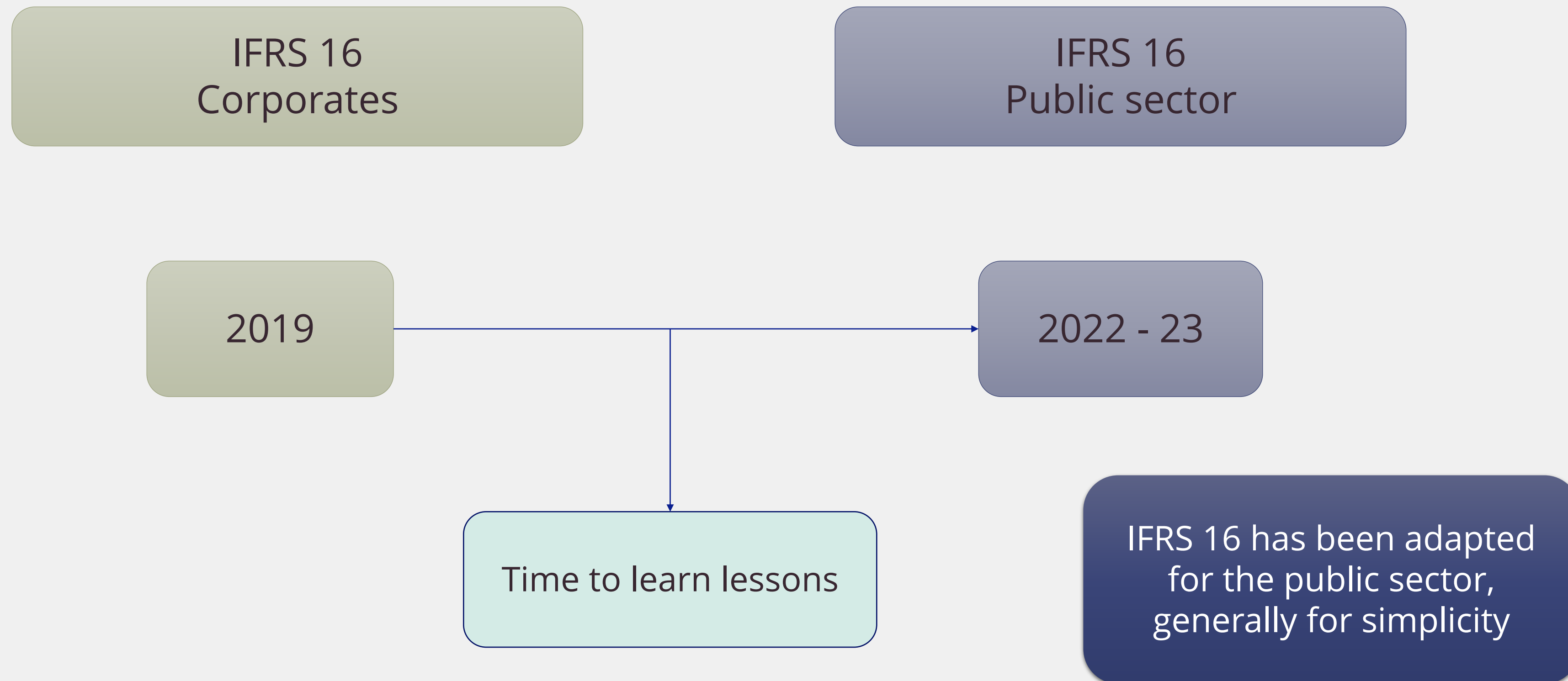


Lessons learnt from IFRS 16 implementation

Benjamin Levy, Mazars Accounting Technical
Services



Introduction



Overview of IFRS 16 Leases

Reminder: Definition of a lease

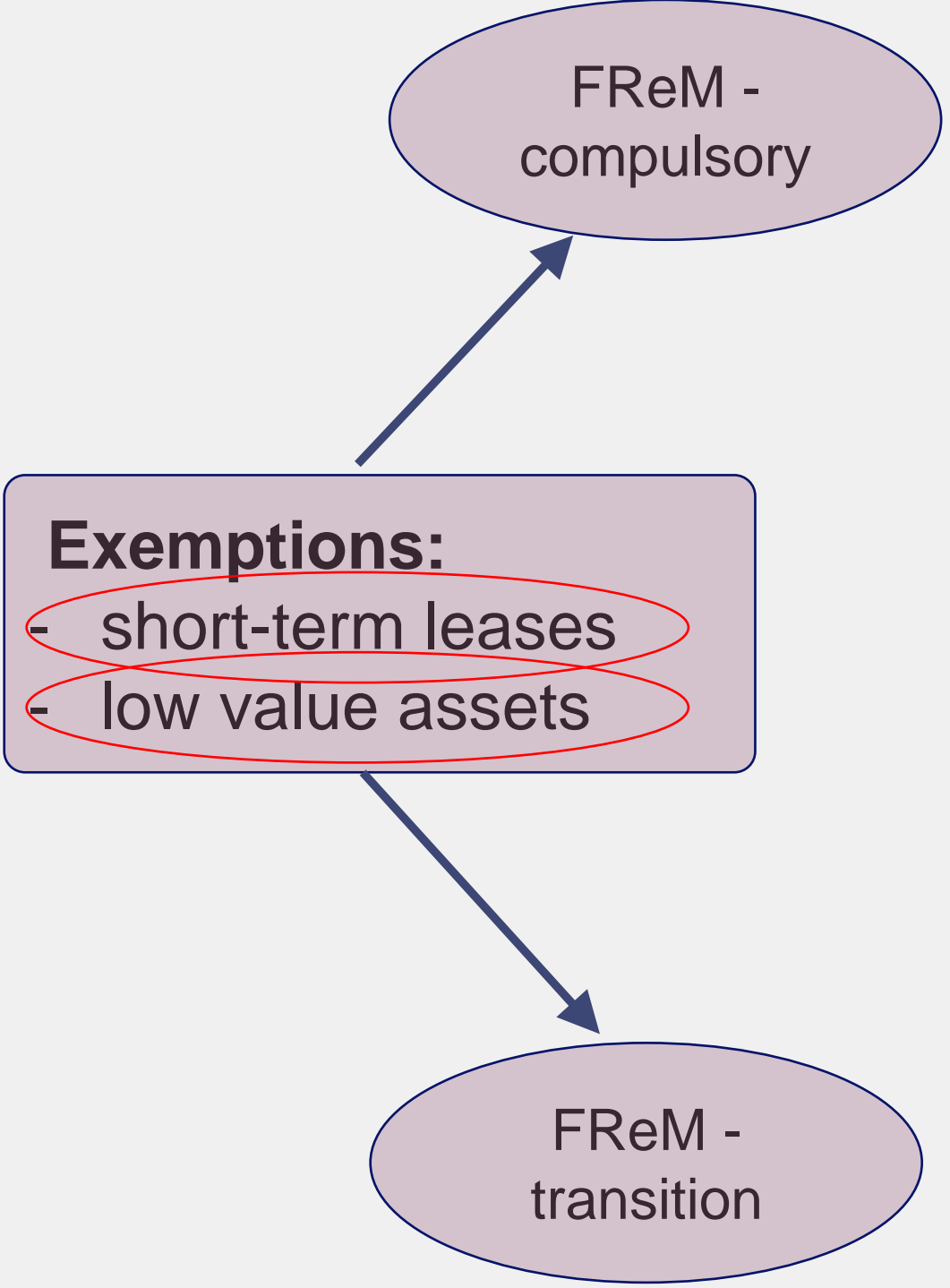
ALL leases are recognised on balance sheet

