



## **OPERATING LEASE COMMITMENTS**

**A Survey of Operating Lease Commitments by Irish Equity Issuers**

**July 2016**

## **MISSION**

**To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest**

## **DISCLAIMER**

Whilst every effort has been made to ensure the accuracy of the information contained in this document, IAASA accepts no responsibility or liability howsoever arising from any errors, inaccuracies, or omissions occurring. IAASA reserves the right to take action, or refrain from taking action, which may or may not be in accordance with this document.

# CONTENTS

## Page

1.	Introduction .....	1
2.	Purpose of this survey .....	1
3.	Operating lease commitments .....	2
4.	Conclusions .....	3

## APPENDIX

	Issuers included in this survey .....	4
--	---------------------------------------	---

## 1. Introduction

IAASA (Ireland's accounting enforcer) carried out a desk top survey on the commitments under operating leases as disclosed in equity issuers' 2015 annual financial statements.

The current international accounting standard IAS 17 *Leases* requires issuers to disclose their operating lease commitments over the following periods<sup>1</sup>:

- (a) not later than one year;
- (b) later than one year and not later than five years; and
- (c) later than five years.

Under the existing rules, lessees account for lease transactions as either "operating" leases or as "finance" leases. Under IAS 17 "operating" lease commitments do not appear as liabilities on issuers' statements of financial position. However, for "finance" leases, the related assets and lease obligations are required to be recognised on the statement of financial position.

The [International Accounting Standards Board](#) (IASB) published IFRS 16 *Leases* in January 2016 with an IASB effective date of 1 January 2019. IFRS 16 replaces IAS 17 and related interpretations. IFRS 16 eliminates the distinction between "operating" leases and "finance" leases" in IAS 17. In summary, under IFRS 16 all leases, subject to certain *de minimus* exceptions, will be treated in a manner similar to the existing requirements under IAS 17 for "finance" leases. IFRS 16 introduces a single lessee accounting model where the lessee is required to recognise in its statement of financial position:

- (a) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value; and
- (b) 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.

IAASA's survey is based on the 2015 annual financial reports published by all 27 equity issuers falling within IAASA's financial reporting review remit together with Allied Irish Banks plc, a debt issuer, as listed in the Appendix to this document.

This document summarises the total amount of operating lease commitments of each issuer. This amount may be indicative of the scale of how much of the current "operating" lease commitments will require to be capitalised once issuers adopt the requirements of IFRS 16.

In undertaking this desk top survey, additional information was not sought from the issuers concerned.

## 2. Purpose of this survey

The primary purpose of the survey was to:

- (a) determine the quantum of "operating" lease commitments of issuers which are not yet required to be recognised as assets and liabilities on issuers' statements of financial position; and
- (b) provide preparers, auditors and users of financial statements with factual information which may encourage discussion and debate on the "operating" lease commitment disclosures of issuers and the impact of the implementation of IFRS 16.

---

<sup>1</sup> IAS 17.35(a) refers

### 3. “Operating” lease commitments

IAASA’s desk top survey identified that the selected issuers have a total of €6.6bn (2014: €5.8bn) of “operating” lease commitments.

The Table below summarises the “operating” lease commitments which were disclosed by each issuer in their most recent annual financial statements.

**Table – “Operating” lease commitments**

No.	Issuer	Within one year	After more than one year and within five years	After more than five years	Total
		€m <sup>2</sup>	€m	€m	€m
1	CRH plc	370	915	831	2,116
2	Grafton Group plc	77	282	712	1,071
3	Bank of Ireland	62	211	421	694
4	Allied Irish Bank plc	59	202	342	603
5	Ryanair Holdings plc	140	273	20	433
6	Aryzta AG	54	155	121	330
7	Smurfit Kappa Group plc	81	161	68	310
8	DCC plc	43	100	92	235
9	Paddy Power Betfair plc	34	106	70	210
10	Glanbia plc	19	60	64	143
11	Greencore Group plc	17	42	40	99
12	Irish Continental Group plc	8	11	62	81
13	UDG Healthcare plc	19	32	28	79
14	Kerry Group plc	24	36	16	76
15	Permanent TSB Holdings plc	7	27	24	58
16	C&C Group plc	12	26	10	48
17	Kingspan Group plc	10	20	1	31
18	Independent News and Media plc	4	8	16	28
19	IFG Group plc	2	2	1	5
20	Datalex plc	1	2	1	4
21	Cairn Homes plc	0.4	1.6	0.7	2.7
22	Mainstay Medical International plc	0.1	0.2	0	0.3
23	Aminex plc	0.06	0	0	0.06
24	FBD Holdings plc	0	0	0	0
25	Irish Residential Properties REIT plc	0	0	0	0
26	Kenmare Resources plc	0	0	0	0
27	Green REIT plc	0	0	0	0
28	Hibernia REIT plc	0	0	0	0
	<b>Total</b>	<b>1,043.56</b>	<b>2,672.8</b>	<b>2,940.7</b>	<b>6,657.06</b>

