



Application of IFRS 16 Leases in Italy

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- ❖ IFRS 16 *Lease* is applicable in Italy starting from 1 January 2019. Early adoption is permitted.
- ❖ Reviewed the interim financial statements as at 30 June 2019 of the entities included in the main Italian stock exchange index (*FTSE-MIB*).
- ❖ The focus of this review is:
 - ❖ How IFRS 16 has been applied in practice
 - ❖ The impact at the transition date
 - ❖ The main implementation issues



The sample



Super Sector	N° of entities
Bank	6
Fashion	2
Finance services	2
Food	1
Healthcare	3
Insurance	4
Oli & Gas	3
Product and industrial service	5
Public Sector	5
Tecnology	1
Telecommunication	1
Others	2
Total	38



- ❖ All – 38 entities
- ❖ Almost all - all except a very small minority (>90%)
- ❖ Most - a large majority, with more than a few exceptions (>60%)
- ❖ Many - a small majority (>50%)
- ❖ Some - a large minority (>20%)
- ❖ A few - a small minority (<20%)

The review is based on the information explicitly stated in the notes.

Effective date and transition



- ❖ Only one entity early adopted IFRS 16 (1 January 2018)
- ❖ ALL entities applied «retrospective modified approach»
- ❖ MANY entities applied IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

Transition – accounting policy and practical expedient

- ❖ *ALMOST ALL* measured the ROU asset at an amount equal to the lease liability adjusted by any prepaid or accrued lease payments.
- ❖ *Most* did not applied IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application.
- ❖ *Many* excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- ❖ *Many* used hindsight in determining the lease term
- ❖ *A few* applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ❖ *A few* entities relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review.

IFRS 16 Exemption and practical expedient after the transition



- ❖ Almost all did not apply IFRS 16 to:
 - ❖ *short-term leases*; and
 - ❖ leases for which the *underlying asset* is of low value
- ❖ Many accounted for each lease component and any associated cost non-lease components as a single lease component.
- ❖ A few applied IFRS 16 to a portfolio of leases with similar characteristics



IFRS 16 main impacts



RoU 1.1.2019/Total non current asset 31.12.2018

Range	N° of entities
0%-5%	20
5,1%-20%	5
> 20%	3
Total industrial sector	28

24%
63%
139%

Lease Liabilities 1.1.2019/Total liabilities 31.12.2018

Range	N° of entities
0%-5%	19
5,1%-20%	6
>20%	3
Total industrial sector	28

26%
93%
142%

On bank/insurance sector the impact on Total Assets and on Total Liabilities is below 1%

IFRS 16 main impacts industrial sector



- ❖ Most highlighted the impact of IFRS 16 on:
 - ❖ net financial position
- ❖ Many highlighted the impact of IFRS 16 on
 - ❖ EBITDA or EBITDA Adj
- ❖ A few added new non-GAAP measures
- ❖ A few updated the covenants due to the introduction of IFRS 9, IFRS 15 and IFRS 16



Implementation issues discussed in Italy

- ☐ Lease of a set of assets (is it a business? Does the lessee control the assets/business?)
- ☐ Lease of software licensing (IFRS 16 or IAS 38?)
- ☐ Determination of the *incremental borrowing rate* when a subsidiary is funded only by the parent company (can the subsidiary use the incremental borrowing rate of the group?)
- ☐ Lease term: how to determine the lease term of a lease contract stipulated in accordance with the Italian law (lease ex lege 392/1978)?

The main areas of judgment discussed in interim financial statements

- ☐ Lease term
- ☐ Discount rate