Balance sheet

- Right-of-use (ROU) asset
- Lease liability

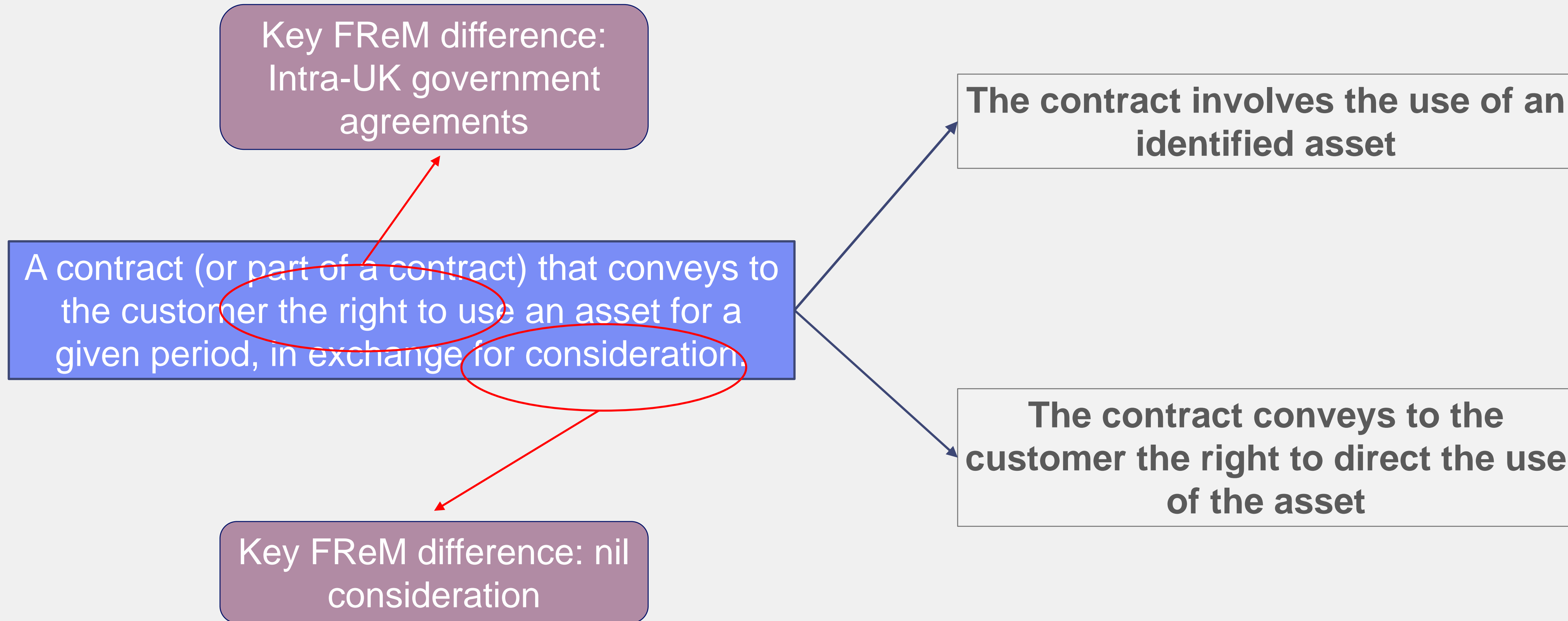
Profit or loss

- Depreciation of ROU asset
- Interest expense on lease liability



Overview of IFRS 16 Leases

Reminder: Single model for leases



Collating leases

Leases – where could they be! ?