<sup>2</sup> For issuers presenting their financial statements in Sterling i.e. Grafton Group plc and IFG Group plc, amounts have been translated into euro at £0.73395:€1, DCC plc at £0.79155:€1 and Greencore Group plc at £0.73475:€1 and for issuers presenting their financial statements in US Dollars (i.e. Datalex plc, Mainstay Medical International plc and Aminex plc), amounts have been translated into euro at US\$1.0887:€1

#### 4. Conclusions

It is evident that the “operating” lease commitment amounts, which are currently “off balance sheet”, are substantial. Lessees will be affected by IFRS 16 as the new financial reporting standard will “gross up” the statement of financial position and will require presentational changes to the income statements e.g. the “operating” lease rental will be replaced with a depreciation charge and an interest expense in the income statement. Financial ratios (e.g. earnings per share, earnings before interest and tax, etc) may be impacted as a consequence. Such changes may impact loan covenants for some issuers. It is envisaged that a significant proportion of the extant “operating” lease commitments will require to be recognised in issuers’ statements of financial positions, once the transition to IFRS 16 is underway. However, given the nature of this desk top survey, IAASA is not in a position to estimate the amount of “operating” lease commitments that will be “capitalised” by issuers.

Directors and Audit Committees are reminded that current financial reporting standards require an entity, when it has not adopted a new IFRS that has been issued but is not yet effective, to disclose both that fact and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new IFRS will have on its financial statements<sup>3</sup>. This disclosure applies irrespective of whether that IFRS has or has not been endorsed by the EU<sup>4</sup>.

---

<sup>3</sup> Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* refers

<sup>4</sup> IFRS 16 has not yet been endorsed by the European Union (EU). The most recent (6 July 2016) indications from EGRAG ([www.efrag.org](http://www.efrag.org)) is that endorsement might be expected in 2017. See <http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520Endorsement%2520Status%2520Report%252006%2520July%25202016.pdf>

## Issuers included in this survey

The issuers falling under IAASA's financial reporting examination remit which were selected for inclusion in this "operating" lease commitment survey are listed below.

No.	Issuer	Reporting date
1	Allied Irish Banks plc <sup>5</sup>	31 December 2015
2	Aryzta AG	31 July 2015
3	Aminex plc	31 December 2015
4	Bank of Ireland	31 December 2015
5	C&C Group plc	29 February 2016
6	Cairn Homes plc	31 December 2015
7	CRH plc	31 December 2015
8	Datalex plc	31 December 2015
9	DCC plc	31 March 2016
10	FBD Holdings plc	31 December 2015
11	Glanbia plc	2 January 2016
12	Grafton Group plc	31 December 2015
13	Green REIT plc	30 June 2015
14	Greencore Group plc	25 September 2015
15	Hibernia REIT plc	31 March 2016
16	IFG Group plc	31 December 2015
17	Independent News and Media plc	31 December 2015
18	Irish Continental Group plc	31 December 2015
19	Irish Residential Properties REIT plc	31 December 2015
20	Kenmare Resources plc	31 December 2015
21	Kerry Group plc	31 December 2015
22	Kingspan Group plc	31 December 2015
23	Mainstay Medical International plc	31 December 2015
24	Paddy Power Betfair plc	31 December 2015
25	Permanent TSB Group Holdings plc	31 December 2015
26	Ryanair Holdings plc	31 March 2015
27	Smurfit Kappa Group plc	31 December 2015
28	UDG Healthcare plc	30 September 2015

<sup>5</sup> Allied Irish Banks plc is a debt issuer