

Open call for tenders to assist EFRAG in its impact analysis of IFRS 16 *Leases* (economic behavioural expertise)

A. Summary of contract requirements and tendering procedure

1. Contracting entity

1.1 Name and address

European Financial Reporting Advisory Group AISBL (EFRAG)
35 Square de Meeûs,
B-1000 Brussels
Belgium
Email box: call.for.tender@EFRAG.ORG

Contact persons:

- Andrew Watchman, EFRAG TEG Chairman and CEO (Andrew.Watchman@EFRAG.ORG ; 0032-(0)2 -210.44.06);
- Patricia McBride, EFRAG Technical Director (Patricia.McBride@EFRAG.ORG ; 0032-(0)2 -210. 44.03).

1.2 Internet address

www.efrag.org

1.3 Date of publication of this notice

4 July 2016

1.4 Communication

Additional information can be obtained from the above mentioned address.

1.5 EFRAG's mission statement

EFRAG's mission is to develop and promote European views in a thought leadership role and to ensure that they are properly taken into account in the IASB standard setting process. EFRAG hears all views and of all specific circumstances originating in Europe and synthesises these to speak convincingly, clearly and consistently, as the European Voice in Financial Reporting, building its legitimacy on its governance, due process and public accountability. EFRAG carries its assessments of IFRS throughout the standard setting process. It ultimately provides advice to the European Commission (EC) as to whether IFRS meets the IAS Regulation endorsement criteria for use in the preparation of accounts in the EU. This assessment includes whether endorsing the newly issued or revised IFRS would be conducive to the European public good. EFRAG's mission is carried out with the sole objective of serving European public interest.

2. Description of the contract

2.1 Short description

The objective of the contract is to assist EFRAG with economic and behavioural expertise in its *ex ante* impact analysis of IFRS 16 *Leases* (IFRS 16). This will serve as an input to EFRAG's endorsement advice to the EC on whether IFRS 16 would be conducive to the European public good.

2.2 Detailed description

See Section B.

3. Formal requirements and description of the procurement process

3.1 Delivery deadlines

The organisation of the study should take place in the following phases which do not aim at producing different papers but ensuring a close coordination between the contractor and the EFRAG Secretariat on the progress of the report:

- a) The contractor shall submit a structured outline (similar to a table of contents plus text indicating important points) of the study **by 8 September 2016** as basis for a kick off meeting **in September 2016** at the date agreed between the EFRAG Secretariat and the contractor;
- b) The contractor shall provide a progress report in the form of a presentation at the EFRAG offices **by 31 October 2016**;
- c) The contractor shall submit the draft report **at latest by 31 December 2016** to EFRAG. The draft report should include at least all the elements specified in Section B 'Scope of work' and should explain the contractor's research and data gathering procedures, methodology for economic modelling and critical assumptions. EFRAG will comment on the draft report within 15 days of its receipt;
- d) The contractor shall follow up on the comments and present the final report at latest **by 3 February 2017**.

During the drafting of the report an on-going information exchange between the contractor and the EFRAG Secretariat about the progress of the report shall be established via e-mail and/or telephone calls. The contractor should at least give monthly updates by means of conference calls.

Any coordination meetings if considered necessary will be held in Brussels unless otherwise agreed with EFRAG. **Travel expenses** of these kick-off and coordination meetings are part of the all-inclusive study price.

3.2 Duration of the contract

The contract will expire on 30 April 2017 at the latest.

3.3 Maximum total value of the contract

The maximum value of this contract is **250.000 EUR including VAT** and all other costs, expenses (including travel costs, meeting and other out-of-pocket costs) and fees.

3.4 Subcontracting

Subcontracting is possible subject to agreement of EFRAG (expressed by selecting the offer containing subcontracting). If the offer includes subcontracting, this shall be clearly indicated, including the envisaged percentage of subcontracted work (expressed in a percentage of price and working time).

During the contract award procedure, the EFRAG reserves the right to require tenderers to supply further information about the financial, economic, technical and professional capacity of the proposed subcontractor(s).

No member of the team of authors (contractor and - if applicable - subcontractor(s)) shall currently be working for any project similar to that described in Section B. The contractor(s) shall deliver an unbiased and purely factual based study.

3.5 Report

The report should be in English and be submitted in electronic MS Word format. Graphs, tables and figures being part of the text of the study must be provided in a format which can be edited using MS Word.

