



ED ZU IFRS 16 LEASING

CHALLENGES & SOLUTIONS



CHALLENGES

AS-IS SITUATION, OBJECTIVES AND AREAS OF SUPPORT

INITIAL SITUATION:

- Every IFRS-reporting company has to implement IFRS 16 (as a replacement of IAS 17)
- IFRS 16 will be probably effective for periods commencing after 1 January 2019 (2020 the latest)
- As per now the main impact of changes will concern the accounting for leases by the *lessee*

OBJECTIVES:

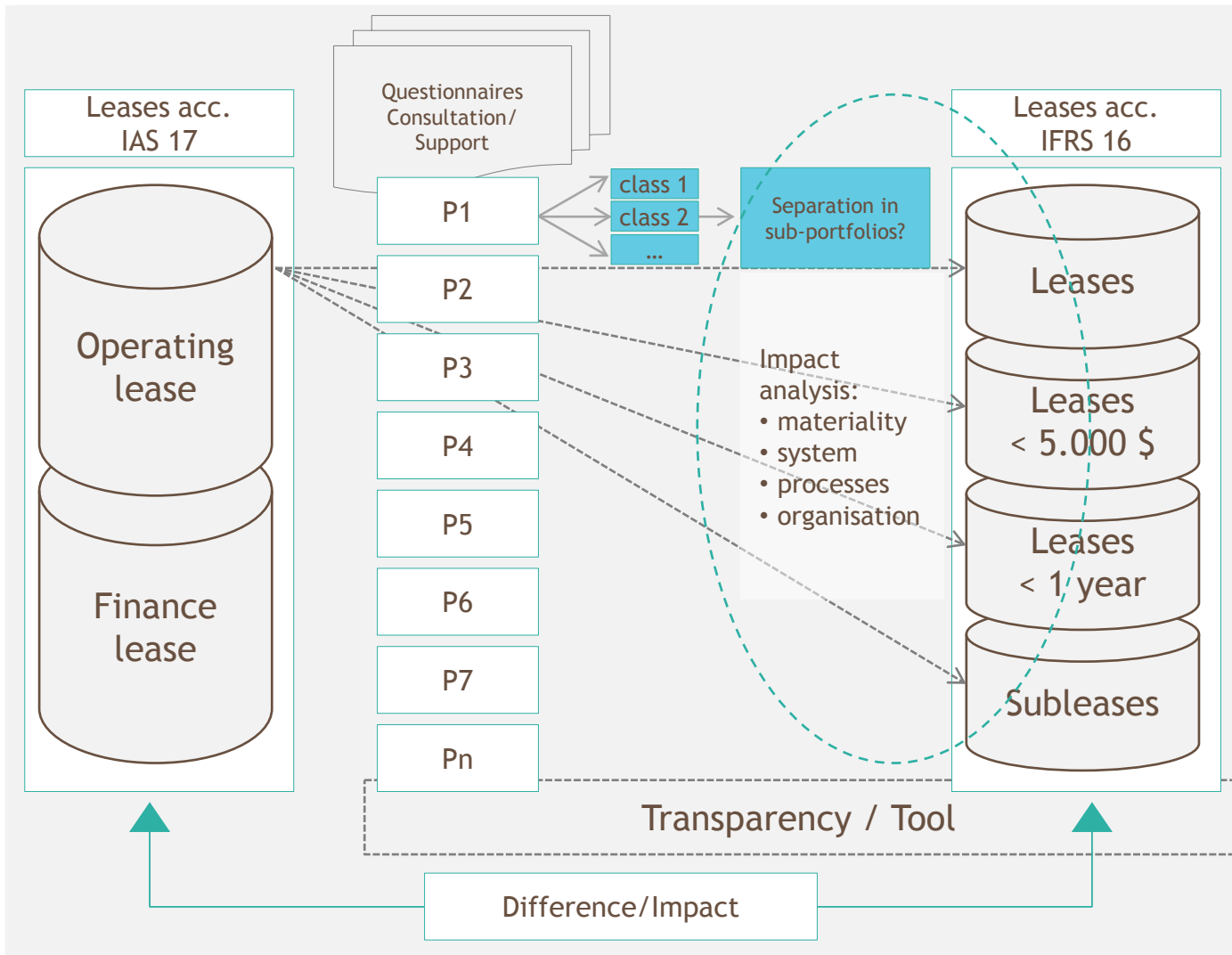
- Smooth implementation of IFRS 16 - Leasing
- Assessment of possible impacts on external reporting, group close processes and capital
- Identification of issues where judgement is needed
- Provide and prepare information to consistently exercise accounting choices, thereby minimising internal cost of reporting and optimising external reporting needs, *especially* realising external reporting opportunities
- Preserve consistency within group reporting
- Hold-up continuity in accounting philosophy