Files



Piles



Boxes

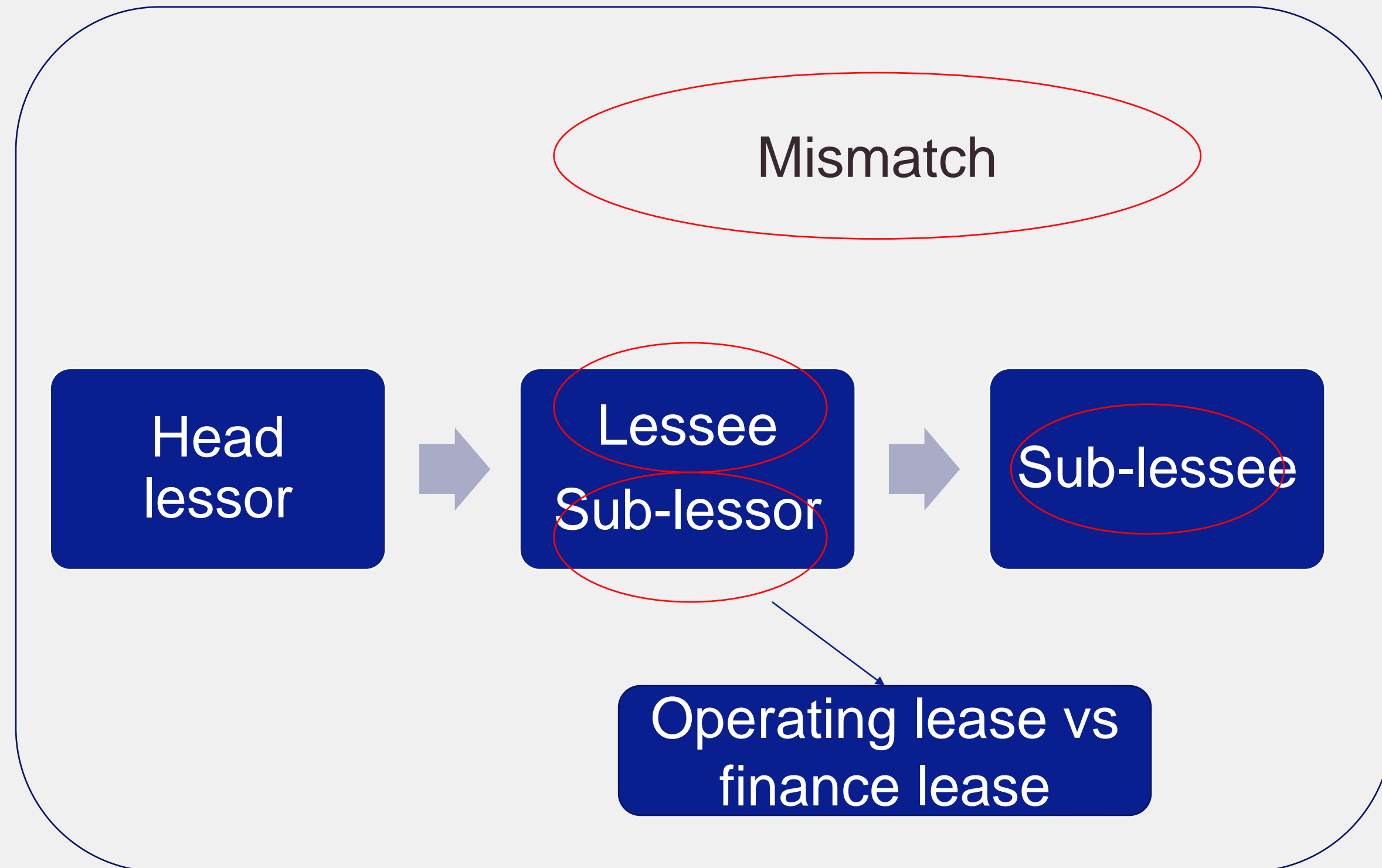


Lease and non-lease components

Components of a lease



Consolidation issues



Case study:

- Acquisition
- Transition at different dates
- Multiple locations



Transition

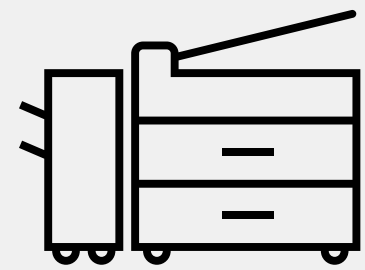
Period
before
transition to
IFRS 16

| | 2018 £m |
|---|--------------|
| Commitments under non-cancellable operating leases | |
| Rental payments due within one year | 223 |
| Rental payments due between one and two years | 173 |
| Rental payments due between two and three years | 143 |
| Rental payments due between three and four years | 123 |
| Rental payments due between four and five years | 105 |
| Rental payments due after five years | 371 |
| Total commitments under non-cancellable operating leases | 1,138 |

Period of
transition to
IFRS 16

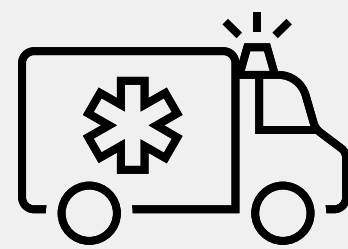
| | £m |
|---|--------------|
| Operating lease commitments at 31 December 2018 | 1,138 |
| Effect of discounting at the Group's incremental borrowing rate at 1 January 2019 | (126) |
| Reasonably certain extension options | 254 |
| Termination options not reasonably certain to be exercised | 46 |
| Short-term leases | (2) |
| Other adjustments | (7) |
| Lease liabilities recognised at 1 January 2019 | 1,303 |

Lease payments



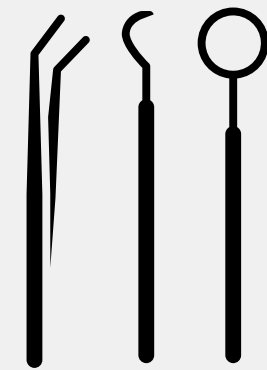
Office equipment

Number of pages



Vehicles

Mileage



Medical equipment

Usage

Case study:

- Variable lease payments
- Performance-related

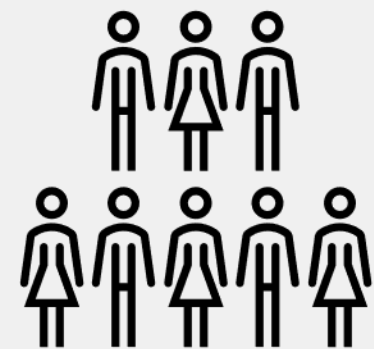
Variable lease payments based on performance or usage are not included in the measurement of the lease liability

Timing of rent review

Lease term and discount rates

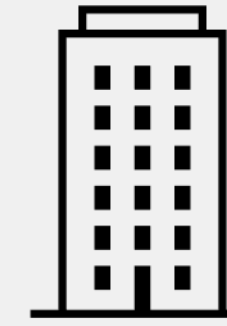
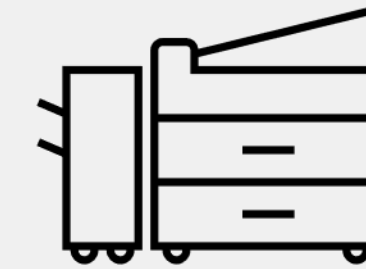
Lease term

