



IFRS 16, Leases

Industry Accounting Working Group
Ask the Experts





Panel of Experts:

What are the industry's key IFRS 16 implementation issues?

Moderator:

 Thomas Egan, Industry Accounting Working Group Accounting Technical Expert, IATA

Panelists:

 John Vierdag, Director Administrative Organization, KLM Royal Dutch Airlines

 Bernardo Rücker, Partner, Head of Accounting Advisory Services, KPMG España

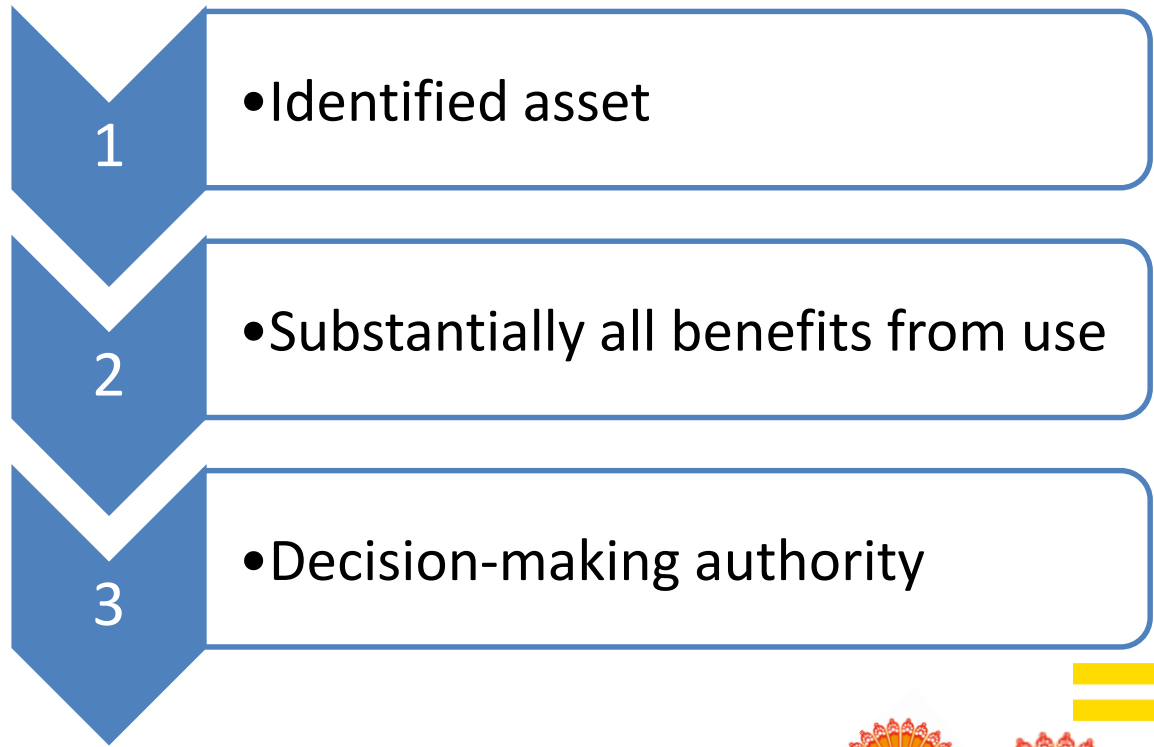
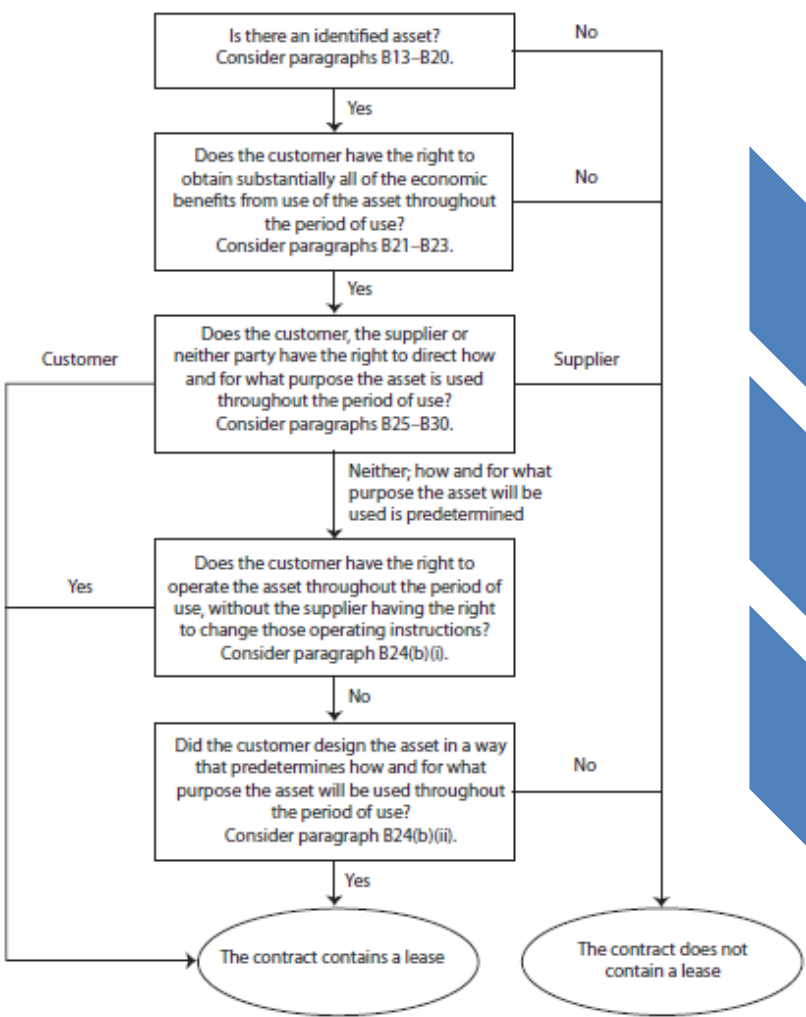
 Erhan Yesilkaya, Financial Control Manager, Turkish Airlines



