

ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY



IFRS 16 Leases – implementation and recent developments

17 SEPTEMBER 2020

This webinar will commence shortly

Introduction

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Today's presenters



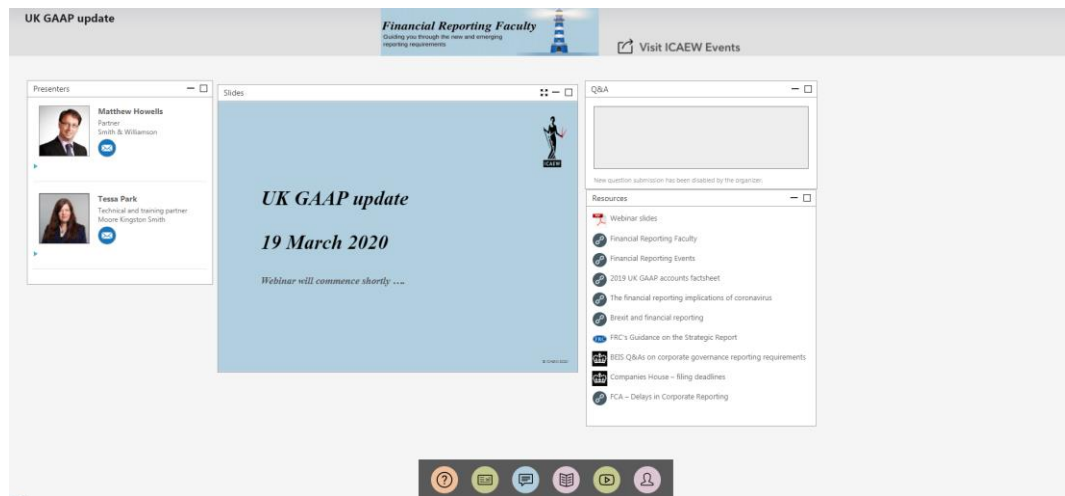
Avni Mashru
Partner
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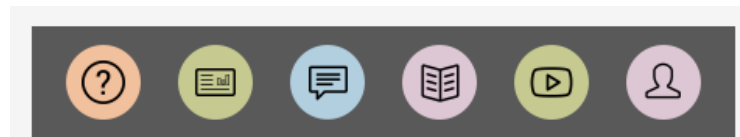
Chris Biggs
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Download resources

Access related resources, including the presentation slides

Contents

IFRS 16 implementation
experience and lessons

Amendment to IFRS 16 for
COVID-19-related rent
concessions

IFRS 16 Leases - implementation experience and lessons

FRC Thematic Review – November 2019

- Sample of 20 interim reports focused on industries expected to be most impacted
- Focus on disclosures related to transition to IFRS 16 – all but one company applied the modified retrospective approach
- Focus on lessees rather than lessors

FRC Thematic Review – November 2019

Key findings

- Transition disclosures: explanation of reconciling items from IAS 17 to IFRS 16
- Significant judgements: lack of entity specific detail and disclosure relating to estimation uncertainty
- Disclosures: unclear description of policy choices and need to provide additional information e.g. impact on loan covenants
- Alternative performance measures: Lack of clarity on impact to comparatives and compliance with ESMA guidelines in relation to changes to APMs

Second year IFRS 16 reporting and implementation considerations

- IFRS 16 accounting is now well understood but operationally hard to maintain and requires a continuous inflow and updating as well as monitoring of information
- Maintenance and integrity of lease data is paramount to achieve accurate reporting
- Covid-19 implications on leases / renegotiations require careful analysis to ensure correct accounting and reporting
- Planning for the year-end – auditors expect financial reporting controls around IFRS 16 to be in place prior to their audit
- Focus on improvements in processes and controls as well as preparing auditable disclosures