Extension /
termination
options



Consult with the
correct people

Discount rate



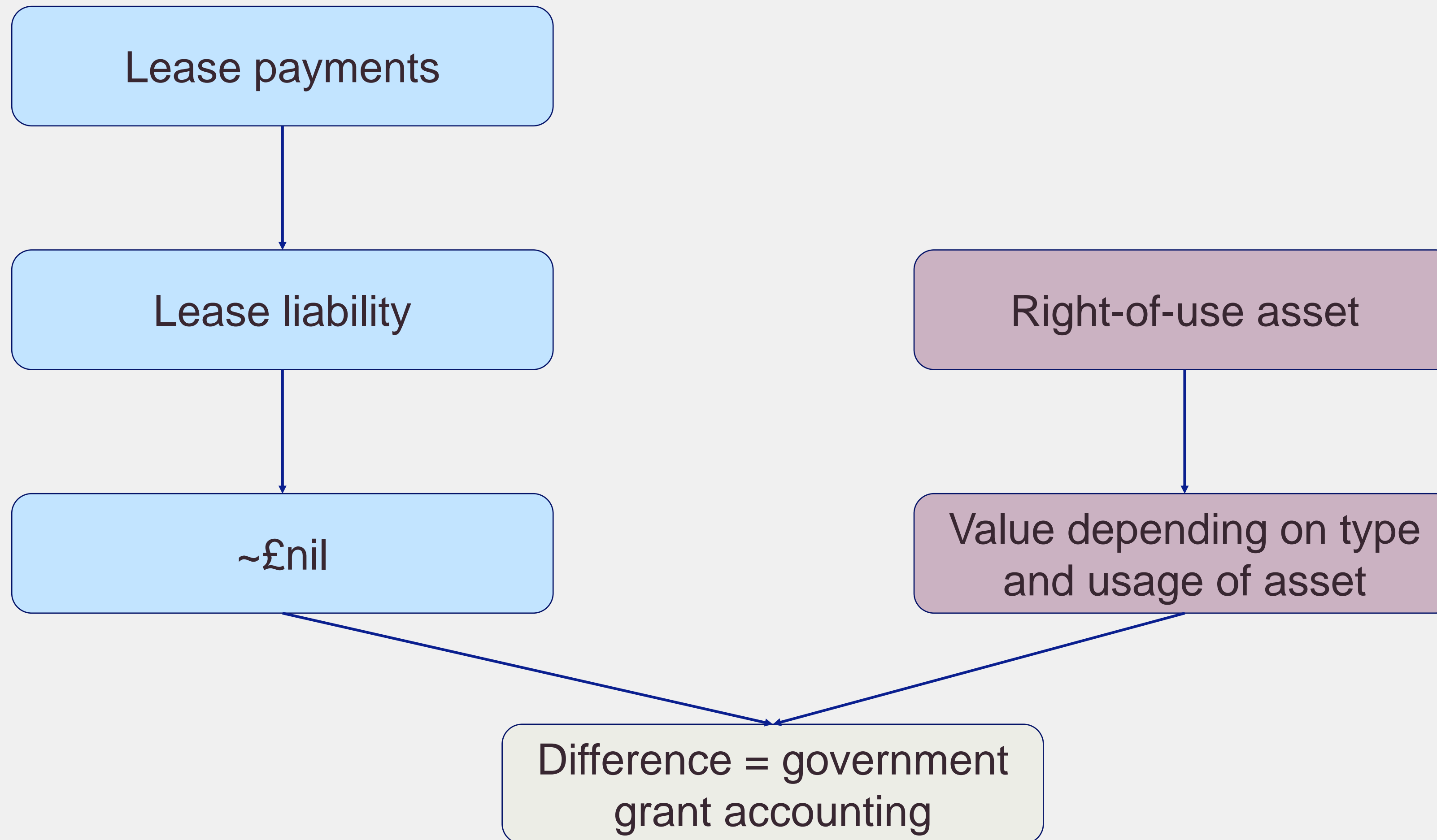
Same rate?

