

# Leases on balance sheet – what investors want to know as you implement IFRS 16



The Financial Reporting Council (FRC) has told audit committee chairs and finance directors that they expect the effect of IFRS 16 to be quantified in annual reports before the year of implementation.

As you prepare to implement the new leases standard, it is not just the FRC that you need to think about. Here is what investors have told us they would like you to do:

- Communicate early
- Be transparent and forthcoming with information
- Describe how the change affects your company specifically – without boiler plate descriptions
- If you early adopt, consider also providing information under the old standard to remain comparable to your peers
- Clearly explain and reconcile differences between IFRS 16 and IAS 17
- Provide clarity on assumptions used, particularly for discount rates

**“Companies should not let the new accounting treatment or presentation of results drive the use and management of leases.”**

**“The increased clarity on lease obligations leads to better understanding of risk.”**

*This short guide highlights what finance and investor relations teams should consider as they prepare to transition to and communicate about IFRS 16. We share what investors and analysts have told us they expect companies to act upon, as well as the pitfalls to avoid.*



## Investors' and analysts' views matter because:

- A new accounting standard can have a major impact on how investors perceive the performance of companies and even whole sectors, especially where they think the old standard is inadequate. If addressed properly, this could have a **positive impact**.
- Their view of your company is influenced by how you react to and implement a new standard – is management being **transparent** and **proactive**?
- Analysts' valuations are not just based on future cash flows but also on profitability and net debt. Since IFRS 16 affects metrics like EBITDA and net debt, which are some of the most commonly used by analysts, it could influence their work, and possibly their **recommendations on your company**.



## Important points to remember:

- While some investors may not have been asking about the impact of IFRS 16 as they have already been making adjustments to capitalise leases, they will be interested in knowing the difference between their estimate and your actual calculations. The **detail and assumptions behind these calculations** will be crucial for their analyses.
- The market does not like uncertainty and will try to fill in any gaps in information – ensure that you are the one providing the messages about the effect on your company, not letting the market guess. Consider having an **educational call or meeting** for your analysts. Also, having clear detail in the annual report will be essential and more useful.
- Investors do not look at a new standard in isolation. They want to know what its **tax impact** is, and are also interested in the **cost of implementing** it – for example, how much are you spending on new software or employee training?



## Investors want companies to:

- **Communicate early** – be ahead of the curve. If the impact of the new standard is material, it is important to get that message to your investors and analysts as early as possible.
- However, if you adopt early, make sure you **remain comparable** to your peers. Consider presenting or including a note of the current year figures under the old standard.
- Explain clearly the differences between current practice and the new standard, allowing investors to perform **reconciliations**.
- Indicate what has changed as a result of the new standard and what is due to the **underlying economics** of new lease contracts entered into.
- Provide clear explanations of where the lease adjusted EBIT margin impacts are, and **disclose the ‘interest’ and ‘depreciation’ elements separately**. Include information on the **assumptions** used, particularly discount rates, as well as maturity analyses.
- Present **comparatives** (for at least three years) to show the impact of the new standard, not just at the group level, but also at a divisional level. This will enable analysts to understand what is happening in the business.

## Who to contact

### Your IFRS 16 contacts:

#### London

**Diane Walmsley**

diane.walmsley@pwc.com

**Stuart MacDougall**

stuart.j.macdougall@pwc.com

**Darsan Shah**

darsan.t.shah@pwc.com

#### South East

**David Farmer**

david.g.farmer@pwc.com

#### North

**Tom Yeates**

tom.r.yeates@pwc.com

#### Wales

**Paul Nott**

paul.x.nott@pwc.com

#### Midlands

**Matthew Walker**

matthew.g.walker@pwc.com

#### Scotland

**Mark Hoskyns-Abrahall**

mark.e.hoskyns-abrahall@pwc.com

### Investor Engagement:

**Hilary Eastman**

hilary.s.eastman@pwc.com

**Marie Claire Tabone**

marieclaire.tabone@pwc.com