The report shall include:

- an abstract of no more than 200 words in English. The purpose of the abstract is to serve as a reference tool to help the reader to quickly ascertain the study's subject;
- an Executive Summary (the Executive Summary shall be independent from the main text. It shall offer an outline of the analysis and summarise the main results of the report and shall not be a repetition of the main text);
- the following standard disclaimers:

“The information and views set out in this report are those of the author(s) and do not necessarily reflect the views or opinion of EFRAG. EFRAG does not guarantee the accuracy of the data included in this report. EFRAG may not be held responsible for the use which may be made of the information contained therein. EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this document is the sole responsibility of the author(s) and can under no circumstances be regarded as reflecting the position of the European Union.

4. Quality standards

4.1 General quality standards

The contractor shall undertake to perform the tasks assigned to them in accordance with the highest professional standards and to observe the highest integrity throughout the process (data, research, analysis, presentation, citations, etc.). The standards to be respected include:

- All written deliveries should be drafted in a concise language, allowing readers to readily gain an overview of the specific subject, independent of their prior knowledge;
- The contractor should remain aware of the limitations of the research method, including a consciousness of the impact of their own views and opinions which may predetermine an outcome. Any uncertainty inherent in a result should be reflected in the findings and conclusions;
- The contractor should bear in mind that the delivery must stand up to scrutiny in a wider context and that factual errors, imprecise or ambiguous wordings or an unclear, inaccurate or incomplete stating of sources and references may jeopardise the credibility of the delivery as a whole;
- Factual accuracy shall be ensured. The contractor has the responsibility to present the results fully without omission, misrepresentation or deception. In particular:
 - The most recently available information and data shall be included. Existing work within the relevant community shall be taken into account as broadly as possible, including research that challenges the contractors' own results. Contradictory findings shall not be excluded at the outset;
 - All material from the work of others which is used for the assignment, such as data, information, ideas, concepts, methodologies, quotes and literature must be clearly

referenced at the appropriate place in the text by way of systematic referencing. A complete bibliography, and where applicable, a list of persons/organisations interviewed, is essential;

- Inverted commas or quotation marks shall be used in case another author's material is copied word-for-word (direct quotation). Sources should also be clearly referenced in case of paraphrasing, i.e. when putting another author's ideas into one's own words.
- The contractor shall put in place effective internal quality control mechanisms.

Non-compliance with the above standards can lead to the rejection of the services.

4.2 Plagiarism

Where performance of the contract entails the use of an intellectual or industrial property right belonging to a third party, the contractor hereby must warrant that he has obtained authorisation from the holder or holders of the said rights or from his or their legal representatives to use those rights for the purposes of this contract. In such cases, the contractor must also inform EFRAG of any obligation or restriction arising from copyright or another intellectual or industrial property right belonging to a third party. Any fee for which the contractor may be liable for such authorisation shall be paid by him.

All material from the work of others which is used for the assignment, such as, data, information, ideas, concepts, methodologies, quotes and literature must be clearly identified and stated at the appropriate place in the text by way of a systematic referencing system. These works must be attributable to their original authors. Where the texts referred to are available on the Internet, hyperlinks should be provided if possible. A complete bibliography ("references"), and where applicable, a list of persons/organisations interviewed, is essential. Plagiarism checks will be carried out. In the case that serious plagiarism is detected and not eliminated by the contractor, EFRAG will reject the study.

4.3 Results and copyright

EFRAG acquires ownership of the results of the work carried out under the contract ('the results'). EFRAG may use the results for the following purposes:

- use for its own purposes;
- make the report publicly available;
- communication through press information services;
- inclusion in databases, indexes and portals as EFRAG would see appropriate;
- modification by or in the name of EFRAG;
- quote from and/or incorporate extracts from the report in its letter of endorsement advice to the EC and in any other reports, presentations and technical papers that EFRAG might prepare in connection with this project.

The contractor may not publish or otherwise use the paper commissioned by the EFRAG unless a prior written authorisation is obtained.

5. Exclusion, selection and award criteria

5.1 Exclusion criteria

Tenderers must meet the exclusion criteria as laid down in the Information Form and sign the Information Form as part of the tender in this respect.

5.2 Selection criteria

Tenderers must prove their economic, financial, technical and professional capacity to carry out the work subject to this call for tenders.