Not necessarily

FReM = HMT
discount rate

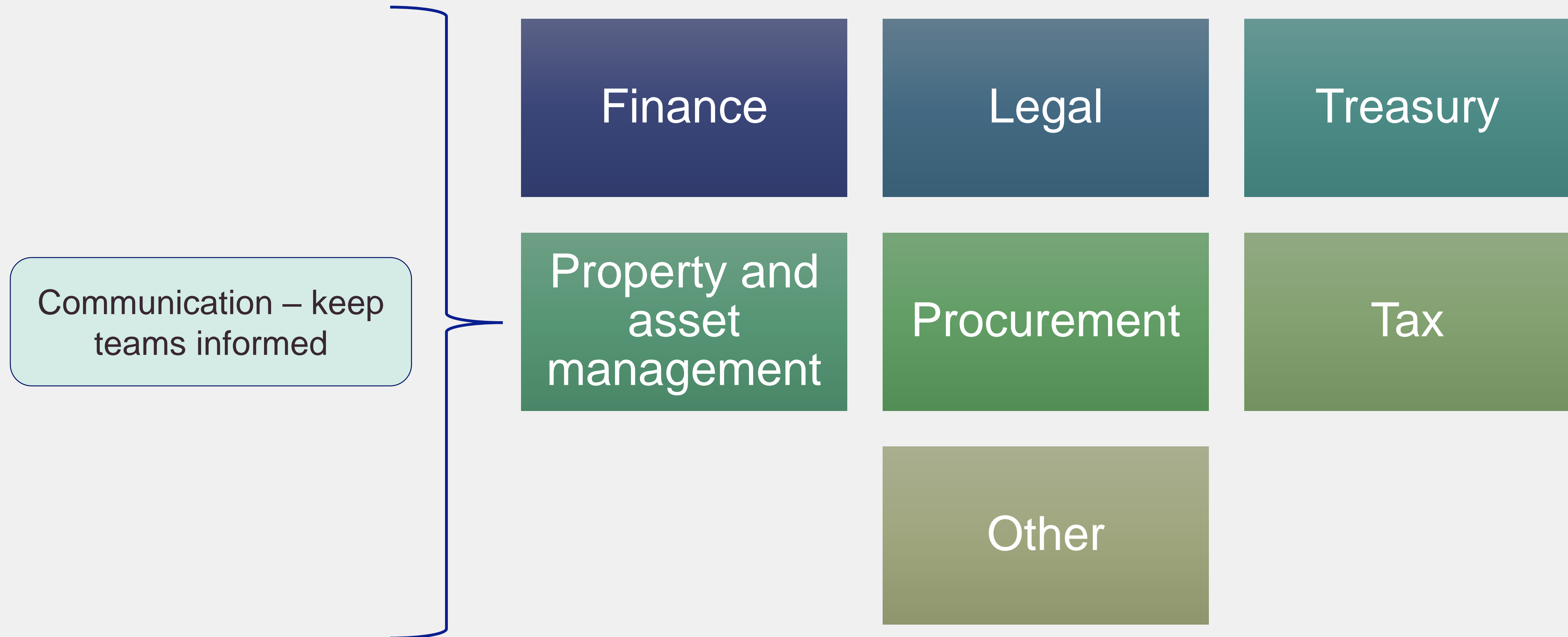
Nil consideration and peppercorn leases

A key difference

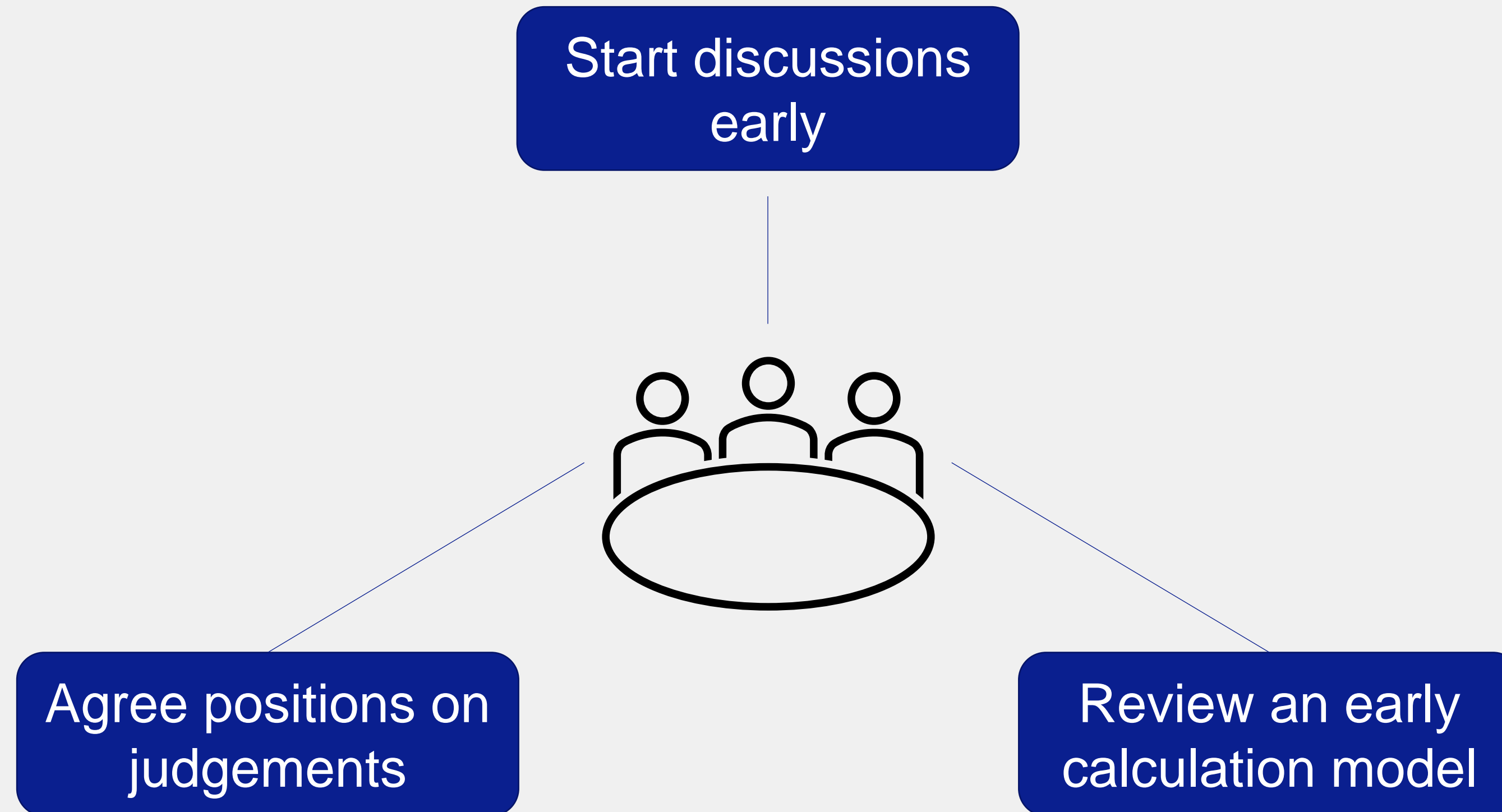


Communication and embedding leases in the organisation

Who needs to be aware of the implications of IFRS 16



Involving the auditor



Other practical points

Bespoke IFRS 16 software vs Excel

Languages and currencies

Transition options – FreM guidance

Technical and practical support
In-house vs external support

Contact

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London

EC4M 7AU

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Insights from previous implementation projects

The key learnings

mazars

IRIS

4 common focus areas

Internal processes & controls

Data Requirements

System Reporting & General Ledger (GL) Output

In-life changes / modifications



In-life changes / modifications

What are the available options

- Those required by the standard
- others

Automation

Can modifications be undertaken in bulk



Proven

- Many clients have reported using ILA
- Been through Audit scrutiny to confirm accuracy

Full Audit Trail

The system records an accurate and complete audit trail

Reporting & general ledger (GL) output

What Reports are available

Standard Suite of compliant IFRS 16 reporting options including quantitative disclosures.

Portfolio reports to aid budgeting and forecasting.