IFRS 16, Leases

Agreements at Airports







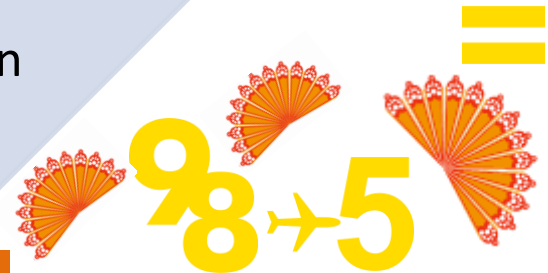
Agreements likely to be leases

- Exclusive use hangars
- Airline controlled office space
- Airline dedicated lounges

Agreements unlikely to be leases

- Shared facilities such as gates, check-in counters and baggage claim areas
- Assets with right of substitution

KEY IS EXCLUSIVE USE





Airport Service agreement terms

- Variable payments most common
- No financial liability for variable payments if based on number of passengers, but still as lease if other criteria is met

What is the identified asset?

- Issue arises around terminals or areas dedicated to a single airline
- Must be identified in the contract with exclusive use and no genuine right of substitution

Who controls the asset?

- Issue is “control to generate benefit from use of the asset”

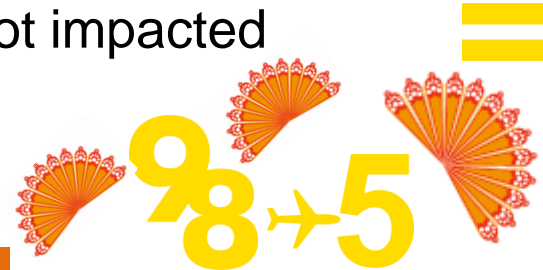
IF AIRLINE IS CHARGING AN AIRPORT SERVICE FEE ARE THEY A COLLECTION AGENT AND THE PASSENGER THE CUSTOMER?





What is the FX mismatch issue?

- Large part of lease commitments are in USD
- For non-USD functional currency airlines with USD leases the ROU asset will be recorded at the rate at the lease start date but the lease liability will revalue under IAS 21
- Results in significant volatility in financial result
- Entities where functional currency pegged to USD not impacted
- Economic risk always existed!





Possible solutions

How are airlines dealing with the issue?

- Cash flow hedge
- Derivatives
- Structuring options
- Other alternatives



Accounting for heavy maintenance

Leased Aircraft and Engines (lease accounting under IFRS 16)