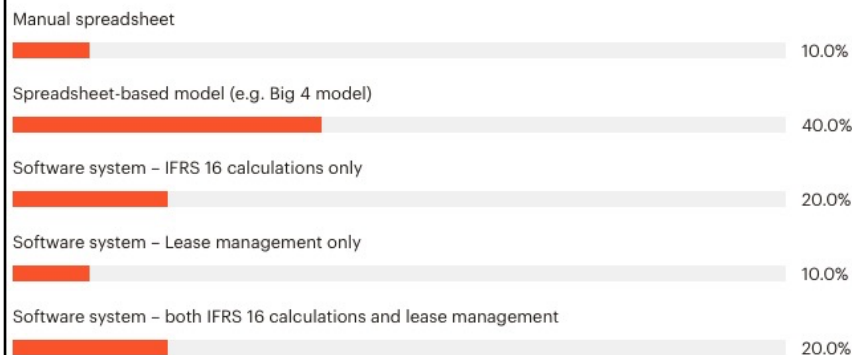
BAU control environment

- Management and auditors will be placing reliance on BAU controls and processes
- Auditors want to be able to perform compliance audits rather than fully substantive
- SOC1/ SOC2 reports being asked for
- Management will need to ensure suitable BAU control environment over IFRS 16 is in place
 - a risk matrix should be formed to address (to include but not limited to):
 - Capture of leases (explicit and embedded)
 - Capture of lease 'life' changes (options, rent reviews etc)
 - Complete documentation
 - Timely input into the lease solution
 - Complete capture of key terms (detailed analysis completed where needed)
 - Review of calculations and disclosures
- Automate to reduce manual intervention and risks
- Ability to demonstrate risk operation to auditors

IFRS 16 solution - Status and next steps:

‘IFRS 16 implementation survey - A year on’

“1) What type of IFRS 16 solution / tool do you currently use? ”



Comment:

- Was no ‘one size fits all’ solution in the market
- Excel-based models can have their limitations in functionality – well suited for day 1 accounting, but day 2 accounting functionality may not be sufficiently built in / robust
- Over 20 software solutions in the market – but no one clear front runner

“3) How many lease records have you input into your IFRS 16 solution / tool (counting leases entered as a single portfolio as one record)?”



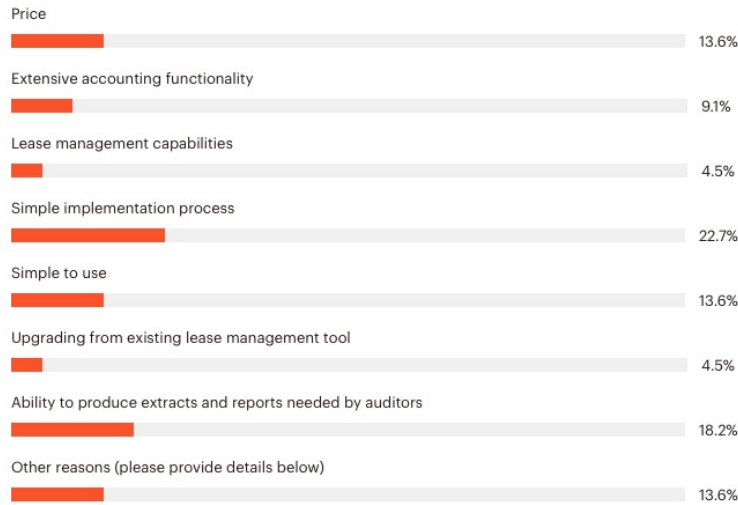
Comment:

- Lease portfolios were much larger than first anticipated (e.g. company vehicle fleets, low value assets still need to be captured)
- Portfolio accounting applied but complexities lie in proving no material difference – many splitting out now
- Lease volumes are not the only driver – complexity of IFRS 16 lies in the number of ‘features’ that exist in the lease portfolio

IFRS 16 solution - Status and next steps:

‘IFRS 16 implementation survey - A year on’

“5) What were the key drivers in choosing your IFRS 16 solution (select all answers that apply)?”



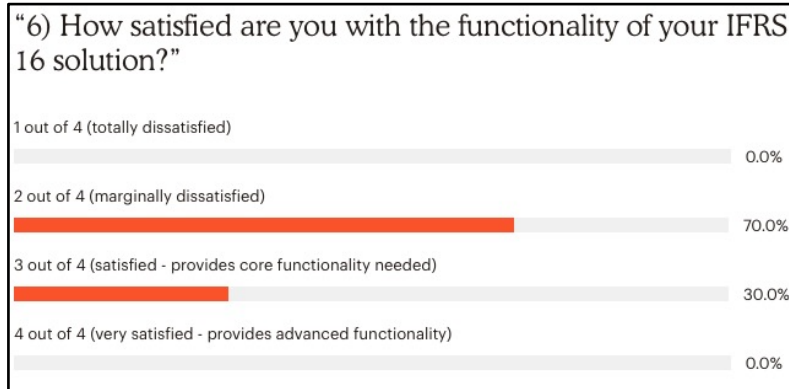
Comment:

- Simple implementation was a key driver in solution selection – however, this wasn’t the case (on average taking 3-6 months lead time for non-complex portfolios before go-live)
- Management input levels higher than anticipated, putting a drain on resource
- Vendor selection processes are not straightforward and are time-consuming – due diligence is key to ensuring the right solution is chosen to reduce ‘pain’ later on

“At the time of the RFP, the solution was the only solution that appeared to already be able to generate journal entries and the demo made it seem more developed than others. (Turns out this was not the case at all).”

