

IFRS16 System Selection Checklist

Before committing to a solution for new lease accounting, the following points should be considered. IFRS16 compliance is an enormous challenge in itself, but longer-term considerations are much broader and more complex than they might seem:

- Ready now and can be implemented instantly out of the box
- Combined Lease Management and Lease Accounting
- Processes for user consistency and control
- Comparison Impact reports (whole portfolio or lease by lease) for Full Retro and Mod Retro C8bi/C8bii
- Automatic application of IFRS 16 definitions and elections
- Portfolio-wide summary of all lease classification settings
- Central IBR and Low-Value tables
- Comparison of IFRS16 and IAS17 within same date range
- Comparison of IFRS16 and IAS17 current vs previous date range
- Audit summary of any change to lease data within chosen date range
- 'Certain Options' and RV guarantees added or removed within a single lease record
- Asset addition or removal contained within a single lease record
- Any and all changes accommodated without child leases
- Flexibility to add unlimited asset templates and new fields
- A broad future-proof and flexible solution looking beyond IFRS16 compliance
- Ease of use

Why a checklist?

There are many solutions for IFRS 16 on the market – some offer lease management with basic IFRS 16 capabilities, some with little or no lease management ability but with more of a focus on IFRS 16 and some that utilise board assumptions for modelling (that cannot be used for accounting).

The IFRS 16 technical capabilities of your chosen solution are also key – IFRS 16 is hugely complex in the actual real-life application. Many solutions are badged as ‘compliant’ but actually have to utilise short cuts that leave the question of compliant accounting wide open.

It is therefore important that your selected solution includes the range of capabilities needed, technical compliance and also avoids the need for a stop-gap solution now (to model) and one later on for the accounting.

Ready now and can be implemented instantly out of the box

System development rarely runs on schedule and severe delays are commonplace. If the proposed system is not ready now, there is a very high risk that it might not be ready on time. Equally, any requirement for long and complex implementation suggests that the system might not be ready and/or might be extremely complicated to use or modify in the future.

Combined Lease Management and Lease Accounting

A combined Lease Management and Lease Accounting system is critical to ensure that the integrity of future lease data is maintained for ongoing reporting. However, because of the associated development time and cost, most systems provide either lease accounting in isolation or very basic broader functionality. Solutions that can do both offer the chance to ‘future proof’ your solution selection.

Processes for user consistency and control

It is vitally important to maintain a consistent approach to all leasing related matters from all users. A facility to include an unlimited number of processes with a list and sequence of required tasks will prove invaluable in helping to achieve this over the long-term.

Comparison Impact reports (whole portfolio or lease by lease) for Full Retro and Mod Retro C8bi/C8bii

Sampling a few leases from a portfolio does not give an accurate assessment for the important transition decision between full retrospective and modified retrospective

C8bi/C8bii options. It is therefore very important to have a system that runs all three calculations live on a lease-by-lease basis, allowing a complete portfolio-wide comparison. Then, if modified retrospective is preferred, the remaining two related calculations will be available to assist with ongoing choice for all new leases. This important functionality is extremely complex and therefore not included within most systems.

Automatic application of IFRS 16 definitions and elections

There are many things to consider in order to classify a lease under new lease accounting rules including:

- Variable payments – leases should be categorised and recorded separately as such
- Low Value Assets - where an average asset value should be calculated within each lease and compared to a central low value table for classification
- Short- Term leases – need to be automatically measured and classified with a manual election option included
- Standalone Assets – need to be identified and recorded as such
- IBR – various IBR rates need to be held centrally and referenced for Transition Option calculations and comparison

Where leases are excluded by elections, details should still be contained within accounting reports for the required disclosure and accuracy and ease of reference

Portfolio-wide summary of all lease classification settings

For a trained operator to validate portfolio-wide settings efficiently, it is important to have access to a report summarising all settings used for lease classification, such as Asset Class, Restoration Costs etc.

Central IBR and low-value tables

In most cases, IBR will be used in the absence of Interest details for each lease. These rates need to be held centrally by Company/Country/Currency/Asset Type and Date Range. Equally, it is quite possible that the asset low-value threshold will become more refined in the future, so a similar central table should also be available.

Comparison of IFRS16 and IAS17 within same date range

For complete clarity, it is necessary to have access to separate reports for both IFRS16 and IAS17 interpretation. Reports with both options side-by-side for comparison within any chosen date range should also be available.

Comparison of IFRS16 and IAS17 current vs previous date range

Access to reports with current date range for IFRS16 compared to previous date range for IAS17 should be included.

Audit summary of any changes to leases within any chosen date range

A report listing all changes to accounting details within any chosen date range should be included, with full details and notes of all changes such as asset addition or removal; ROU adjustments etc. Ideally, these changes should be noted automatically by the system to ensure that nothing is overlooked.

'Certain Options' and RV Guarantees added or removed within single lease record

When options such as Purchase, Termination and Extension become certain, or Residual Value Guarantees are included, they need to be recorded within the associated lease record and a vast number of values recalculated. These options may not be known at the time of lease commencement but have to be recorded from the time they become reasonably certain. As a consequence, at any point within a payment stream, it might be necessary to add the 'Certain Option' or RV guarantee and recalibrate all associated values. At some later point, the position might reverse causing further recalculation.

To ensure a simple and clear record of all activities, details should be contained within a single lease record, including any necessary recalibration of values at each point of change. The liabilities then need to be recognised in all associated accounting reports, showing recalibrated values where applicable.

Asset addition or removal within single lease record

Any asset addition or removal event should be recorded and all associated calculations recalibrated within a single lease. The related values should also be recorded as a modification in accounting reports.

Any and all changes accommodated without child leases

Any other change such as impairment should be recorded with associated values recalibrated within a single lease record. The related values should also be recorded as a modification in accounting reports. Details should be included within a single lease record to prevent the addition of a potential vast numbers of child leases.

Flexibility to add unlimited asset templates and new fields

Headline information such as dates, payments and related calculations are fairly consistent across most leases. However, more specific details for different asset types are not, such as vehicles vs property for example. It is therefore necessary to ensure that unlimited templates can be added for each asset type, with flexibility to include unlimited additional fields at any time, at little or no cost and within a realistic timeframe.

A broad future-proof and flexible solution looking beyond IFRS16 compliance

With limited available time and the IFRS16 deadline looming, all focus is on a solution to meet compliance. Inevitably, this will lead to rushed decisions on systems, many with misleading, basic and inadequate functionality, or worse still, some that might not be completed on time.

In the clearer light of day and as time progresses, many systems chosen in haste will prove inadequate and unable to meet broader related requirements. It is not really possible to know what to expect from a new system until it has been in use for some time. It is therefore vitally important that a system offering flexibility and agility for rapid and cost-effective change is selected to ensure a future-proof solution.

Ease of use

Most businesses have to tolerate clunky legacy systems that are complicated and do not follow any real logical flow. However, today's users are familiar with the simplicity of smartphones allowing ease of access to pretty much anything without training or guidance. Whilst it is unlikely that the same simplicity can be achieved with complex systems, there is no reason why users should not experience a friendly intuitive flow wherever possible. This not only encourages users to embrace new functionality, but also minimises or even eliminates training time and ongoing associated costs.