Export of lease data for lease management purposes

- GL Output – Mapped to local chart of accounts and/or group consolidation chart of accounts
- Underpinned by amortization and asset report at lease level
- Workflow and Audit functionality help maintain integrity and accuracy of financial accounts

Software implementation considerations

Technical Accounting/Judgments

- How do you need the system configured to provide useful reports and reflect your business e.g. lessees, divisions and sub-divisions?
- Do you require Retail Calendars?
- Early engagement with auditors / advisors recommended.

Reporting Structure

- GL setup in ILA – Group consolidated GL or individual ledger per entity?
- Do you require multiple local entity charts of accounts or centralised chart of accounts or both?
- What user level access is required?



Project Management

- Who is going to be running the project in your organisation?
- Will it be centrally managed or devolved to local offices?
- Who will determine accounting policies affecting data?
- Who will be responsible for collating and validating the data?

Interfaces



- Do you require data to be interfaced (APIs) from source to ILA to add leases and/or modify leases or interface journals from ILA to your ERP?

Choosing the right approach and solution

Strategic consideration: Excel, lease administration or standalone lease accounting

Technology options available to public sector bodies can typically be categorised into three distinct groups.

1. Spreadsheets
2. Lease administration / property management systems - adapted to incorporate lease accounting functionality
3. Standalone lease accounting systems – such as IRIS Lease Accounting

| Software Vendors | Lease Accounting | Lease Management | Cloud / SaaS | On-Premise | Equipment | Real-Estate | Lessee | Lessor | Leasing Consultancy | Other Accounting Software |
|---|------------------|------------------|--------------|------------|-----------|-------------|--------|--------|---------------------|---------------------------|
|  | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ |
|  | ✓ | ✗ | ✗ | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | ✓ |
| Adapted Lease Admin System | ✓ | ✓ | ✓ | ✗ | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ |

Key

- Core Lease Accounting Functionality
- Plug-in (additional charge)
- Yes but complex and challenging
- Not provided

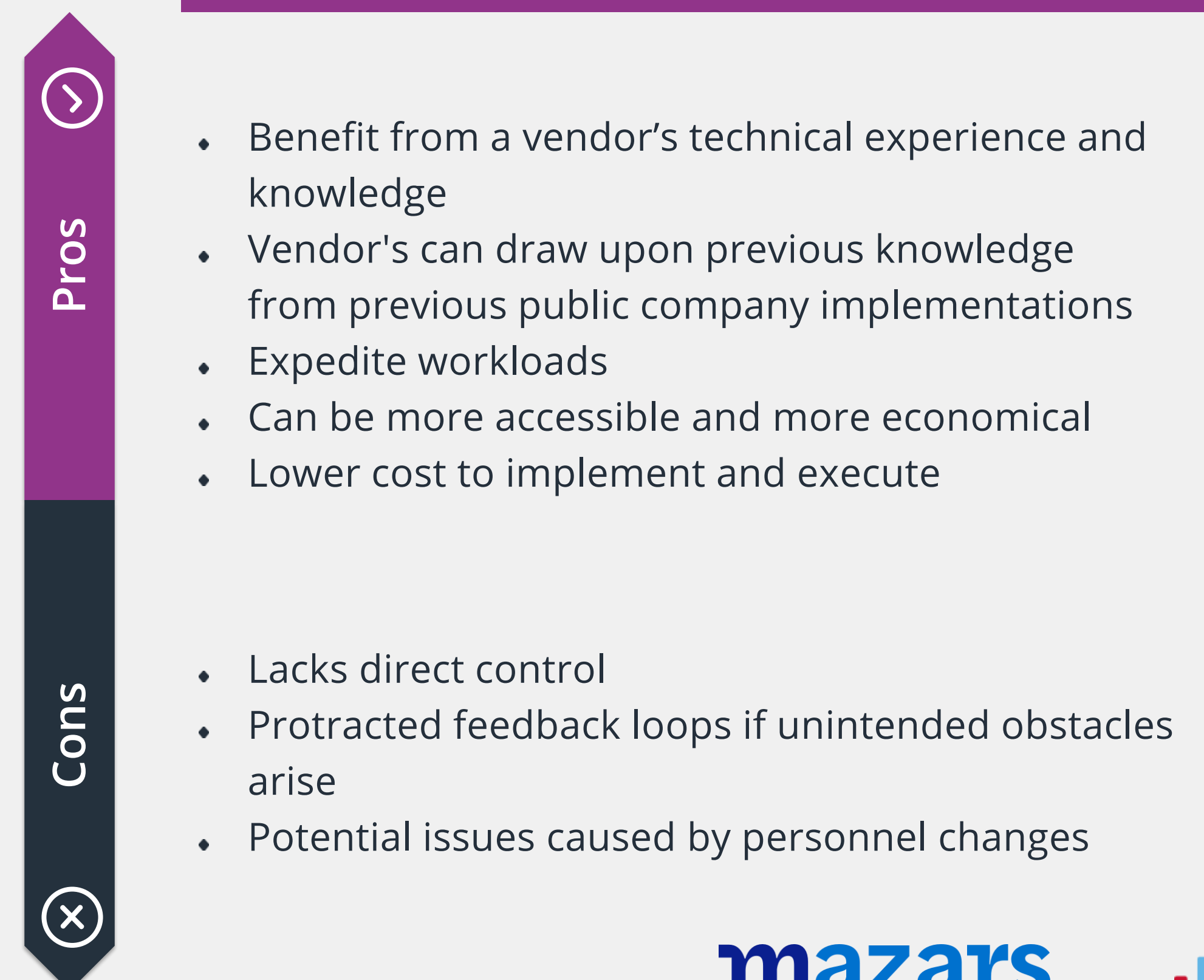
Choosing the right approach and solution

Strategic consideration: In-house or outsourced?