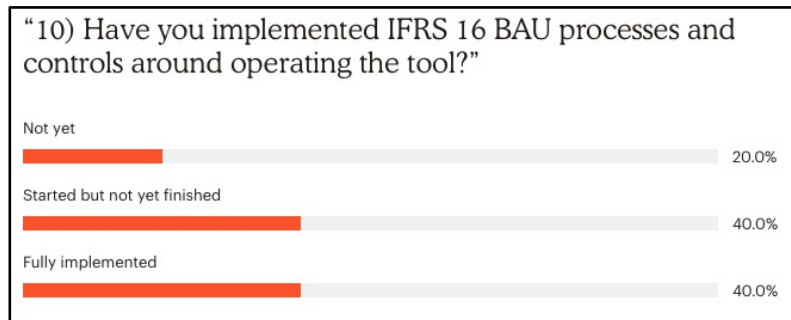
IFRS 16 solution - Status and next steps:

‘IFRS 16 implementation survey - A year on’



Comment:

- Often systems sold were not fully developed and resulted in challenges
- Difficulties in models / systems continue to be experienced and limitations identified as companies work through day 2 accounting
- Some companies are considering changing solution (e.g. upgrade from model to system solution)



Comment:

- IFRS 16 doesn't work as an overlay adjustment at the end of the year and requires monthly monitoring and reporting
- Auditors will be focusing on identifying what controls are in place around IFRS 16 reporting
- Governance frameworks, robust processes and controls are key to success in embedding IFRS 16 reporting

Poll question

Are you planning on further work/expense this year on your already implemented IFRS 16 solution (to enhance, fix or otherwise)?

Next steps

- Fixing issues with current data sets
- Checking data for new transactions
- Complete controls build and risk controls matrix and documentation
- Evaluate whether the current solution is the long-term solution:
 - Software provider roadmaps for enhancements?
 - New modules
 - New solutions
 - Automation of uploads/ downloads?

IFRS 16 Leases and the COVID-19-related rent concessions amendment

Overview and background

- Rent concessions are commonly being granted as a result of the COVID-19 pandemic
- Concessions include payment holidays and payment deferrals
- IFRS 16 requirements that apply to these concessions could be complex and challenging when dealing with large volumes of leases
- Amendment provides relief from these requirements in the form of a practical expedient
- Effective for annual periods beginning on or after 1 June 2020 with earlier application permitted including interim and annual financial statements not yet authorised for issue at 28 May 2020

When the practical expedient can be applied

- Applies only to rent concessions as a direct consequence of COVID-19 and only if all following conditions are met:
 - Revised payments under the lease are substantially the same or less than lease consideration immediately before the change;
 - Reduction in lease payments affects only those due on or before 30 June 2021; and
 - No substantive changes to other terms and conditions of the lease
- Lessees applying the expedient account for rent concessions as if they were not lease modifications
- The expedient must be applied consistently to all leases with similar characteristics and in similar circumstances

Disclosure requirements

- Disclosure of application of the expedient and to which rent concessions the expedient has been applied
- Amount recognised in profit or loss as a result of application of the expedient to rent concessions

Poll question

Are you planning to apply or have you applied the IFRS 16 amendment in relation to COVID-19-related rent concessions?

Ask a question



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Ask a question

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Faculty resources

icaew.com/ifrs16

- Factsheet icaew.com/ifrsfactsheets
 - IFRS 16 Leases
 - 2020 IFRS accounts (to be published shortly)
- Webinars icaew.com/frfwebinars
 - Bitesize Briefing: IFRS 16 Leases and the COVID-19-related rent concessions amendment
 - IFRS update (June 2020)
- By All Accounts icaew.com/byallaccounts
 - IFRS 16 – tackling the practicalities (July 2019)



Future events

For details, please visit icaew.com/frfevents



Bitesize Briefings

COVID-19 series



Webinars

22 October: Narrative reporting (part 3) - s172 and beyond

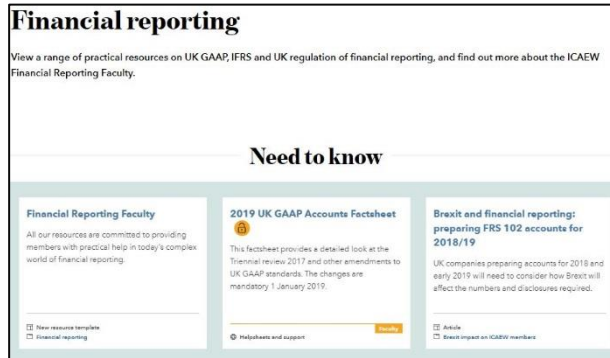
19 November : IFRS 17 Insurance Contracts for non-insurers



Members' virtual event | 30 October 2019

Going concern and resilience: lessons learned from COVID-19

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Questions



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