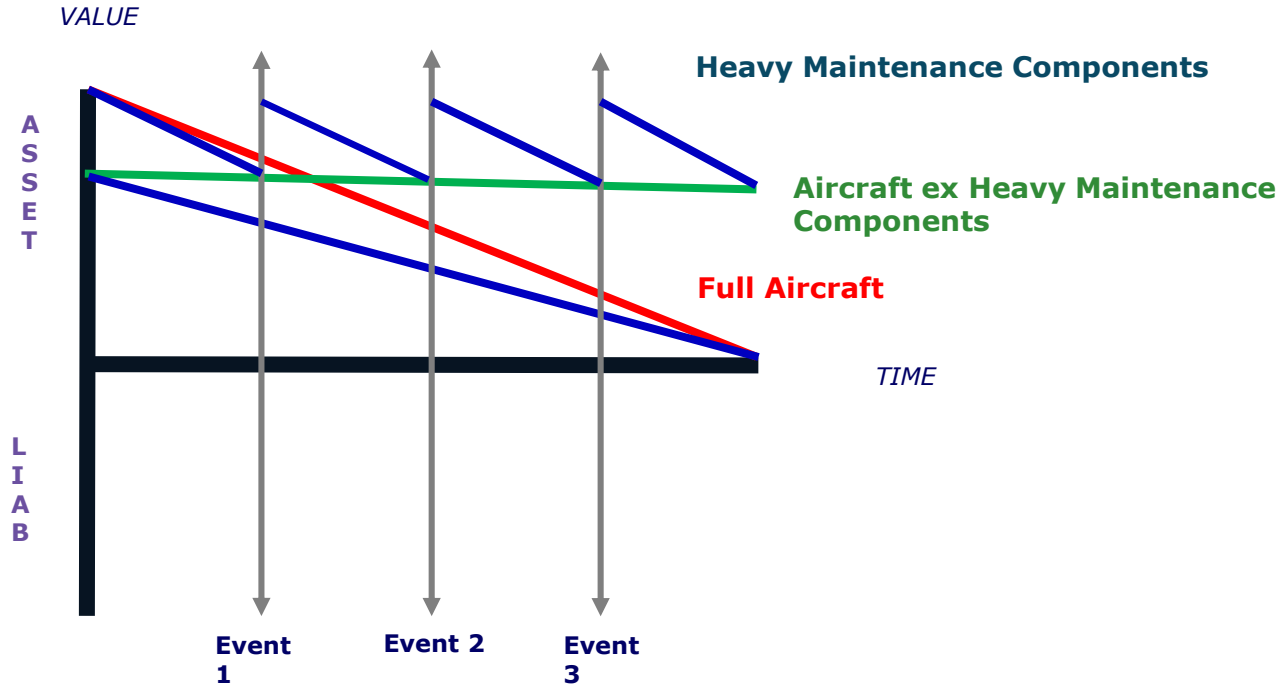
**World Financial
Symposium**

John Vierdag

**Madrid,
September
20th, 2018**

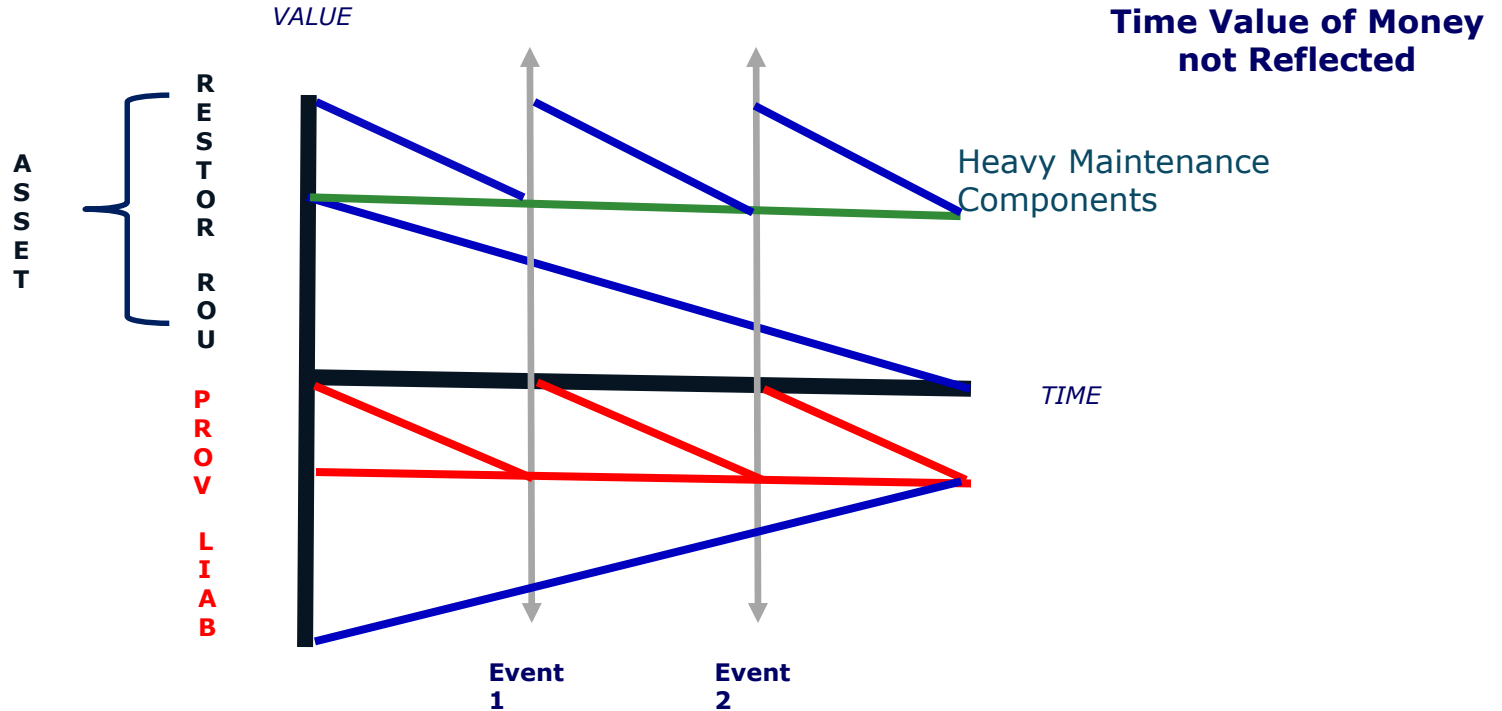


Componentization of Heavy Maintenance – owned aircraft/engines



Alternatives include "expense as incurred" as part of a portfolio of aircraft

Accounting for Heavy Maintenance – leased aircraft/engines (IFRS 16)



Alternatives include expense as incurred with any provision required for restoration compensation