AREAS WHERE BDO CAN PROVIDE SUPPORT:

Key determinants of a successful implementation of IFRS 16:

- Performance of an accurate impact analysis
 - Identification of leases
 - Identification of accounting choices
 - Initial assessments of impacts
 - On the business
 - On the financial statements
 - At different group levels
 - Qualitatively and quantitatively
- Development of implementation strategy of IFRS 16
- Operational implementation (project work)
 - Support in exercising options or accounting choices provided by IFRS 16
 - Quantitative Impact Assessment on key performance indicators
 - Preparation of pro-forma presentation and notes
- Timely updates on adoption of IFRS 16

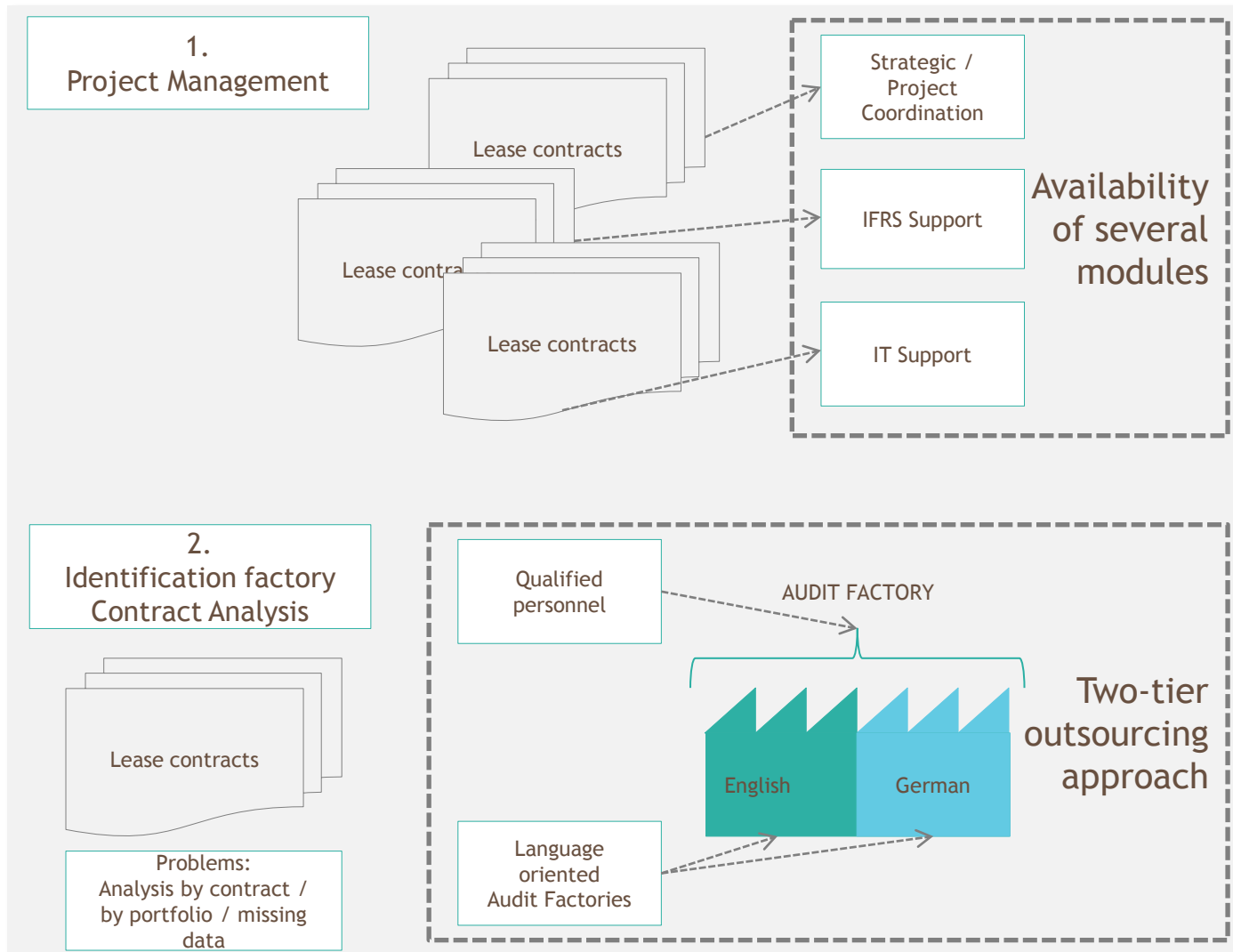
IDENTIFICATION OF LEASES AND IMPACT ANALYSIS - FOR LESSEES



- During the identification phase
 - Profound understanding of lease contracts
 - Identification and clustering of lease contracts
 - Identification of features where judgement needs to be exercised (e.g. regarding cancellation, lease-term determination, lease payment identification, substitution rights of lessor, purchase options, etc.)
 - Identification of separate lease components
 - Potential impact on systems and processes
- Main task of the impact analysis is to achieve transparency on change from distinction between operating and finance lease to right-of-use approach for lessee-accounting.
- Estimation of B/S or P/L will incorporate planned business changes via sensitivity analysis on planned accounting choices and future design of lease contracts.
- General cases which need management judgement are tracked and discussed with management regularly
- Tools are used to track the progress of worldwide business management analysis and to support the mapping.