The economic and financial capacity will be assessed on the basis of a signed declaration of financial capacity, professional independence and absence of conflicts of interest (see point 3 of the Information Form) to be submitted by the tenderer. EFRAG reserves the right to seek evidence at any time relating to the tenderer's economic and financial capacity.

Tenderers must prove their technical and professional capacity. Tenderers must demonstrate relevant experience and credibility in delivering impact assessments in the field of financial services or capital markets in an EU context. The tenderer must prove experience in the domain of the call for tenders with at least three projects delivered in this field in the last five years. The tenderer should propose a team of experts with sound educational and professional qualifications and professional experience. Each team member should have a university degree and at least three years of relevant experience. The tenderer should propose a project leader with at least five years of relevant experience.

The tender should provide information about the tenderer's relevant experience including:

- experience in the field of researching the anticipated behavioural consequences of changes in financial or capital markets regulation on an EU-wide basis;
- experience in the field of correlating anticipated behavioural consequences with economic impacts on an EU-wide basis;
- experience in interview/survey techniques, data collection, statistical analyses and drafting reports and recommendations;
- capacity to draft economic reports in English.

The tender should also provide CVs that summarise the relevant professional qualifications and experience of the Project Manager and other core team members of the project team.

The contractor may reject tenderers at selection stage in case of professional conflicting interests that may affect the performance of the contract.

5.3 Award criteria

The tenderer will be awarded according to the best-value-for-money procedure. The maximum total of quality score is 100 points divided as follows:

Quality	Max. points
a) <i>Quality and relevance of proposed approach and methodology for gathering evidence on anticipated behavioural and changes resulting from IFRS 16 in the EU;</i>	25 points
b) <i>Relevance of proposed approach for correlating behaviours with economic consequences for the EU;</i>	25 points
c) <i>Organisation of the work;</i>	10 points
d) <i>Quality control.</i>	10 points
Price (<i>Comparison of prices will be made on the basis of the stated, all-inclusive fixed price using a formula i.e. the lowest quoted price will receive the maximum number of 30 points; all other offers will receive a number of price points in relation to the lowest offered price: Price points = (lowest price / price of the respective tender) x 30</i>)	30 points

Guidance on the quality criteria

The tender should describe the methodology the contractor proposes to use to meet the objectives of the contract. This should include, at a minimum a description of:

- the proposed research and data gathering techniques the contractor would use in order to gather evidence about the changes in stakeholder behaviour referred to in Section B Part 2;
- how the contractor would correlate the behavioural changes referred to in Section B Part 2 with the economic consequences (positive and negative) in the EU. The tender should indicate whether the contractor would develop a model for this purpose, with specific reference to modelling the effects of changes in cost of capital;
- how the contractor would analyse the impact on the EU leasing industry and the consequences of any significant reduction in the availability of leasing as source of finance;
- how the contractor would analyse the specific impact on EU small and medium sized enterprises (SMEs) of any significant reduction in the availability of leasing as source of finance.

The tender should also provide a description of:

- how the contract would be organised and managed;
- the quality control procedures the contractor would apply.

5.4 Other information

The tenderer should complete and sign the Information Form that is part of the tender documents. This form includes a confirmation in relation to the EFRAG's EC grant agreement as well as a confirmation that your organisation has no potential conflicts of interest.

EFRAG's EC grant agreement

Part of EFRAG's financing comes from the European Union in the form of a grant (the EC grant). The EC grant requires that Articles II.3, II.4, II.5, II.8 and II.27 of the Grant Agreement as laid down in the EC's Model Grant Agreement (mono beneficiary) February 2013 (http://ec.europa.eu/justice/grants1/files/2014_general/ga_mono_2013_en.pdf) are also applicable to the contractor. A condition for inclusion as a valid tender is that the prospective contractor confirms that it has been made aware of these Articles and agrees to be bound by them if the contract is awarded to them.

For information purposes, the Articles concerned relate to:

- Article II.3 – Liability for damages;
- Article II.4 - Conflicts of interest;
- Article II.5 – Confidentiality;
- Article II.8 – Pre-existing rights and ownership and use of the results;
- Article II.27 - Rights of the EC to carry out audit-type checks and related obligations to retain and provide information).

5.5 Other conditions for participation

The tender is only open to organisations established/domiciled in the European Economic Area.

