LEASING
Lessor / Lessee
Impacts of IFRS 16

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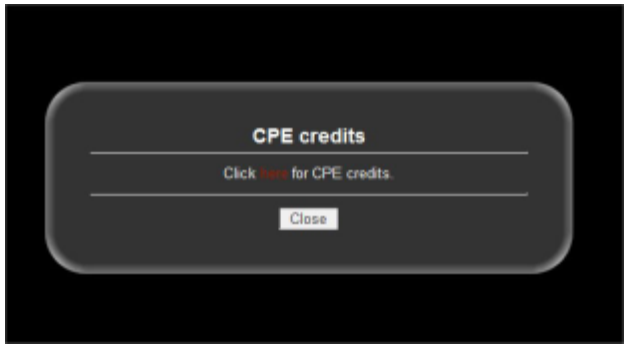
EBS Answers
Virtual Conference

Webinar Mechanics



- Submit text questions in the chat log.
- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers: http://www.linkedin.com/groups/EBS-Answers-4683349/about
- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.
- A recording of today's event will be available for 90 days for conference registrants.

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Learning Objectives

Objective 1: Understand the high level impact of IFRS 16 for the lessor

Objective 2: Understand the high level impact of IFRS 16 for the lessee

Objective 3: How my EBS Financial applications will address IFRS 16

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- Establish Data Quality Standards and a Single Source of Truth

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Agenda

- Overview
- Current Accounting Flow
- IFRS 16 – Impacts to the Lessor
- EBS Lease Management
- IFRS 16 – Impacts to the Lessee
- EBS Property Manager / EBS Financials
- Implementation & Transition to IFRS 16
- Q&A

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Overview

- In 2006 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) engaged in a joint project to improve and create a consistent method for accounting of a lease
- This project would result in the replacement of the current IAS 17 Lease standards with the IFRS 16
- Multiple drafts and proposal have evolved throughout the last several years and in January 2016 IFRS 16 was published
- IFRS 16 defines the standards and accounting requirements for both the lessor and lessee to include:
  - Revenue Recognition Rules
  - Classification Method
  - Disclosure

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Overview

- During the draft and proposal timeline Oracle Development dedicated a team to ensure Oracle E-Business Suite (EBS) Financials could easily adopt the required changes specifically in our Lease and Financial Management and Property Manager products.
- Leveraging the core financial accounting engine within Subledger Architecture (SLA) and the ability to create multiple reporting ledgers reduces the complexity of transitioning to IFRS 16

