



# **Financial Reporting Decisions**

**9 January 2017**

<b>Issuer</b>	AerCap Global Aviation Trust
<b>Report type</b>	Annual financial statements
<b>Reporting period</b>	Year ended 31 December 2015
<b>Financial reporting framework</b>	Irish GAAP
<b>Applicable financial reporting standards</b>	FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i>
<b>Other Regulations</b>	Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended) ('the Regulations')

### Summary

AerCap Global Aviation Trust ('the issuer') is an entity engaged in the leasing and financing of commercial jet aircraft and engines.

IAASA performed an unlimited scope examination of the issuer's 2015 annual financial statements.

IAASA concluded that the issuer had not complied, in full, with disclosure requirements of FRS 102 and Regulation 5(4)(c)(ii) of the Transparency Directive. The issuer provided IAASA with undertakings to provide additional disclosures in future financial statements regarding:

- a) Revenue [FRS 102.23.30 – Revenue];
- b) Secured and unsecured notes and subordinated debt [FRS 102.11.42(a) – Basic Financial Instruments];
- c) The accounting policy for aircraft and equipment purchase commitments and non-refundable deposits [FRS 102.8.5 – Notes to the Financial Statements];
- d) Assets pledged as security [FRS 102.17.32(a) – Property, Plant and Equipment];
- e) Management Report – fair review of the business [Regulation 5(4)(c)(ii) and Rule 6.1 of the Transparency Rules of the Central Bank of Ireland<sup>1</sup>]; and
- f) Analysis of expenses [FRS 102.5.11 – Statement of Comprehensive Income and Income Statement].

### Background

The issuer is a Statutory Trust formed at Delaware, USA having its principal office in Ireland.

### Outline of financial reporting treatment applied by the issuer and outline of decisions made by IAASA

Set out below is an outline of the financial reporting treatment applied by the issuer, the financial reporting decisions made by IAASA, and the corrective actions to be undertaken by the issuer.

<sup>1</sup> The most recent version of the Transparency Rules (4 November 2016) are available at <http://www.centralbank.ie/regulation/marketsupdate/Documents/161104%20Transparency%20Rules%20-%20PDF.pdf>

**Financial reporting treatment applied by the issuer****Outline of decision made by IAASA and corrective action to be undertaken by the issuer****REVENUE [FRS 102.23.30 – REVENUE]**

The Notes to the financial statements disclosed that revenue arose from a number of sources including:

- rentals from aircraft on operating leases;
- unearned revenue from finance and sales type leases;
- aircraft trading transactions;
- lease management fees;
- interest;
- supplemental rent to cover anticipated maintenance costs;
- end-of-lease compensation adjustments;
- bank interest on cash and cash equivalents; and
- interest amortisation from security deposits.

However, the notes to the financial statements provided only limited analysis of revenue by category.

IAASA questioned whether the issuer had complied, in full, with the disclosures of revenue by category as required by FRS 102.23.30.

IAASA concluded that the disclosures provided in the financial statements did not meet the requirements of FRS 102.23.30 in full.

The officers confirmed that future financial statements would, if material:

(a) disclose each category of revenue in accordance with the disclosure requirements of FRS 102.23.30. This disclosure would cover revenue earned from each of the following categories:

- lease rentals;
- unearned revenue from finance leases;
- supplemental rent;
- end-of-lease compensation adjustments
- asset value guarantees; and
- net insurance proceeds; and

(b) separately disclose revenue derived from each major geographic region.

**SECURED AND UNSECURED NOTES AND SUBORDINATED DEBT [FRS 102.11.42(A) – BASIC FINANCIAL INSTRUMENTS]**

The Notes to the financial statements disclosed that the issuer had co-issued senior unsecured notes amounting to US\$2bn during 2015 together with a similar material redemption of senior unsecured notes during 2015.

FRS 102.8.2 states that the notes to financial statements shall provide information that is relevant to an understanding of any of them.

In addition, FRS 102.11.42 – *Basic Financial Instruments* states that an entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include: *'the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).'*

IAASA concluded that the issuer had not complied, in full, with the requirements of FRS 102.8.2 and FRS 102.11.42.

The officers confirmed that future financial statements would provide:

- (a) disclosure of the nature of the risks and restrictions that are imposed on the issuer arising from the issuance of secured and unsecured notes and subordinated debt; and
- (b) a reconciliation of the movement in each class of debt in tabular format, notwithstanding that such a reconciliation is not an explicit requirement of FRS 102.