5.6 Time limit for receipt of tenders

Tenders must be sent by **22 July 2016, 18.00 hrs Brussels time.**

Tenders must be sent by email to the email address: call.for.tender@EFRAG.ORG. Tenderers are advised to keep proof of the sending time.

5.7 Language in which tenders must be drawn up

Tenders must be submitted in English.

6. Notification of the results and award of the contract

6.1 Notification of the results

EFRAG has the intention to notify the successful tenderer by the end of July 2016. As part of the evaluation process, EFRAG has the right to request a presentation of the proposal at the EFRAG offices.

Please note that the notification at this stage does not constitute a commitment on the part of EFRAG. Prior to signing the Draft Contract, EFRAG may either abandon or cancel this procurement procedure without entitling any tenderer to any compensation.

Notification of the results will also be sent to the unsuccessful candidates, indicating the reason(s) for rejection.

6.2 Award of the contract

The contract will be awarded, through the signature of a Draft Contract (the Draft Contract is part of the tender documents), to the candidate who has made the most advantageous offer in terms of quality and price. At the time of signature of the Draft Contract, signed originals, forming an integral part of the contract, shall be submitted.

The signature of the Draft Contract will set the start for the period of execution of the contract. There can be no provision of services without such a Draft Contract.

7. Components of this call for tenders

This call for tenders consists of:

- Open call for tenders to assist EFRAG in its impact analysis of IFRS 16 *Leases* (this document);
- Information Form;
- Draft Contract;
- EC Request for advice on the endorsement of IFRS 16.

B. Scope of work

1. General requirements

The objective of the contract is to assist EFRAG in its *ex ante* impact analysis of IFRS 16. The findings will serve as an input to EFRAG's endorsement advice to the EC on whether IFRS 16 would be conducive to the European public good. Background information on IFRS 16 is provided in Section C Part 2.

The main focus of the work is the impact of applying IFRS 16 in the consolidated financial statements by companies that are listed on regulated markets in the EU. Such entities are required to prepare their consolidated financial statements in accordance with IFRS as adopted in the EU in accordance with the IAS Regulation. However some aspects of the work required relate to a wider group of companies notably SMEs that are not listed on regulated markets.

The overall analysis should cover, or be representative of, all the EU as a whole. Where resources or data constraints require it, deeper analysis can be restricted to specific market segments, or Member States. However, reasons why these restrictions are necessary should be documented. EFRAG can provide some information based on analyses carried out on which industry sectors are most effected.

2. Potential impact on stakeholder behaviour

IFRS 16 requirements to account for most leases on balance sheet might affect the economic and business decisions ('behaviour') of listed companies, lenders and investors. The contractor should gather evidence to help assess the expected nature and extent of relevant behavioural changes. The contractor should apply appropriate research techniques to obtain evidence about such behavioural changes. These research techniques might include:

- review of existing European economic and academic studies and other relevant literature;
- interviews and/or questionnaires;
- economic analysis;
- focus group meetings.

The evidence gathered should include, at a minimum, the matters covered in 2.1 – 2.3 below. EFRAG is also conducting its own activities supporting the development of the endorsement advice, including field-testing, surveys and outreach events. The contractor is expected to cooperate with EFRAG to coordinate activities in areas where they might overlap or involve addressing the same audience. The EC letter with the endorsement advice request to EFRAG is provided as one of the tender documents.

2.1 Listed company behaviour

This research will aim to gather evidence to assess whether and how IFRS 16 can be expected to affect listed companies' use of leasing. For example, some argue that companies might:

- switch investment in operating assets from leasing to purchasing, as a result of the elimination of the (perceived) accounting advantages of leasing under existing accounting standards (IAS 17 *Leases*);
- seek to renegotiate the terms and conditions of existing leases, and/or new leases, to reduce the accounting impact of IFRS 16;
- reduce their total investment in operating assets (i.e. reduce their use of leasing without a corresponding increase in asset purchases).

2.2 Lender behaviour

The research will aim to gather evidence as to whether and how the increase in reported indebtedness resulting from IFRS 16 can be expected to influence lending decisions by banks and other providers of debt finance ('lenders'). For example, some argue that:

- if lenders' predominant current practice is to ignore operating lease commitments in their credit analysis, the shift to on-balance sheet accounting for leases might affect lending decisions. Lenders might be less willing to advance credit, or demand higher rates of interest;
- If, on the other hand, lenders do take operating lease commitments into account, the shift to on-balance sheet accounting might have a more limited effect. Some effects might still arise due to possible differences between the methods that lenders currently use to consider the effect of operating lease commitments and the information provided by IFRS 16;
- In either case, the improved transparency and comparability of information about leasing obligations might result in better decision-making by lenders and an improved overall allocation of credit.

