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**Subject: Information note on the impact on macro-economic statistics
of IFRS 16 on leases**

Introduction

The International Accounting Standards Board (IASB) has issued a revised standard for the accounting of leasing in financial statements of lessees (IFRS 16), which applies to reporting periods from 1 January 2019. Contrary to the previous leasing standard (IAS 17), IFRS 16 does not align with the ESA 2010. This might create imbalances in national accounts and balance of payments statistics. This information note proposes on how to prepare statistical estimates under the new accounting standards so that they follow the terms under the ESA 2010 and the BPM6.

The impact on macro-economic statistics of IFRS 16 on leases

Eurostat, Unit C5: Integrated Global Accounts and Balance of Payments

Introduction

The International Accounting Standards Board (IASB) has issued a revised standard for the accounting of leasing in financial statements of lessees (IFRS 16), which applies to reporting periods from 1 January 2019. Contrary to the previous leasing standard (IAS 17), IFRS 16 does not align with the ESA 2010, which is applied by countries to prepare the national accounts and balance of payments statistics. IFRS 16 adopts a control-based approach on the use of an identified asset when assigning an asset to its economic owner, and requires all lessees to recognise a 'right-of-use' asset on their balance sheet for the right they have during the lease term, as well as a corresponding lease liability. For the lessor, no changes are foreseen due to the new accounting standard.

By contrast, ESA 2010 maintains the operating and finance lease distinction for both lessors and lessees, and lays down that assets are recorded by the economic owner following the concept of risks and rewards.

The changes introduced by the IFRS 16 might thus create imbalances in national accounts and balance of payments statistics, both at domestic and cross-border levels, due to the asymmetric recording. The current ESA 2010 and BPM6 treatment will continue to be applied for statistical purposes. Proposals are therefore presented on how to prepare statistical estimates under the new accounting standards so that they follow the terms under the ESA 2010 and the BPM6.

Leases in Business Accounts

In January 2016, the International Accounting Standards Board (IASB, accounting standard-setting body of the IFRS Foundation) published an International Financial Reporting Standard on leases (hereafter referred to as IFRS 16). The new standard is effective from 1 January 2019, replacing the previous leasing standard, IAS 17. All companies using rentals or leasing as a means to obtain access to assets, and that report under IFRS, are affected.

IFRS 16 introduces a single lessee accounting model, which requires a lessee to recognise on its balance sheet assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. At the inception of a lease, a lessee is required to recognise the 'right-of-use' asset representing its *right to use the underlying leased asset* and a lease liability representing its *obligation to make lease payments*. The lessee records depreciation of the right-of-use asset and interest on the lease liability in the profit and loss statement. This will make the risks from operating leases visible in the lessee's accounts.

Contrary to the previous standard IAS 17, lessees have to recognize an asset and associated liability for all lease arrangements, including those that were classified as operating leases

under IAS 17. Given that the treatment of all types of leases is the same, lessees do not anymore distinguish between operating and financial leases, as shown in Figure 1.

Lessor accounting under IFRS 16 will not change compared to IAS 17. The lessor continues to classify its leasing arrangements as operating leasing or financial leasing, and to account for those two types of leasing arrangements differently. Operating leasing income received by the lessor is reported in income items, e.g. 'rent, leasing and hiring income'. Regarding financial leasing, payments received by the lessor are treated as finance payments. The interest on financial leasing is reported in income items, 'interest income'. The repayment of the principal is not recorded in profit and loss accounts. The change in lease debt due to reimbursement is reported in the cash flow statement.

IFRS 16 allows entities (particularly lessees) some options as they transition from IAS 17, and the choice of options may vary substantially across entities. In addition, changes in IFRS are not necessarily implemented in other business accounting standards (at least initially), so national General Agreed Accounting Policies (GAAP) may remain unchanged, at least for some time. And depending on the country, the application of IFRS 16 standards may not be required for all companies, in particular the smaller ones.

Figure 1. Adoption of new accounting standards by the statistical unit (lessee)

Leases in IFRS 16, Balance Sheet

	IAS 17 / Topic 840		IFRS 16 / FASB model ⁶
	Finance leases	Operating leases	All leases
Assets	→ 🏠	---	→ → → 🏠 🏠 🏠
Liabilities	\$\$	---	\$\$\$\$\$\$\$
Off balance sheet rights / obligations	---	<div style="border: 1px solid black; padding: 2px;"> → 🏠 🏠 \$\$\$ </div>	---

Source: ifrs.org



	IAS 17 / Topic 840 / FASB model		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (excluding depreciation and amortisation)	---	Single expense	---
EBITDA			↑↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔

Leases in ESA 2010

Under the ESA 2010, there is a distinction between assets that are used under operating leases and finance leases. Under an operating lease, the legal owner (lessor) is also the economic owner and accepts risks and receives the benefits from the asset. The asset remains on the balance sheet of the lessor. The payments from a lessee to the lessor under an operating lease are considered as rentals and recorded as payments for a service. One indicative criterion of an operating lease is the legal owner's responsibility to provide and pay for any necessary repair and maintenance of the asset.