IAASA's view is that a reconciliation of the issuer's debt is information that is relevant to an understanding of the movement of each class of secured and unsecured notes and subordinated debt during the year and is, therefore, required by FRS 102.8.2.

**ACCOUNTING POLICY FOR AIRCRAFT AND EQUIPMENT PURCHASE COMMITMENTS AND NON-REFUNDABLE DEPOSITS [FRS 102.8.5 – NOTES TO THE FINANCIAL STATEMENTS]**

FRS 102.8.5 requires entities to disclose, in the summary of significant accounting policies, the measurement bases and accounting policies used that are relevant to an understanding of the financial statements.

The issuer paid non-refundable deposits on purchase commitments amounting to US\$679m as at 31 December 2015 and the final purchase price of the aircraft can vary due to a number of factors.

IAASA requested clarification of the issuer's accounting policy for the recognition, measurement, presentation and disclosure of aircraft purchase commitments and non-refundable deposits and non-transferable options to acquire additional aircraft, in particular:

- (a) the timing of initial recognition of purchase commitments, non-refundable deposits and non-transferable options;
- (b) the point at which ownership of aircraft passes to the issuer;
- (c) the point at which the final purchase price for aircraft subject to purchase commitments is known; and
- (d) which items have been included in the cost of aircraft.

IAASA concluded that the disclosures of the accounting policy for aircraft purchase commitments and non-refundable deposits did not comply, in full, with the requirements of FRS 102.8.5.

The officers have agreed to augment the accounting policies in respect of aircraft deposits and purchase commitments as set out at items (a) to (d) in the column opposite.

**Financial reporting treatment applied by the issuer**

**Outline of decision made by IAASA and corrective action to be undertaken by the issuer**

**AIRCRAFT PLEDGED AS SECURITY [FRS 102.17.32(A) – PROPERTY, PLANT AND EQUIPMENT]**

FRS 102.17.32(a) requires an entity to disclose:

- (a) the existence; and
- (b) carrying amounts

of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities.

The issuer confirmed that aircraft may be pledged as collateral for external funding requirements.

IAASA concluded that the financial statements did not provide sufficient information about assets pledged as collateral.

The issuer confirmed that future financial statements would comply, in full, with the disclosures requirements of FRS 102.17.32(a).

**Financial reporting treatment applied by the issuer**

**Outline of decision made by IAASA and corrective action to be undertaken by the issuer**

**MANAGEMENT REPORT – FAIR REVIEW OF THE BUSINESS [REGULATION 5(4)(C)(II) AND RULE 6.1 OF THE TRANSPARENCY RULES OF THE CENTRAL BANK OF IRELAND]**

Regulation 5(4)(c)(ii) requires that the Management Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face.

Rule 6.1 of the Transparency Rules requires disclosures of balanced and comprehensive analysis of the development and performance of the issuer's business during the financial year.

A number of matters were noted during IAASA's examination of the financial statements which did not appear to have been reflected in the Management Report, e.g.:

- (a) the significant movement in gross profit margin and profit on ordinary activities;
- (b) the significant movement in operating expenses;
- (c) an increase in the investment in subsidiaries;
- (d) the co-issuance of US\$2.0bn of senior unsecured Notes during the year; and
- (e) the reduction of the issuer's revolving credit facility to US\$500m from US\$1.0bn.

IAASA concluded that the Management Report did not comply, in full, with the disclosure requirements of Regulation 5(4)(c)(ii) and Rule 6.1 of the Transparency Rules.

The officers agreed that future Management Reports would be expanded to provide more extensive disclosures and would reflect information that is specific, relevant and material to the particular year such as those matters specified at items (a) to (e) in the column opposite.

**Financial reporting treatment applied by the issuer**

**Outline of decision made by IAASA and corrective action to be undertaken by the issuer**

**ANALYSIS OF EXPENSES [FRS 102.5.11 STATEMENT OF COMPREHENSIVE INCOME AND INCOME STATEMENT]**

FRS 102.5.11 requires entities to present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

The financial statements disclosed that operating expenses amounted to US\$188m (2014: US\$112m); however, no further analysis of expenses had been provided in the notes to the financial statements.

IAASA concluded that the financial statements did not provide a sufficiently detailed analysis of expenses consistent with the requirements of FRS 102.5.11.

The officers have agreed to include further details in respect of Operating Expenses in future financial statements.