2.3 Investor behaviour

The research will aim to gather evidence as to whether and how IFRS 16 might affect decisions by investors. For example, some argue that:

- if investors do not currently treat operating lease commitments as liabilities in their analysis, the shift to on-balance sheet accounting might have a significant impact on their analysis and capital allocation decisions;
- if, on the other hand, investors already make adjustments to treat operating lease commitments as liabilities, the shift to on-balance sheet accounting might have only a limited effect. Some effects might still arise due to possible differences between the methods that investors currently use to make adjustments for lease commitments and the information provided by IFRS 16;
- in either case, the improved transparency and comparability of information about leasing obligations might result in better decision-making by investors (improved capital allocation) and a reduction in the overall cost of capital to companies.

3. Economic consequences of behavioural changes

The contractor should analyse the expected correlation between the behavioural changes referred to in Section 2 above and economic consequences (positive and negative) in the EU. These economic consequences could include considerations of financial stability and competitiveness. To the extent practical and relevant, the contractor should develop a model for this purpose.

EFRAG has assessed that behavioural changes referred to in Section 2 above could affect the following economic drivers:

- the overall availability of finance to companies for investment in operating assets and the cost of such finance (Sections 3.1 and 4.0 below);
- the overall levels of investment by EU listed companies (3.1 below);
- credit and capital allocation decisions by lenders and investors (3.2 and 3.3 below);
- the average cost of capital for EU listed companies (3.3 below).

The analysis should consider, at a minimum, the possible links between behaviours, economic drivers and economic outcomes referred to in 3.1 - 3.3 below, as well as the impact on the leasing industry (Section 4 below).

3.1 Consequences of changes in company behaviour

The possible changes in companies' behaviour referred to in Section 2.1 above could result in a reallocation of investment in operating assets between leasing and purchasing, and/or a change in the absolute level of investment in operating assets.

The resulting economic effects could depend, inter alia, on the relative cost of lease financing and alternative sources of finance. For example, some claim that the implied cost of financing of operating assets through leasing or borrowing might differ.

3.2 Consequences of changes in lender behaviour

The possible changes in lenders' behaviour identified in 2.2 above could result in a change in the overall availability of debt finance to EU companies and/or its cost. On the other hand, the improved transparency and comparability of information about leases could result in better lending and credit pricing decisions, and an improved allocation of credit.

IFRS 16 could also result in some companies breaching their existing loan covenants, which might in turn lead to companies renegotiating the terms of existing loans or refinancing loans. Note that EFRAG has already undertaken some work on this area (see [here](#)).

3.3 Consequences of changes in investor behaviour

The possible changes in investor behaviour identified in Section 2.3 above could result in improved capital allocation decisions and a reduction in the overall cost of capital. For example, some claim that IFRS 16 could result in an aggregate reduction in companies' cost of a capital as a result of eliminating or reducing the lack of information and transparency that results from off-balance sheet accounting for leases.

4. Impact on the EU leasing industry

Should the research referred to in Section 2 above indicate that IFRS 16 is expected to lead to a **significant** reduction in leasing volumes, the contractor should analyse the direct impact of this on the leasing industry in the EU and whether this would result in a significant reduction in the availability of leasing as a source of finance (if applicable).

The analysis should include:

- direct effects on the leasing industry, sub-analysed (at a minimum) between the property and equipment leasing sub-sectors. The scale of such effects would be influenced by the ability or otherwise of the leasing industry to adapt, for example by changing their product offerings to further differentiate them from purchasing;
- whether the impact would be of such a scale that it would result in a significant reduction in the availability of leasing as a source of finance to EU listed companies. This could occur if, for example, the reduction in leasing volumes would be of such a magnitude that a large portion of the EU leasing industry would go out of business. This in turn could affect the overall availability and cost of finance to all EU companies. The analysis should consider the availability of alternative sources of finance (keeping in mind that many of the EU's largest leasing companies are subsidiaries of banking groups) and the relative cost of lease financing compared to alternative sources of finance.

This analysis should take into account, where relevant, existing trends in the European leasing industry. It should also consider whether the removal of the (perceived) advantageous accounting treatment of leases will force the leasing industry to become more competitive.