THE BDO MODULAR APPROACH

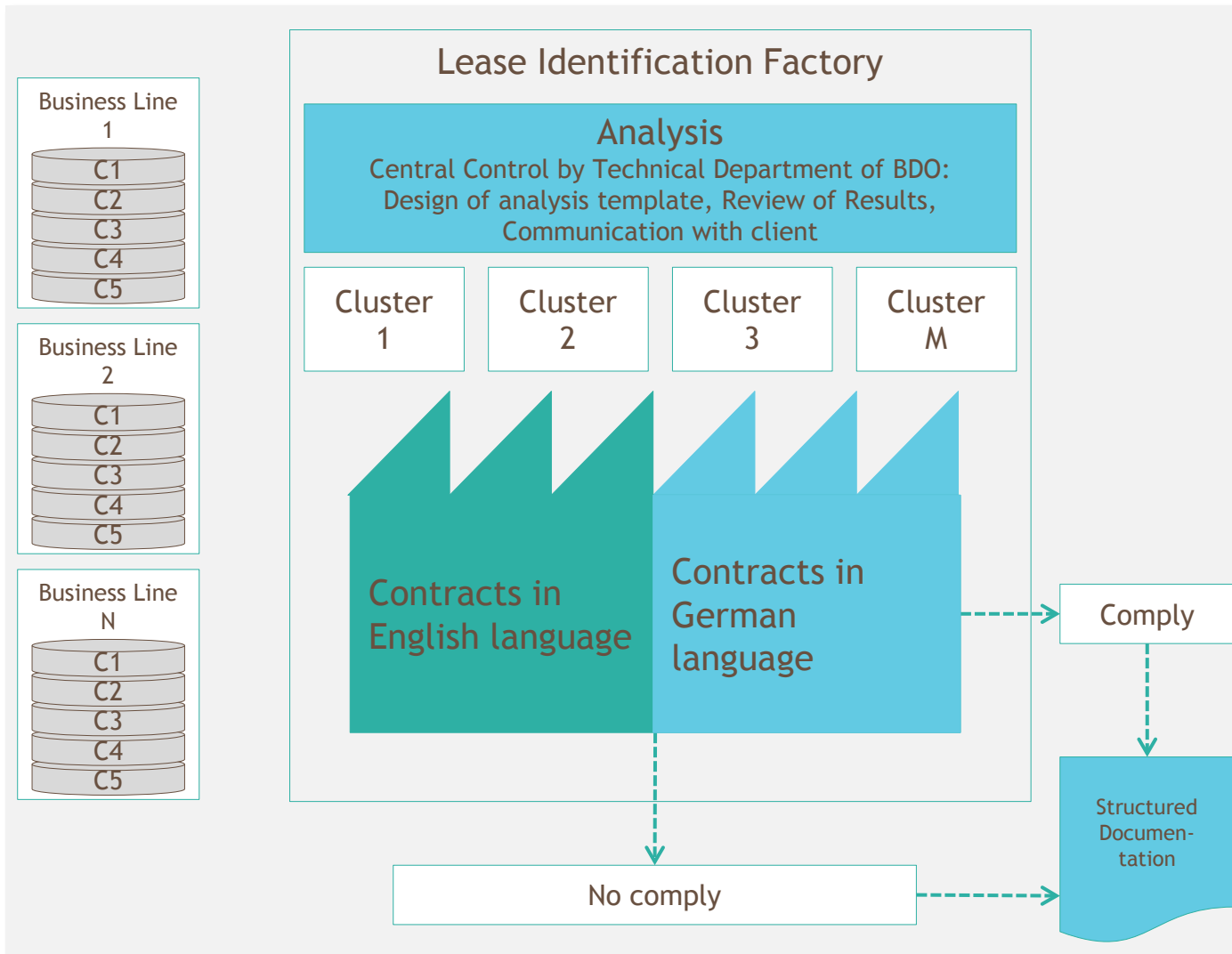
OUR APPROACH FOR SOLVING IFRS 16 ISSUES



- Project Management: Modular support in evaluating the impact of new IFRS 16
 - “Full package”: Take advantage of full workflow support including project coordination, IFRS Knowledge transfer/support and IT-support
 - Keeping Project Management inhouse: Stand-alone IT or IFRS-support are also available
- Identification factory / Contract Analysis with a two-tier outsourcing approach
- Understanding the environment: Qualified audit personnel available, for best rates
- Keeping it short ways: English contracts are analysed in our nearshore Audit Factories in Europe
- Consideration of CSR-Topics: No workforce in India; EU-Regulation based working conditions
- Data is secured in Europe: Staff is available inhouse if recommended

HOW IT CAN BE DONE EFFICIENTLY

BASED ON A STRUCTURED AND QUALITY-SECURED ANALYSIS TEMPLATE



- Identification and classification analysis is performed by knowledgeable service centers in nearshore Audit Factories in Europe
- Clustering enables analysis of contract specifications, policies and necessities
- The aim is to derive clusters which allow the identification and classification of lease contracts with a minimum of individual testing
 - Identify lease contract characteristics, which indicates either a clear fail or clear pass of lease classification
 - Depending on size remaining lease contracts may be tested individually
- General topics which need management judgement are tracked and discussed with management (and statutory auditor) on a regular basis
- Central control unit is located at Technical Department of BDO (Düsseldorf)
- Tools are used to track the progress of lease identification and to ensure a high quality documentation and audit trail