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Poll Question

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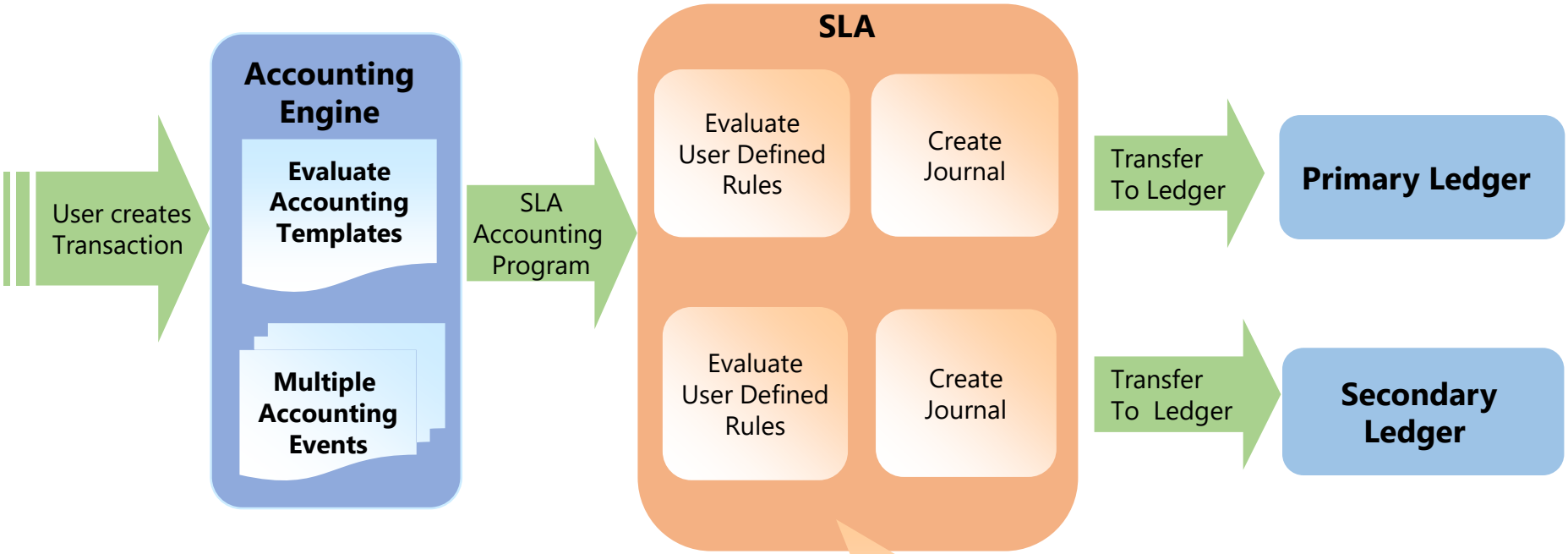
Accounting for Transactions



Users can setup unique Accounting rules for each representation

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Lessor Impact

- After numerous drafts and proposal IFRS 16 will closely follow the current IAS 17 standards allowing for 2 basic lease classifications:
  - Operating Lease
    - Retain asset ownership and depreciation
    - Recognize income on a straight line basis or systematic basis
  - Finance Lease
    - Transfer of ownership of asset
    - Recognize income based constant periodic rate of return based on the lessor's net investment
    - Typically has purchase option at end of lease
    - Lease term is major part of the asset's economical life

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Lessor Impact

- Oracle EBS Lease and Financial Management (OLFM) allows the lessor to setup the contract and define the lease classification
- The lease classification provides all appropriate accounting streams and transactions required for IFRS 16 standards
- This functionality allows for dual financial representations of the contract allowing customers to create both US Gaap and IFRS financial representation to understand the IFRS 16 impact

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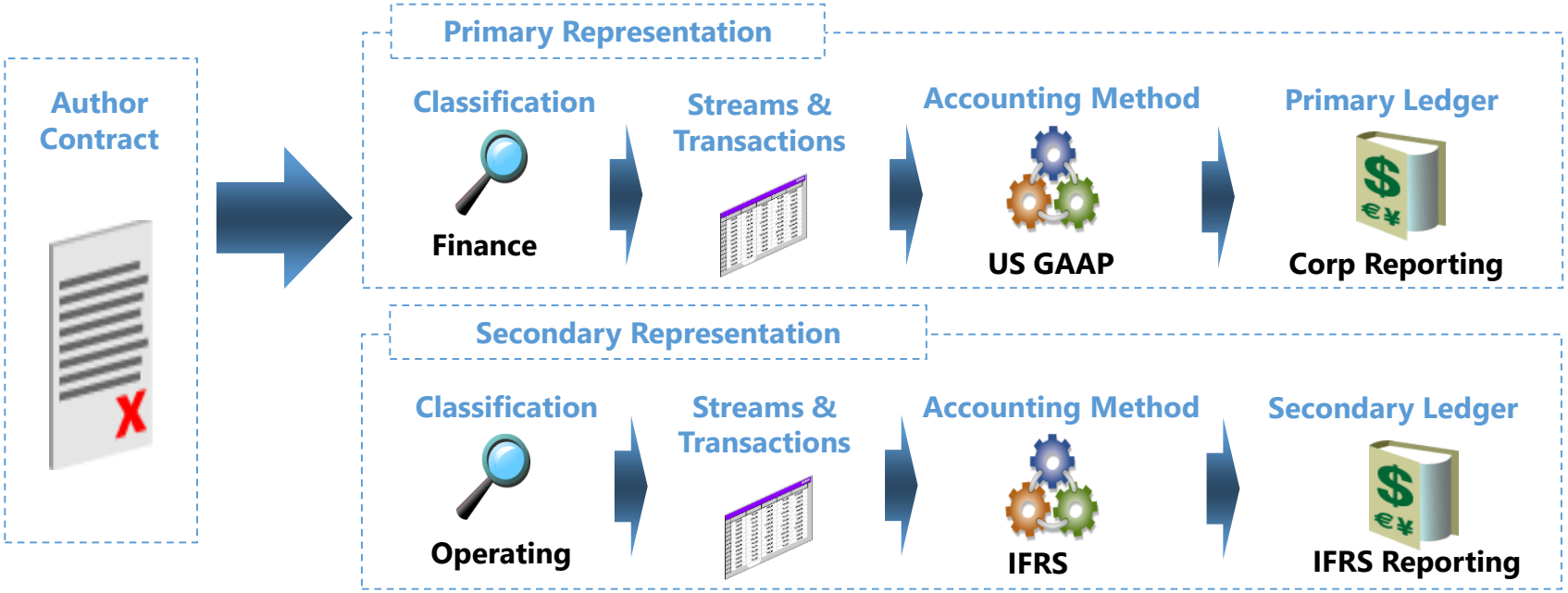
OLFM Process Flow