5. Impact on small and medium-sized enterprises

The main focus of the analysis referred to above should be on the impact of application of IFRS 16 in consolidated financial statements by companies that are listed on regulated markets in the EU. However, if (and only if) the evidence and analysis indicates that adopting IFRS 16 is expected to result in a significant reduction in the availability of leasing as a source of finance to all EU companies, the contractor should separately analyse the effects on EU small- and medium-sized companies¹ (all EU SMEs).

The analysis should consider whether EU SMEs are:

- proportionately more or less reliant on leasing as a source of finance than larger companies;
- are expected to experience more difficulty in accessing alternative sources of finance in the event of a significant reduction in the availability of leasing as a source of finance.

¹ As defined in defined in <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN>

C. Background information

1. About IFRS in the European Union

Since 2005, in accordance with the IAS Regulation (Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards²), the consolidated financial statements of listed EU companies have been prepared in accordance with International Financial Reporting Standards (IFRS). The objective of the IAS Regulation was to harmonise the financial reporting of listed companies by ensuring a high degree of transparency and comparability of their financial statements in order to enhance the efficient functioning of EU capital markets and of the internal market. The IAS Regulation attached importance to IFRS becoming globally accepted so that EU companies would be able to compete on an equal footing for financial resources in the world capital markets.

IFRS are set by the London-based International Accounting Standards Board (IASB) – an independent body³. However, to become effective in the EU each new standard or amendment must be “endorsed” in accordance with the following process:

- the IASB
EFRAG issues a standard;
- EFRAG holds consultations with interest groups. EFRAG delivers its advice to the EC as to whether the standard meets the criteria for endorsement as laid down in the IAS Regulation:
 - is not contrary to the principle set out in Article 4(3) of Directive 2013/34/EU (true and fair view principle) and is conducive to the European public good, and
 - meets the criteria of understandability, relevance, reliability and comparability required of financial information needed for making economic decisions and assessing the stewardship of management;
- The EC ultimately decides whether to endorse the standard, taking in account EFRAG’s advice and following consultation with the Member States and the European Parliament;
- EFRAG should support its advice by an impact analysis including a cost-benefit analysis and an analysis of the broader economic impacts.

The IAS Regulation applies directly only to the consolidated financial statements of companies listed on the EU’s regulated markets (approx. 4,800 companies). However:

- some Member States either permit or require the use of IFRS by other companies based on Member State options in the IAS Regulation⁴;
- some non-regulated markets (e.g. AIM) either permit or require the use of IFRS by companies listed on such markets.

² The EC staff working document section 2.2 describes the main provisions of the IAS Regulation <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015SC0120&from=EN> Further detailed information about the IAS Regulation can be found at the DG FISMA website http://ec.europa.eu/finance/company-reporting/ias-regulation/index_en.htm#legal-framework

³ See: <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>

⁴ The EC staff working document section 3.1.1. describes the option for Member States to extend the scope of application of IFRS <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015SC0120&from=EN>

2. About IFRS 16 Leases

IFRS 16 was published by the IASB in January 2016. IFRS 16 makes a fundamental change to how companies that prepare financial statements in accordance with IFRS report leases in which they are the lessee. In summary IFRS 16 treats most leases as finance leases and requires them to be reported on the lessee's balance sheet. It is reported that, globally, this will result in an estimated a \$2.8trn (£2trn) of off-balance sheet lease commitments moving onto the balance sheets of the world's listed companies as assets and liabilities.

The change in lessee accounting for what are currently operating leases also accelerates the lessee's recognition of the expense, as the depreciation will generally be straight line, but the interest cost will be front-end loaded. Various key performance measures (EBIT, EBITDA) will change.

Under the current lease accounting standard, IAS 17, leases were categorised either as finance leases, in which case they were included in the balance sheet, or operating leases which were disclosed in the notes to the financial statements. The IASB believes this makes it difficult for investors to compare companies and to work out the effects of a company's off balance sheet lease obligations.

Under IFRS 16, only short-term leases (12 months or less) and leases of low-value assets (such as a personal computer) will not need to be recognised.

IFRS 16 comes into operation on 1 January 2019, subject to EU endorsement.

Additional information is widely available, including the IASB's own 'Effects Analysis'⁵.

⁵ See: http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/IFRS_16_effects_analysis.pdf