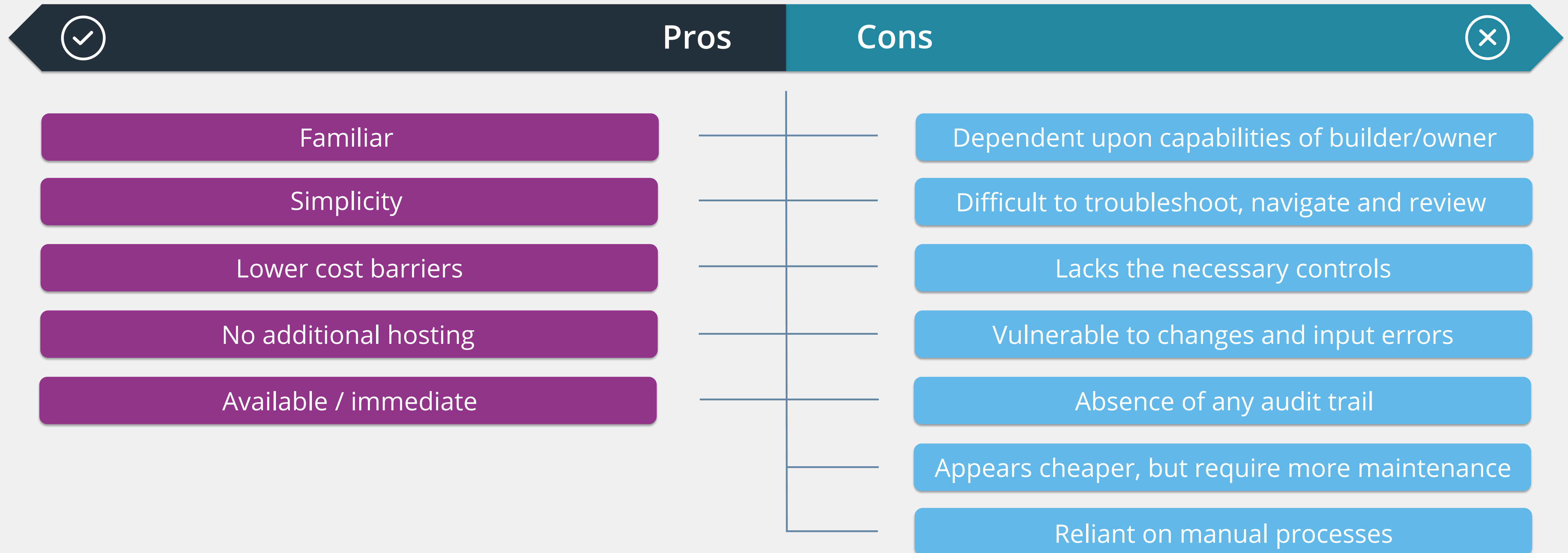
In-house



Outsourced



The arguments against spreadsheets for IFRS 16



IN LIFE CHANGES / MODIFICATIONS AND PORTFOLIO MAINTENANCE IS COMPLEX

Advantages of lease accounting technologies



Automate Compliance

Replace ineffective spreadsheets and easily comply with the latest lease accounting standards, IFRS 16 and ASC 842, this year and every year.



Transform Processes

Transformational lease accounting processes that put you in total control across the entire life cycle



Centralised lease data

Centralise and view your entire lease portfolio in real-time and maintain compliance as your leases changes



Guarantee Accuracy

Proven technology that delivers fast, accurate disclosure and reporting, first time every time



Reduce risk

Disclosure reports, forecasting and even detailed audits can be pulled together quickly, easily and with greater accuracy



Enhance productivity & in-built controls

Meticulously designed control mechanisms and workflows that simplify compliance and support during ongoing post-transition BAU scenarios



Simplify re-measurement

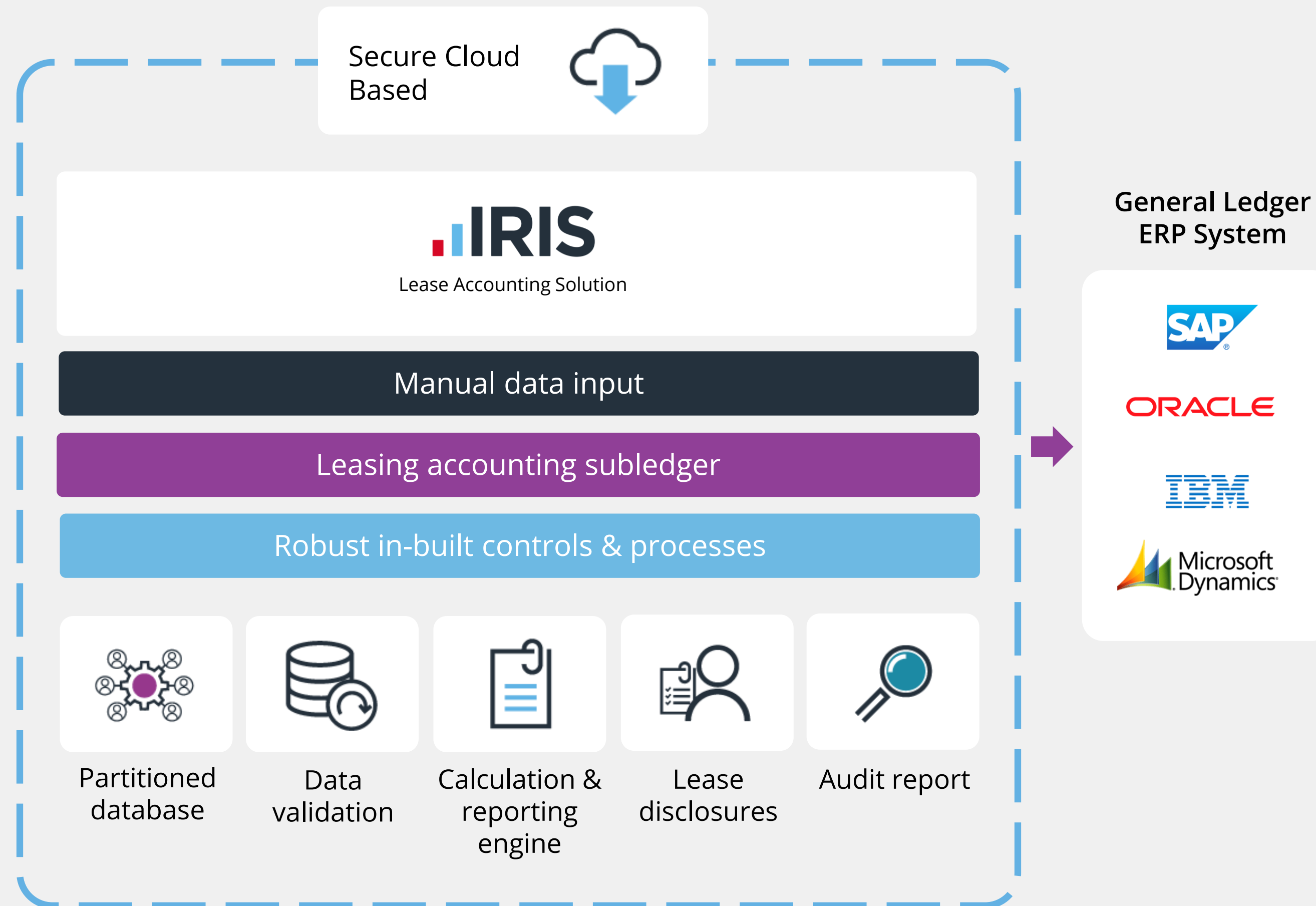
Automatically calculate adjustments to the right-of-use asset and lease liability, and produce general ledger postings faster