On the contrary, a finance lease passes the economic ownership of an asset to the lessee, who accepts the risks and receives the economic benefits from the exploitation of the asset. The legal owner (lessor) is shown as granting a loan to the lessee and the lessee receives the asset. The asset is shown on the balance sheet of the lessee and not the lessor. The corresponding loan is shown as an asset of the lessor and a liability of the lessee. ESA 2010 treats the payments from a lessee to the lessor as interest payments and repayment of principal. In case the lessor is a financial institution, FISIM should be imputed.

Classification and treatment of leases in the ESA 2010 and in the old accounting standard IAS 17 were closely aligned. However, lessees preparing accounts according to the new IFRS 16 standard will not distinguish between operating and finance leases but account for all leases in the same way, similar to the treatment of finance leases under IAS 17. It can therefore be expected that respondents will not be able to distinguish between operating and financing leases in statistical surveys and that they will report on leases with the characteristics of operating leases as if they were financing leases. This could consequently have an impact on statistical data. Moreover, as the lessor's accounting remains unchanged, an asymmetry between lessor's and lessee's reporting can be expected.

If no adjustments are made to the surveys after the adoption of IFRS 16, the following impact on the national accounts data may be expected:

For lessees with operational leasing expenses, intermediate consumption will go down and value added increase. Interest payments will increase. The impact on gross fixed capital formation, and on consumption of fixed capital and capital stock via the *perpetual inventory method* (PIM) model, will depend on how investments in 'right-of-use' assets are treated in the surveys. If they are recorded as tangible assets, the capital variables will increase, otherwise they should not change.

For lessees with financial leasing expenses there should not be any changes to intermediate consumption, value added and interest payments. If the 'right-of-use' assets are recorded as tangible assets, the capital variables should be more or less unchanged, otherwise they will go down.

This will again lead to imbalances between supply and use of operating leasing services and of capital goods that are subject to leasing.

Proposals to compile macro-economic data on the basis of IFRS 16 methodology

The ESA 2010 and the BPM6 require symmetrical counterparty transactions. The distinction between operating and financial leasing and the notion of economic ownership and the risk-and-reward concept is important in the accounting frameworks. Therefore, all recorded flows should reflect the distinction between operating and finance leasing.

Eurostat is of the view that bridging of IFRS 16 indicators, invoice-reporting and changes of national compilers' surveys and questionnaire could result in suitable information for compilation purposes under the terms of the ESA 2010 and the BPM6.

Surveys of lessees applying IFRS 16 probably need to be adjusted for use by national accounts and balance of payments. The adjustments will vary depending on how closely the survey is related to business accounting concepts. One option is to ask respondents to maintain the distinction between operational and financial leasing. Another option is to make adjustments after data collection, based on additional information collected either in the survey or from other sources, such as direct contact with companies. There is also the possibility to use data from lessors to obtain mirror data for lessees, where the counterparties are known.

Adjustments may be based on the 'invoice' when available e.g. in the SAP accounting system of the lessee or on a model of the data related to 'right-of-use' assets. The model would ideally be based on available detailed finance leases data, and estimate the stocks/flows for the captured leases through to the end of their current lease term. New finance leases could be added to the model over time, when a new right-of-use asset is identified which aligns with the ESA 2010 definition of a financial lease. All residual leases would be considered as operating leases.

The lease debt maturity breakdown may be used as an indicator to estimate principal and interest. Separating components e.g. of an aircraft group fleet presented as operating lease could be the starting point to partition the reimbursement (repayment of the principal) of a lease debt and interest on lease debt according to the share of operating leasing to total leasing. A source could be the information available in the IAS 7 Statement of cash flows.

These issues will need to be addressed in several ways. Eurostat has been working on this for some time. The Eurostat BOP team has during the last months addressed conceptual questions to experts in the field to get further guidance in the interpretation of new accounting standards. Further, experts from accounting, tax and finance advisors and the business have been invited to attend a meeting of the Task Force on the recording and compilation of maritime transactions in national accounts and balance of payments. It is intended to prepare a specific chapter in the handbook on shipping and aircraft in order to give detailed guidance for these assets.

Eurostat is also discussing the possibility to address the issue more generally covering business statistics and national accounts in a guidance note.

Eurostat has also launched a general consultation of the working groups for national accounts and balance of payments, in order to obtain information on how key stakeholders (will) address expected issues and possible changes in behaviour by charterers/leasing businesses.

Summary

The changes introduced by the international accounting standards might create imbalances in macroeconomic statistics due to the asymmetric nature of the reporting by the statistical units. Statistics are compiled in accordance with the ESA 2010 and the BPM6, and recognise the operating/finance leasing distinction and concept of risks-and-reward for economic ownership. IFRS 16 focuses on the notion of control.

There are several ways to handle the accounting changes. One option is to modify statistical surveys and questionnaires in which national compilers collect data from the accounting systems of statistical units. Further options are to use the 'invoice' when available e.g. in the SAP accounting system or to model the flows on available stocks/flows data related to 'right-of-use' assets. There is also the possibility to use data from lessors to obtain mirror data for lessees, where the counterparties are known.

These issues will need to be addressed in several ways, through discussions with business accounting experts, as well as with compilers and users of business and macroeconomic statistics.