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Lessee Impact

- IFRS 16 will have a significant changes in the way lessees will need to classify and account for leased assets
- The standards could impact a company's decision to lease or buy the asset
- At commencement of a lease the lessee will be required the lessee account the lease liability and the asset "right to use"
- Right of use includes the lease liability and any direct cost incurred by the lessee that is associated to the leased asset
- After commencement the lessee is required to measure the right of use cost model as described in IFRS 16:29, 34, 35

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Lessee Impact

- The lessee will need to track revisions to the lease contract similar to the current process the lessor follows:
  - Change in lease term
  - Assessment of purchase option
  - Amounts to be paid under residual value guarantees
  - Future lease payment changes due to change in index rate (variable rate)

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Lessee Impact

- Recognition exemption – the lessee may elect to recognize the lease expense throughout the lease term for the following 2 types of leases:
  - Term of lease contract is 12 months or less with no purchase option at end of term
    - Determined on the class of the underlying asset
  - Leases were the asset has a lower value when new such as laptops, office furniture or small office equipment
    - Can be determined on a lease to lease basis

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Lessee Impact

- Oracle Property Manager currently allows the lessee to track leased assets and provide the necessary expense accounting transactions supporting the current standards
- Oracle Development for Property Manager is evaluating the functionality offered with OLFM to determine the appropriate enhancements needed within the Property Manager applications

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Lessee Impact

- Other options for capture IFRS 16 standards in your Oracle EBS Financial solution without the use of Property Manager – Causal Lessee
  - Record lease liability and right of use as part of procurement process through Oracle Purchasing
  - Record the lease payment and impact to the lease liability through Oracle Payables
  - Restructures will require the Purchase Order to be updated

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Implementation of IFRS 16

- IASB has set the effective date as January 2019
  - Allows changes to systems and processes to accommodate the new calculations – portfolio level or contract level
  - Definition of a lease and the assessment of the lease term
  - Potential tax implications
  - Impact of Standards on debit covenants and management compensation
  - Additional information that may need to be gathered to meet the required disclosure
- Lessee will have the option of applying full retrospective effect or cumulative effect adjustment on the opening equity at date of application

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Additional Information

- Additional detail information on IFRS 16 and how the new standards will impact your organization can be found at:

  http://www.iasplus.com/en/standards/ifrs/ifrs-16

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Poll Question

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Contact

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