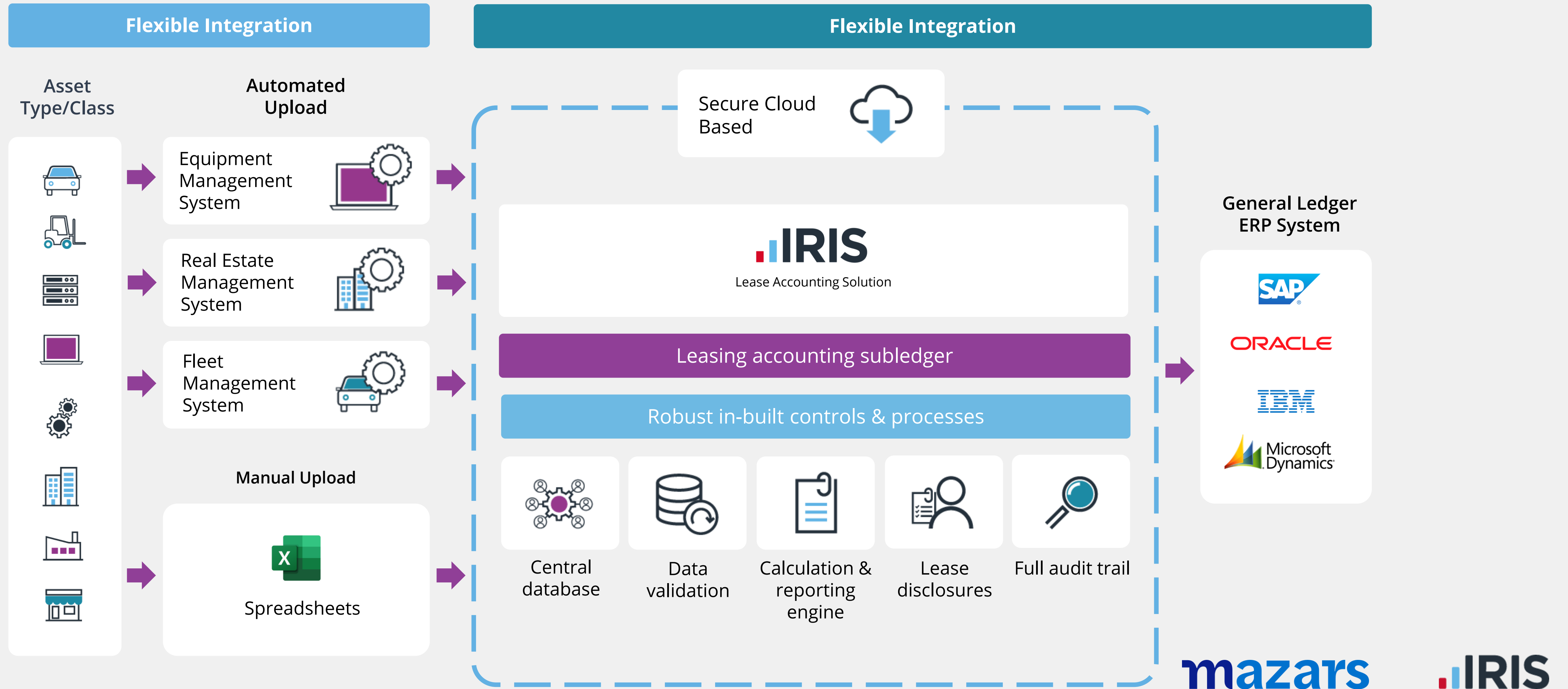
Smarter strategic leasing decisions

Efficiently identify and manage portfolio efficiencies and deliver cost savings, helping to align your leasing program with corporate objectives

IFRS 16 software – simple solution environment



IFRS 16 software – advanced solution environment



Why IRIS is well placed to help



200+ customers worldwide

Across multiple industries and a range of global geographies.



Proven track record in delivering IFRS 16

We are proud to have a **100% audit success rate**, 0 failed implementations and a 99+% customer retention rate



Certified software solution

Our solution is audited to ensure it meets ISO 9001, ISO27001 and **ISAE 3402** Assurance Report (international equivalent of SOC 1 type ii) criteria.



Software built by accountants

Our lease accounting software is built and designed by accountants for accountants



Ease of implementation

As close to “plug and play” as possible. System implementation is easy (other elements of the project are more complex!)



Practical leasing experience

Over 25 years experience helping lessees improve the efficiency of lease portfolios



More than just a software company

Leasing consultancy and specialist lease service provider with a history of managing complex lease portfolios for large multinational organisations



Approved U.K. public sector supplier

IRIS is an approved supplier on the **G-Cloud** framework for cloud-based software / services.

The key takeaways

- Spreadsheet based solutions are not always practical for on-going reporting & management
- Compliance can be painful but should also be an opportunity
- Aim for a simple system solution from a proven supplier with proven reputation
- Choose IRIS Lease Accounting...!



THANK YOU ANY QUESTIONS?



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